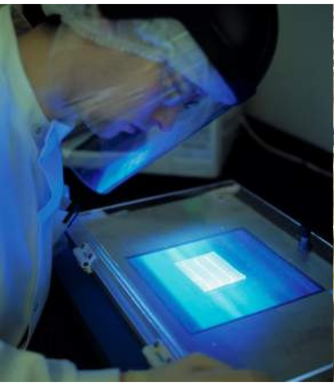




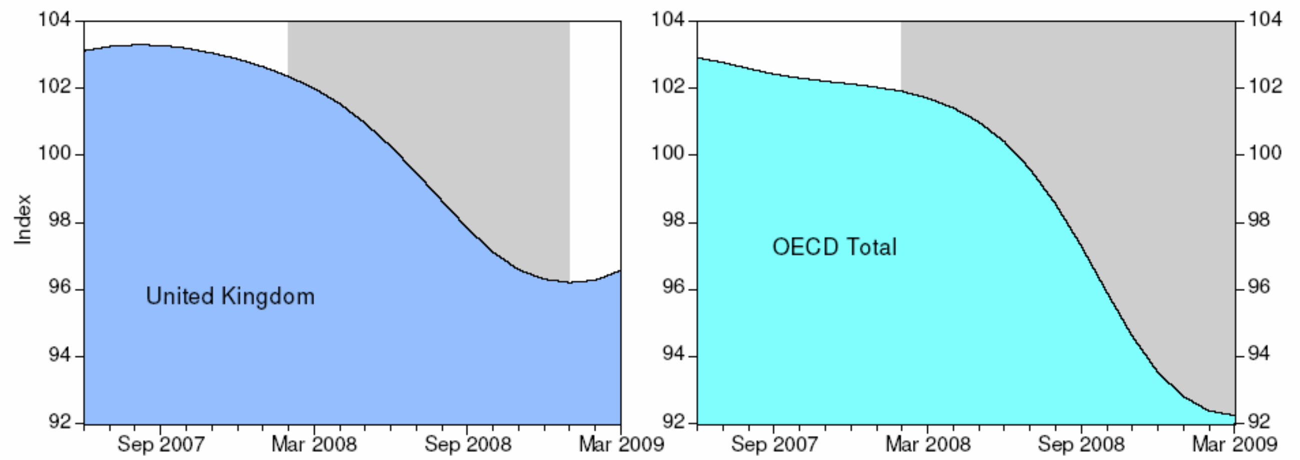
Kent Economy Update

July 2009

South East England Development Agency (SEEDA)
Research & Economics

There are signs that the most synchronised contraction of global economic activity in recent times is now moderating from the exceptional drop in late 2008 and early 2009. The latest data from the OECD and a number of surveys (such as Purchasing Manager's Index for a number of developed and developing economies) suggests that in a number of countries the rate of economic contraction has slowed down. However, financial conditions remain tight and the prospect of a "double dip" recession remains a real threat in a number of developed economies.

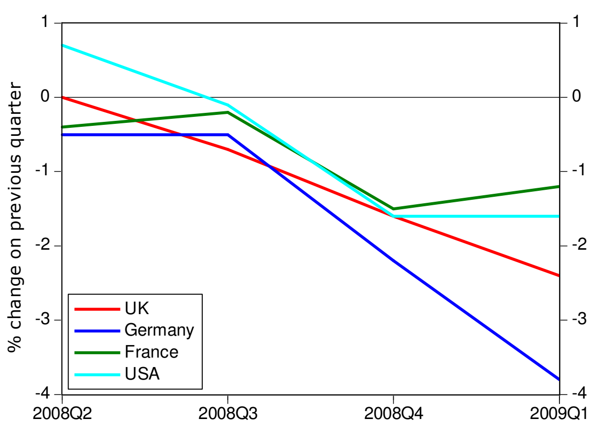
OECD Composite Leading Indicator



Source: OECD 2009 Source: OECD 2009

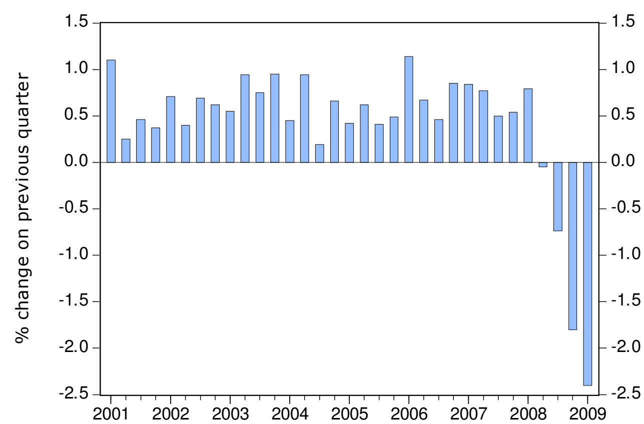
Revised data now show that the UK has been in recession since the second quarter of 2008, earlier than previously indicated. The rate of contraction in the first quarter of 2009 was much sharper than in the preliminary estimate. The latest revision to the UK GDP shows the rate of contraction of 2.4% in the first quarter of 2009, against the preliminary estimate of 1.9%. This was the deepest contraction in quarterly GDP growth in the UK since the early 1950's. The manufacturing and construction sectors have suffered particularly badly - between the fourth quarter of 2008 and the first quarter of 2009 alone, Office for National Statistics figures indicate that manufacturing output fell by 5.5% and construction output by 6.9%.

Growth rate of GDP in volume (seasonally adjusted)



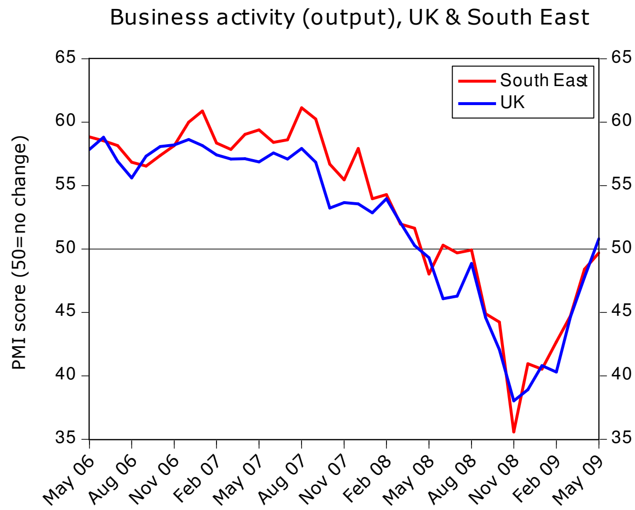
Source: Eurostat, ONS

UK GDP growth, 2001-2009(Q1)

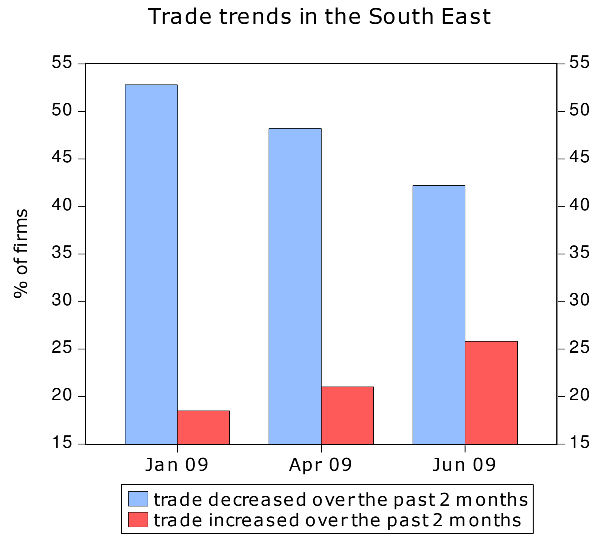


Source: National Statistics 2009

The decline in business activity in the South East in May 2009 was the smallest since August 2008. The Purchasing Managers Index, which provides a respected monthly survey of business conditions, suggests that there has been an easing of the pace of contraction. For the UK as a whole, business activity increased in May (compared to April) for the first time since April 2008. Within the South East, while activity declined marginally in May, the decline was the smallest since August 2008.



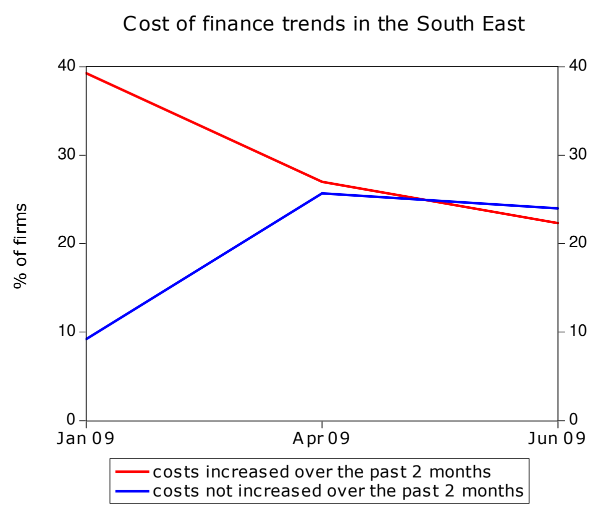
Source: RBS PMI 2006-2009



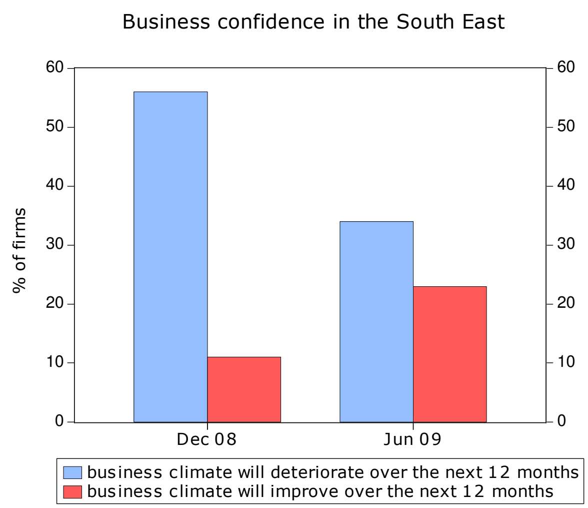
Source: FSB surveys, 2009

According to the June Federation of Small Businesses (FSB) survey of around 4500 businesses in the UK (over 800 in the South East), businesses reporting decreased trade over the past two months still outnumber those reporting increased trade, but the gap has narrowed since the start of 2009. The South East compares positively to the UK as a whole, with more businesses (26% compared to 23%) reporting increases and fewer (42% compared to 44%) reporting decreases. Within the South East, rural businesses are performing slightly better with respect to trade, with more reporting increases (27% to 25%) and fewer reporting decreases (41% to 43%) in June.[1]

There are also indications from the FSB survey that the trend of rising costs of obtaining finance may be coming to an end. For the first time in 2009, firms reporting increases in the cost of finance in June were outnumbered by those reporting no increases.



Source: FSB surveys



Source: National Business Survey, 2008-09

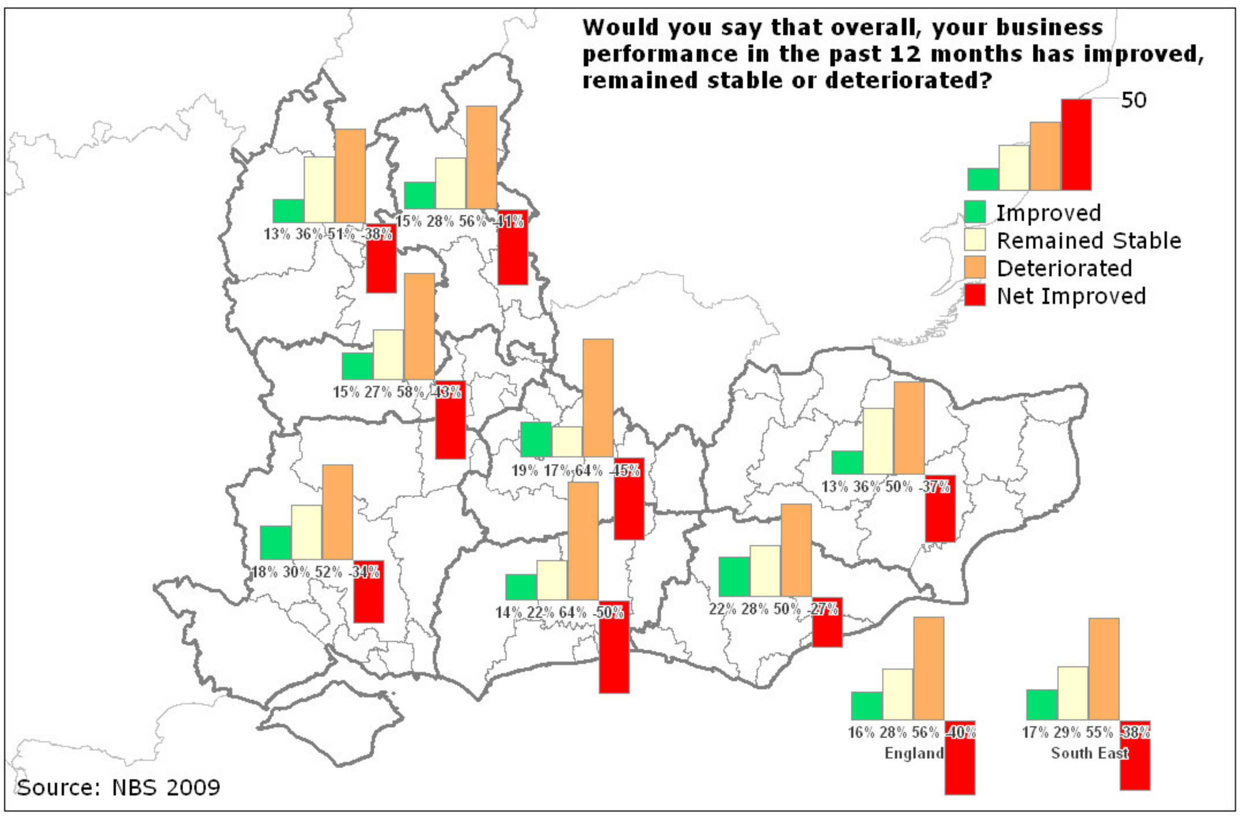
[1] For further detail please see the latest Monthly Intelligence Snapshot, available on the SEEDA website.

Despite these positive signs, conditions remain patchy and it is too early to begin talking of a sustained recovery. More firms expect the business climate to deteriorate over the next 12 months than expect it to improve; the labour market in the region continues to weaken (albeit at a slower pace than in May); investment levels are generally lower; firms are reporting deeper cost-cutting measures than previously reported, and credit conditions remain tight.

The latest survey evidence from the RDA National Business Survey points to a rate of decline in output in Kent similar to the South East average.[2] Slightly less than half (46%) of businesses in both the South East and Kent report that their output has declined over the past 12 months, with similar proportions (14% and 15% respectively) reporting increases. There were only small differences at sub-regional level.

The latest survey results reveal that the overall business performance of 55% of companies in the South East deteriorated over the past 12 months, compared to 17% of companies for whom performance improved. In Kent, business performance has been less rocky, with 36% of businesses, compared to 29% for the South East, reporting that their business performance has remained stable. This reflects fewer firms reporting deteriorations (50% compared to 55%) and improvements (13% compared to 17%).

Overall business performance

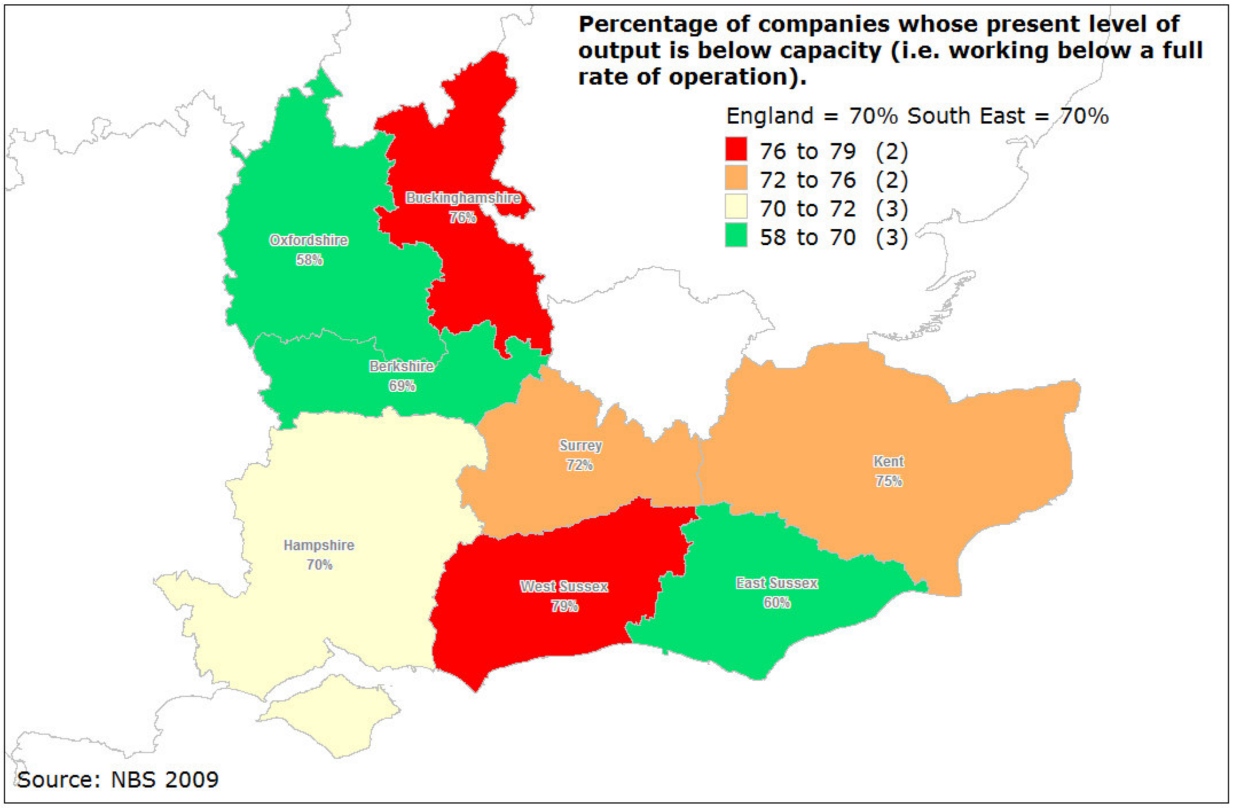


[2] The National Business Survey is a large scale business survey conducted across all sectors of the economy in England and Northern Ireland. The survey is conducted on behalf of English Regional Development Agencies and Invest Northern Ireland. Data has been weighted by region and business size to reflect national profile. Within the South East, the data is also weighted by county to reflect the regional profile. Fieldwork was conducted in May and June 2009 and the final achieved sample size was 949 across the South East, in Kent 150 businesses were surveyed.

The manufacturing and construction sectors have been disproportionately affected by the recession, reporting the highest proportion (67%) of companies having experienced deterioration in their business performance over the past 12 months. Private companies providing services to the public sector have fared best (37% reporting deterioration).

75% of companies in Kent are currently working below capacity. National Business Survey evidence shows that 70% of companies in the South East are currently working below a full rate of operation. This is in line with the national average. However, firms in Kent are slightly more likely to have their present level of output below capacity (75%) than other areas in the South East.

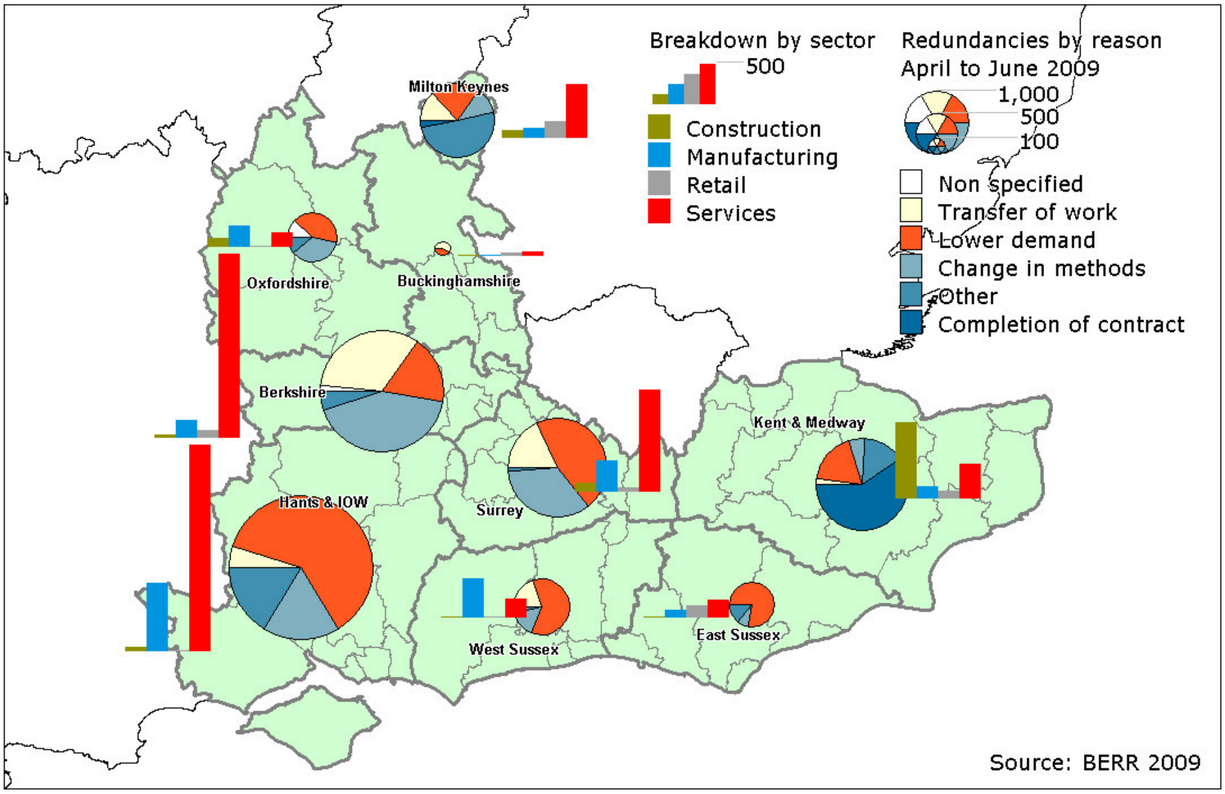
Businesses operating below capacity



Redundancy notifications slowing down? There are some early signs that the growth in redundancy notifications in the South East and in Kent may be starting to slow. Between January and the end of March 2009 there were almost 20,000 redundancy notifications in the South East, of which 2,500 were announced in Kent. However, more recently, between April and the end of June, redundancy notifications in the South East and in Kent were more than half lower than the first quarter of 2009. In Kent there were some 1,150 redundancy notifications in the second quarter of 2009, 13% of the South East total.[3] Dartford accounted for the majority of all redundancy notifications in Kent (62%), followed by Tunbridge & Malling (11%) and Ashford (9%).

[3] Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2009; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters.

Redundancy Notifications: April-June 2009



Manufacturing and construction have been affected the most in Kent. Kent has a high concentration of employment and output in the manufacturing and construction sectors. It is therefore not surprising that redundancy notifications in these sectors in Kent accounted for a higher share of redundancies. In particular, in the second quarter of 2009 the construction sector was particularly badly affected. Between January and March 2009, redundancy notifications in the construction sector accounted for 37% of all redundancies in Kent – between April and June this had risen to almost 60%. However, the actual numbers are lower compared to the first quarter of 2009 (910 in quarter one compared to 670 in the second quarter).[4]

[4] The figure for construction should be treated with some caution, as it is likely to have been inflated by the announcement of a number of large-scale redundancies at the headquarters of UK construction firms located in the South East. Changes of contract also tend to be more common in this sector, and we do not know for sure how many of these are in fact job losses and how many are simply contract renewals.

Redundancy notifications in Kent 2009, quarter 1 and 2

April-June		
Sector	**Kent & Medway**	**% share**
Construction	673	58%
Financial intermediation	26	2%
Health	46	4%
Manufacturing	101	9%
Retail Trade	68	6%
Transport	91	8%
Printing and publishing	*81*	*7%*
Charities	*25*	*2%*
Education	*40*	*3%*
Total	**1151**	**100%**

Jan-March 09		
Sector	**Kent & Medway**	**% share**
Construction	910	36%
Financial intermediation	26	1%
Health	105	4%
Manufacturing	657	26%
Retail Trade	144	6%
Transport	165	7%
Motor Vehicles (Retail)	*109*	*4%*
Other Business Activities	*379*	*15%*
Total	**2495**	**100%**

Source: SEEDA estimate derived from BERR and JC+ data

Have job losses in the manufacturing sector passed the peak? There has been a significant drop in the number of redundancy notifications in the manufacturing sector in Kent in the second quarter of 2009 (100 compared to 660), which may indicate that job losses in this sector have peaked. The fall could be related to firms in these sectors having laid off as many staff as they need to without sacrificing their valuable skills base that will be needed as they prepare for the upturn.

The recession has affected all sectors. There has been an increase in the number of redundancy notifications in business services, notably marketing, and publishing. This could partly reflect firms starting to cut back more heavily on spending on marketing and other support services as they focus primarily on keeping their business afloat[5]. Small numbers of redundancies in the education and charity sectors in Kent have also been announced in the second quarter.

Looking to the future, businesses in Kent are now more optimistic about their future employment intentions, but are still expecting reductions over the next 12 months. Across the South East region, businesses are much more optimistic than previously about the trend in employment levels for the next 12 months (net balance[6] of -6%) compared to the trend over the last 12 months (net balance of -21%). However, the balance is still negative, indicating that more firms expect to make redundancies than expect to hire. Looking to the future, Kent is in

[5] See South East Economy Review – June 2009

[6] Net Balance = percentage of firms expecting increase minus percentage of firms expecting decrease. If the percentage of companies expecting an increase is higher then the percentage expecting a decline, the balance is positive and vice versa.

line with the South East, but seems to have suffered slightly more in the past 12 months (balance of -25%).

"What has been the trend during the past 12 months and what is the expected trend for the next 12 months (numbers employed)"

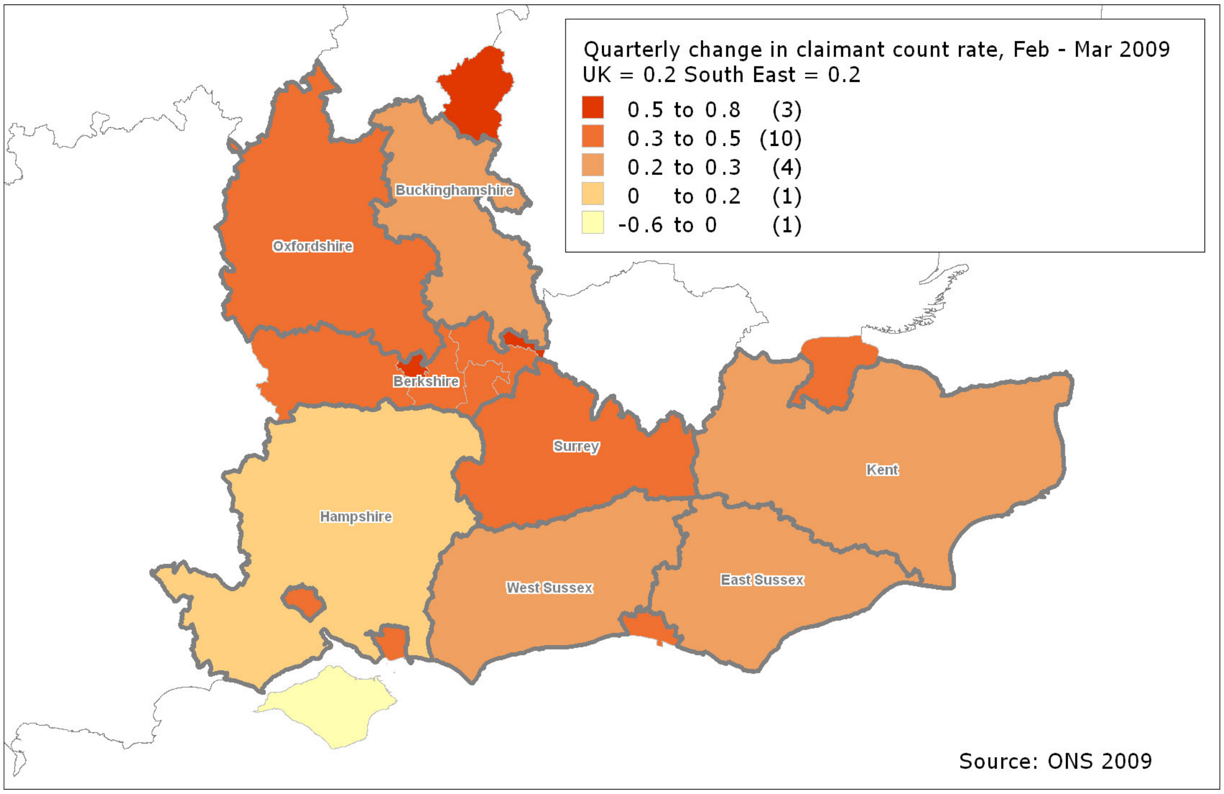
Net balance	past 12 months	next 12 months
South East	**-21%**	-6%
Berkshire	-27%	-4%
Buckinghamshire	-18%	-14%
East Sussex	-19%	-7%
Hampshire and IOW	-22%	-4%
Kent	**-25%**	**-6%**
Oxfordshire	-3%	1%
Surrey	-30%	-8%
West Sussex	-23%	-11%

Source: RDA National Business Survey, July 2009

Kent has the largest number of JSA claimants of any county, but in recent months the rise in both the number of claimants and the unemployment rate has been slowing down. The number of people in the South East claiming Jobseeker's Allowance (JSA) rose by 1,260 between April and May, to 154,868. In recent months, the rate of increase in the claimant count at both regional and sub-regional level has been slowing down, although this could be partly due to seasonal factors. Once school and college leavers and graduates enter the jobs market later in the summer, the claimant count is likely to rise quite sharply.

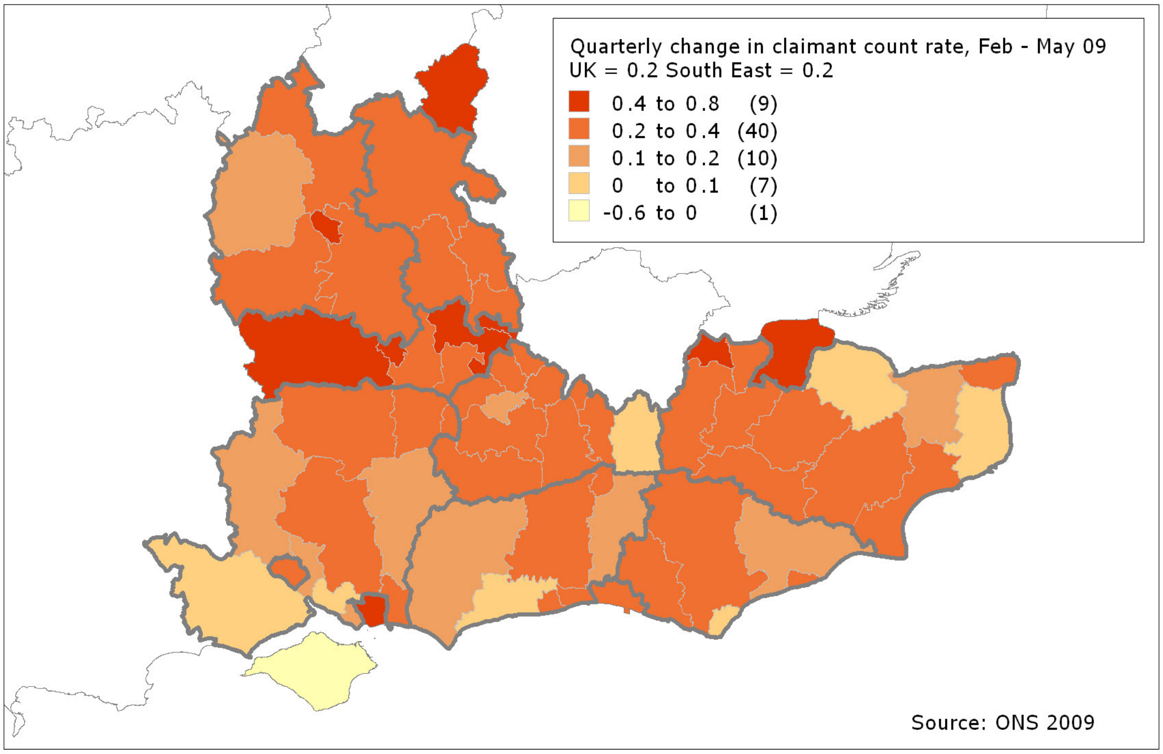
Over the quarter between February and May 2009, Kent saw the largest increase in JSA claimants of any county, in absolute terms (1,843). However, comparing the change in the proportion of residents claiming JSA (the claimant count rate), the increase in Kent was in line with the regional average, at 0.2%. The claimant count rate in Kent is currently just above the South East average, at 3.4% compared to 3%.

Quarterly change in claimant count rate, counties and unitary authorities February-May 2009



In the early months of the recession coastal areas of the South East saw the fastest increase in the claimant count rate. This is partly related to the reduced number of jobs in the tourism and hospitality industry in the 'off season', but also reflects the broader industrial structure of coastal areas, with a concentration of employment in manufacturing, construction and transport and distribution related activities. These sectors were hit harder in the early stages of the recession. However, in recent months parts of the Inner South East, particularly urban areas, have started to register faster rises in the claimant count rate. Within Kent, Medway, Dartford and Thanet saw the fastest increase in the claimant count rate over the past quarter (0.4%).

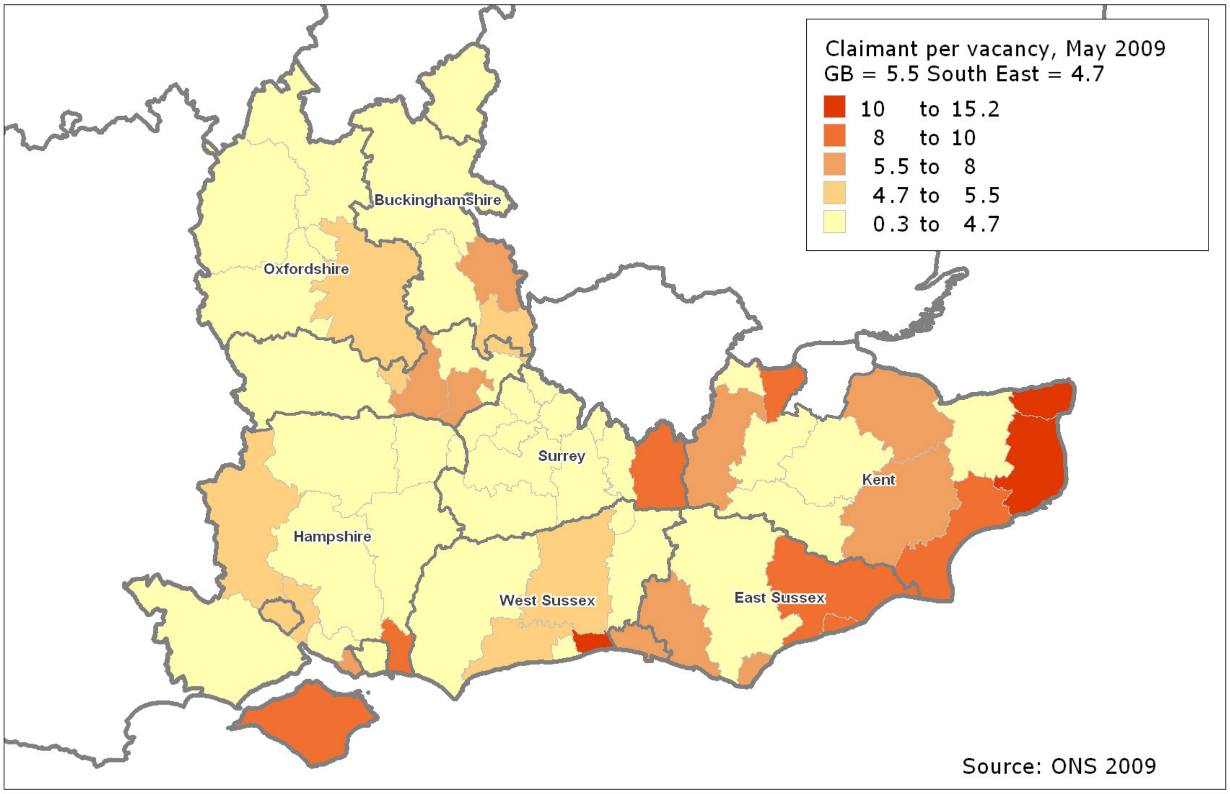
Quarterly change in claimant count rate, district/unitary authorities February-May 2009



As the recession progresses, so does competition for jobs. Claimant count per vacancy rates are on the increase. In May 2009 there were 4.7 claimants per notified vacancy in the South East, up from 1.7 just a year ago. In Kent the rate was 6.6 in May, up from 2.3 in May 2008. The claimant count per vacancy rate in Kent was also higher compared to the national average (5.5 in May 2009).

However, there are considerable differences at Local Authority level. The increase in the claimant count to notified vacancy rate was higher in Thanet (15.2), Medway (10.1), and Dover (10.5) than in most other districts in Kent.

Number of JSA claimants per vacancy, May 2009

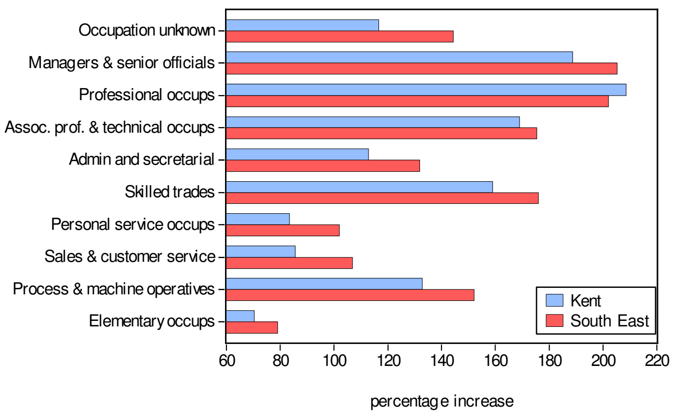


In recent months the increase in the number of JSA claimants from higher-skilled occupations has been greater than for other occupations. Over the past year there has been a shift in the occupational composition of JSA claimants, with an increasing proportion of claims being made by people from more highly skilled professional and managerial occupations, and a corresponding fall in the proportion of claimants from low-skilled, elementary and process occupations. In Kent the largest percentage increases in the number of JSA claimants between May 2008 and May 2009 were amongst managers and senior officials and those who previously worked in professional occupations. In fact Kent saw a faster rate of increase amongst this latter group compared to the South East average. The slowest growth was seen amongst people who were previously employed in elementary, personal service and customer service occupations, with Kent seeing a slower rate of growth than the regional average.

This trend partly reflects the fact that the economy has now been in recession for over a year. Whereas in the early stages of the recession lower skilled, lower paid and temporary workers were more likely to be laid off, as the recession has progressed and firms have seen their cashflow and profit margins squeezed further and further, many have been forced to make redundancies from amongst the more senior, highly skilled members of their workforce in order to achieve substantial cost savings.

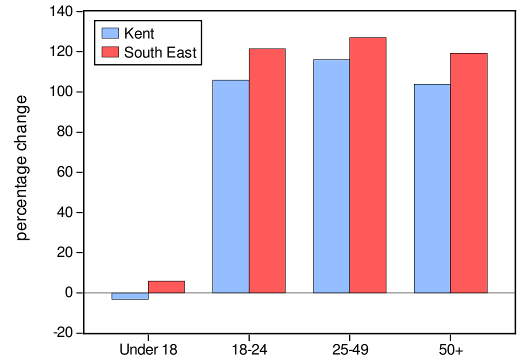
Another reason for the increasing proportion of higher skilled workers appearing in the claimant count statistics could be the nature of this recession, which has affected all sectors of the economy. In previous recessions workers in manufacturing and construction were particularly affected by redundancies, but this time the recession has had an impact on large numbers of 'white collar' workers too, with financial and business service professionals being laid off in increasing numbers in recent months. Nevertheless, there has been a relatively large increase in the number of process, plant and machine operatives and workers in skilled trades signing on for JSA in the past year, reflecting the significant number of redundancies in the manufacturing and construction sectors. Finally, it could be the case that some of the more highly skilled, higher paid individuals who found themselves without a job took their time before signing on for JSA, perhaps because they were relying on savings to cover their living costs initially or were hopeful of securing new employment relatively swiftly.

% increase in number of JSA claimants by occupational group, May 2008-May 2009



Source: ONS 2009

Percentage change in claimant count by age group, April 2008 - April 2009



Source: ONS 2009

Unemployment amongst young people has been on the increase since before the recession. The extent to which the recession has had a disproportionate impact on young people is a subject of considerable interest and concern. It is important to note that long before the recession unemployment amongst young people was on the increase. The most significant influence on this has been the reduction in demand for young people's labour due to industrial restructuring and changes in the nature of employment. The long-term decline of the manufacturing sector, for example, has meant that there are fewer apprenticeship opportunities for young people in this sector (particularly young men).

The type of work that young people do makes them particularly vulnerable in the labour market. Younger workers now tend to be concentrated in low-wage, low skill and less secure employment in a narrow range of service industries. In 2008, 12% of 18-24 year olds in the UK were employed in temporary jobs, and of those not in education, 40% could not find permanent work. More than a third (36%) of 18-24 year olds worked in the distribution, hotels and restaurants sector, while around half of young people in this age group were employed in personal services, sales and customer service and elementary occupations.[7] Job cuts in the service sector have not yet been as severe as in the manufacturing or construction sectors, but the drop in output in the service sector in the last two quarters of 2008 was unprecedented in recent UK economic history. Moreover, within the service sector it is the industries employing most young people (such as hotels and restaurants) that have seen the severest impacts.

Young people aged under 24 in Kent and the South East do not appear to have seen a faster rise in unemployment than other age groups over the past year. In Kent, the percentage increase in claimant count unemployment over the past year for 18-24 year olds has been broadly in line with other age groups; in fact the fastest increase in claimant count

[7] ONS, 'Young people and the labour market' in *Economic and Labour Market Review* Vol. 3 No. 4 (April 2009).

unemployment has been amongst those aged 25-49. This suggests that so far young people's employment has not been disproportionately affected by the recession compared to other age groups. However, it is very likely that there will be a sharp increase in the number of young people registering for JSA this summer once term finishes for schools, colleges and universities. With fewer vacancies available, and some employers still reporting that graduates and young people often do not have the skills required for the workplace,[8] there are likely to be more young people on the unemployment register.

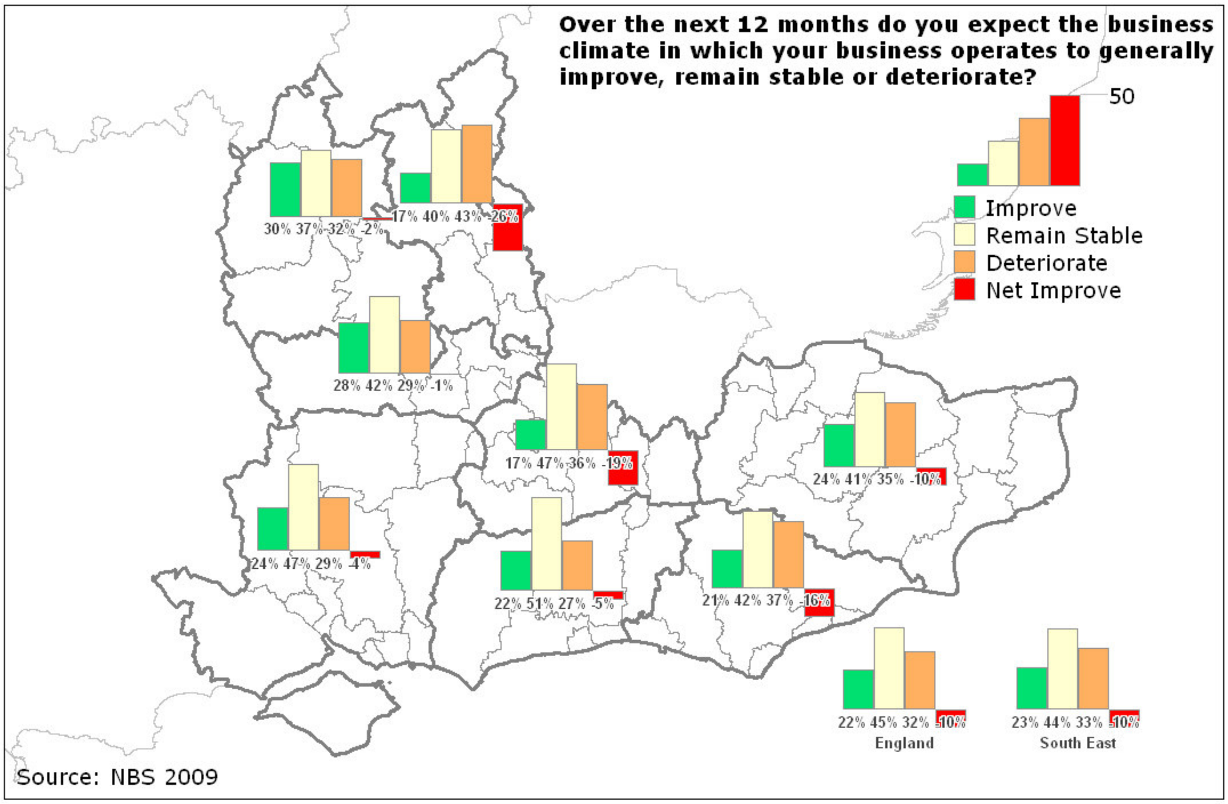
There has been a fall in the number of young people aged under 18 claiming JSA in Kent in the past year, while a small increase was recorded for this age group at regional level. This is consistent with evidence from Connexions which shows that there has been an increase in the number of 16-18 year olds in employment in the South East over the past year, with the increase in Kent being the largest of any county (26%).

Kent has also performed relatively well when looking at changes in the number of young people not in education, employment or training (NEET). Over the past year the number of 16-18 year olds who are NEET has increased by just 3% in Kent, compared to the regional average of 25%. Medway, by contrast, saw the fastest increase in the number of NEETs of any county or unitary authority in the South East (81%).

[8] Evidence from Economic Partnerships submitted to SEEDA for Monthly Intelligence Snapshot (May 2009).

There are now indications that there has been an upturn in business confidence in Kent. The latest National Business Survey results indicate that around two thirds (67%) of businesses in the South East now expect the business climate to either improve or remain stable over the next 12 months, up from less than half (44%) at the end of last year.[9] In Kent, two thirds of businesses (65%) are now expecting the business climate to either improve or remain stable, compared to half companies at the end of last year. However, firms expecting the business climate to get worse still outweigh those expecting it to improve (net balance of -10%). The outlook for Kent is in line with the South East.

Business Climate over the next 12 months



While more firms in Kent expect output, domestic and export orders to fall than expect them to rise, the difference is now much smaller then at the end of last year. In the South East, the National Business Survey shows a balance of -2% of firms expect their volume of output to decline in the next 12 months, with slightly more firms expecting declines in Kent (balance of -5%). However, at the end of last year[10], a balance of -20% companies in Kent were expecting their output to decline (-21% in the South East), so the outlook is now significantly less gloomy.

The same is true for domestic orders. Although more firms in Kent expect domestic orders to decline in the next 12 months than expect them to rise (balance of -7%), this is still more optimistic than at the end of last year (-24% in Kent, -27% in the South East).

[9] RDA National Business Survey, December 2008. Fieldwork October-December 2008
[10] RDA National Business Survey, December 2008. Fieldwork October-December 2008

For the first time since the recession began, slightly more firms in the South East expect export orders to increase over the next 12 months than expect them to decrease (net balance of 1%). However, companies in Kent are slightly less optimistic and the balance is still negative (-1%). Furthermore, even at the end of last year businesses in the South East and in Kent were expecting less severe declines in export orders then domestic orders (net balance of -6%)

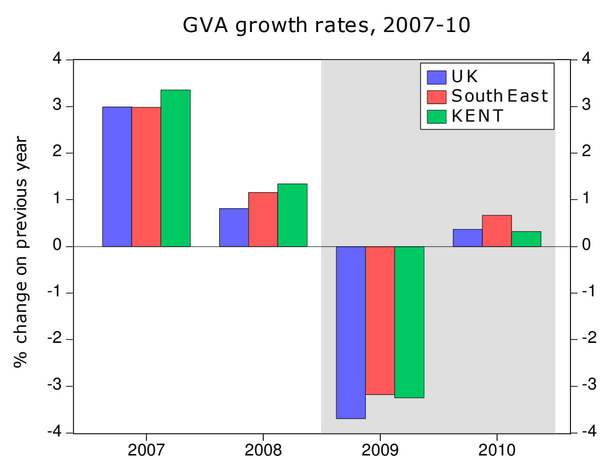
Excluding seasonal variations, what are the expected trends for the next 12 months, with regard to… [11]

	Output	Domestic orders	Exports
South East	**-2%**	**-5%**	**1%**
Kent	**-5%**	**-7%**	**-2%**
Berkshire	-4%	-1%	-4%
Buckinghamshire	-3%	-16%	-1%
East Sussex	3%	-5%	2%
Hampshire & IOW	0%	-1%	8%
Oxfordshire	6%	-4%	2%
Surrey	-9%	-5%	-4%
West Sussex	-3%	-9%	3%

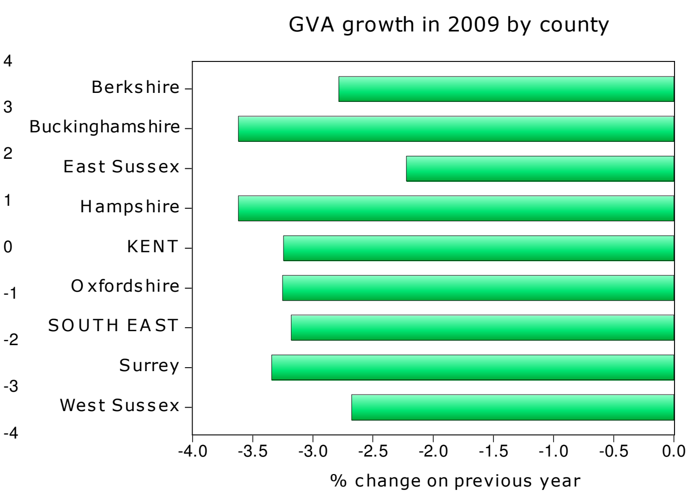
Source: RDA National Business Survey, July 2009

Experian expect the Kent economy to contract by 3.2% in 2009. In 2009, the Kent economy is projected to decline at a comparable rate to the South East as a whole, with the most recent forecasts putting the GVA decrease at 3.2%. Most of the sectors badly hit in the recession are forecasted to grow in 2010 after this year's falls, though the growth rates will be low. According to Experian forecasts, output in the UK is not predicted to begin increasing until 2010.

Sluggish recovery takes place in 2010? The speed of recovery is forecasted to be slightly faster in the South East, with a minor quarter-on-quarter increase predicted for the end of 2009, with marginally higher growth rates in 2010 (0.67%). The growth rate for Kent in 2010 is projected at 0.32%, below the South East and the UK average.



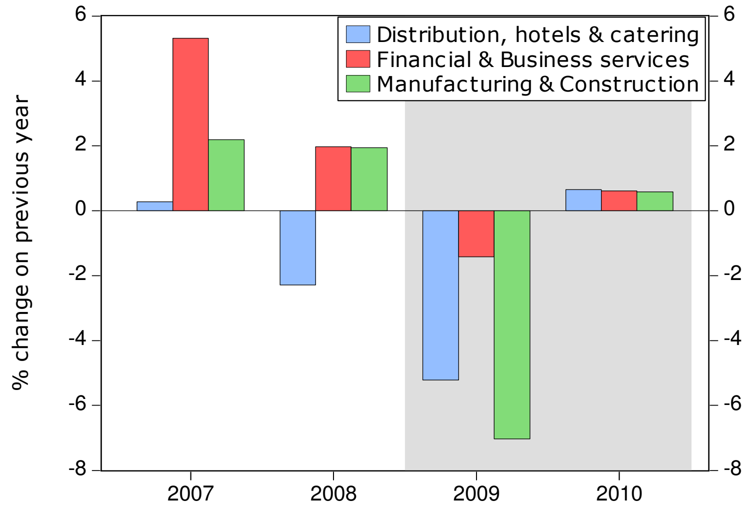
Source: Experian, July 2009



Source: Experian, July 2009

[11] Figures are net scores (percentage of firms expecting increases minus percentage of firms expecting decreases).

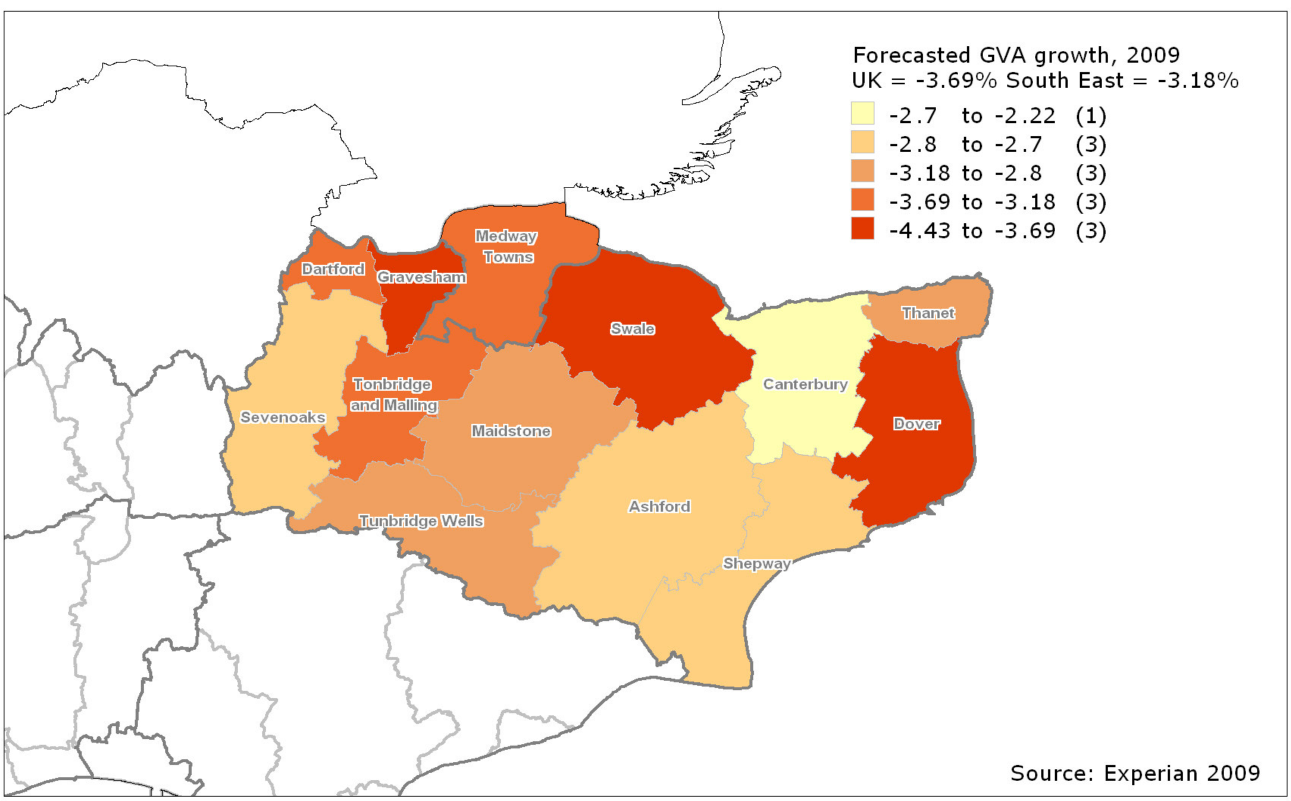
GVA growth in Kent by sector, 2007-2010



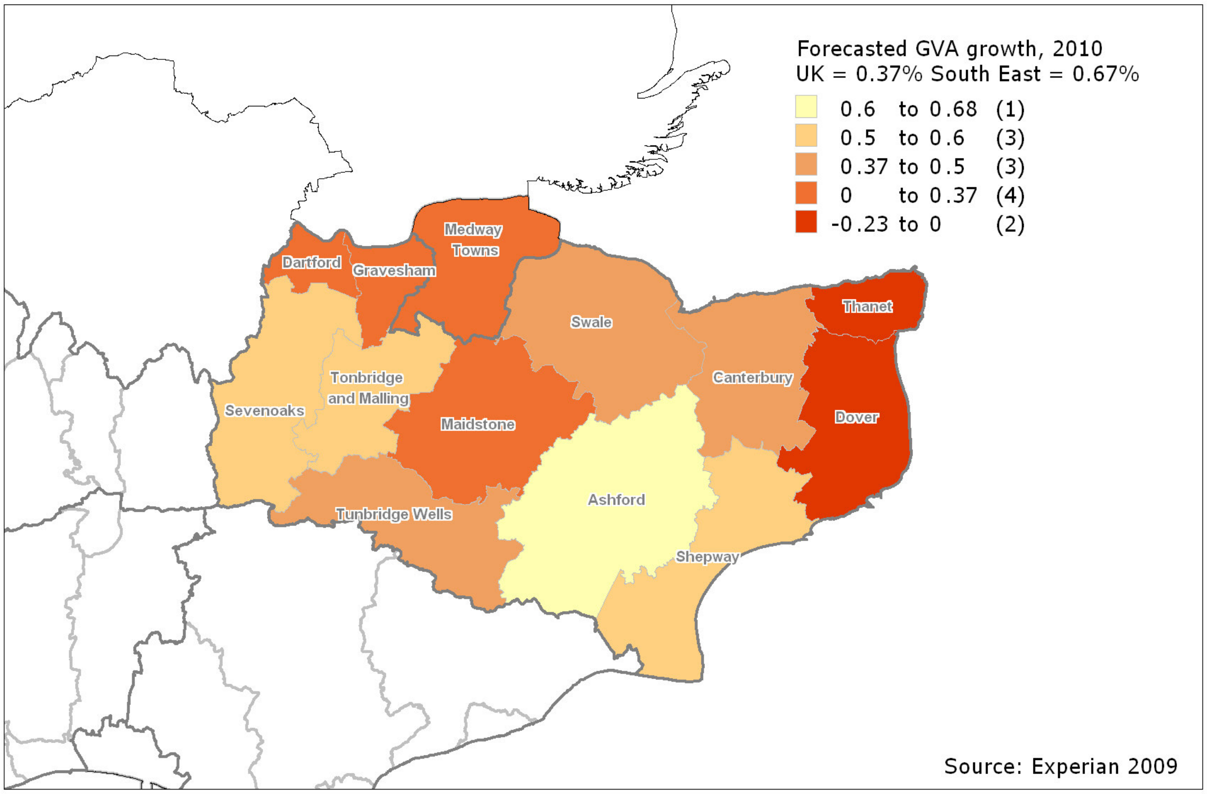
Source: Experian, July 2009

Within Kent, Experian projections imply that the effects of the recession on Dover may be set to last longer, with it being projected to be the worst performing district in Kent both in 2009 and in 2010, when growth is again projected to be negative. All districts are likely to suffer significant falls in output in 2009, though the decline will be milder in Canterbury, Ashford, Shepway and Sevenoaks.

Projected GVA growth in Kent, 2009



Projected GVA growth in Kent, 2010



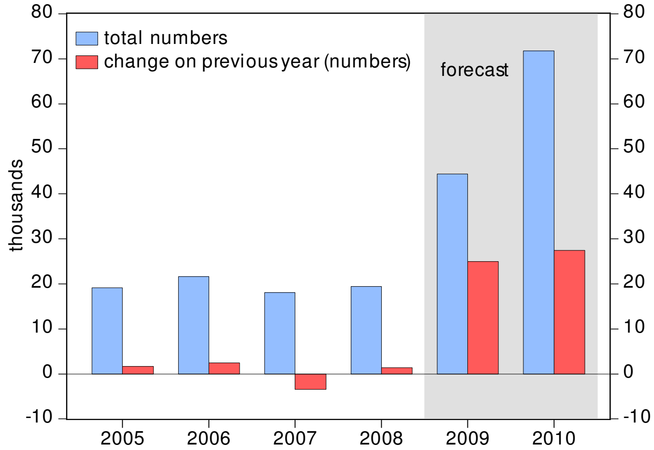
In 2010, GVA is expected to recover in all districts apart from Dover and Thanet, though at a slow pace. However, projections suggest that almost all of Kent is to expand more slowly in 2010 than the South East as a whole, with only Ashford (0.67% growth in 2010) matching the regional average. The picture, then, is one of a slow recovery, with Dover and Thanet remaining areas of particular concern.[12]

Experian projections imply that claimant count unemployment (both numbers and rate) are expected to increase throughout the region, but more so in Kent. Before the recession, in 2007, there were some 18,000 people registered as claimant count unemployed in Kent. By 2008, this number had risen to 19,400. However, the most recent projections (April 2009) expect the number of claimant count unemployed in Kent to increase to 44,400 at the end of 2009, and to 71,700 by 2010. This is more than three times higher than in the pre-recession period, pushing up the claimant count unemployment rate from 1.8 in 2007 to 4.4 in 2009 and 7.8 in 2010.

The claimant count unemployment rate is expected to increase faster in Kent than in the South East – the latest projections show a 2.5 percentage points between 2008-2009, and a 2.7 percentage points increase between 2009-2010, significantly higher than in the South East as a whole (1.6 and 1.5 percentage points). This may be due to the fact that Kent has a higher share of employment in the construction, manufacturing and transport/distribution sectors, which have, so far, been more affected by the recession than other sectors.

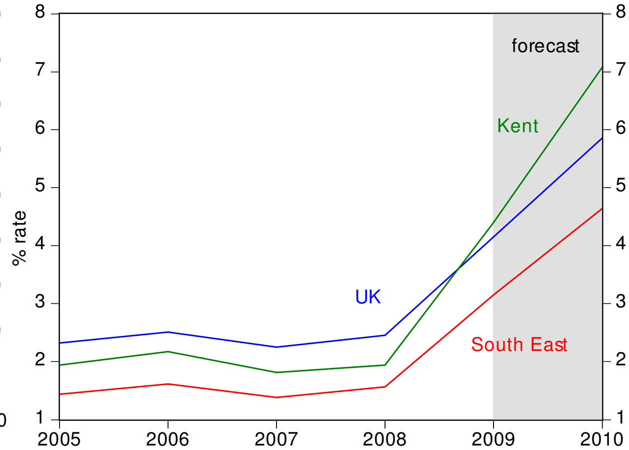
[12] Projections at district level are highly volatile and need to be taken with a high degree of caution.

Claimant count unemployment in Kent (numbers), forecast 2009-10



Source: Experian, Spring 2009

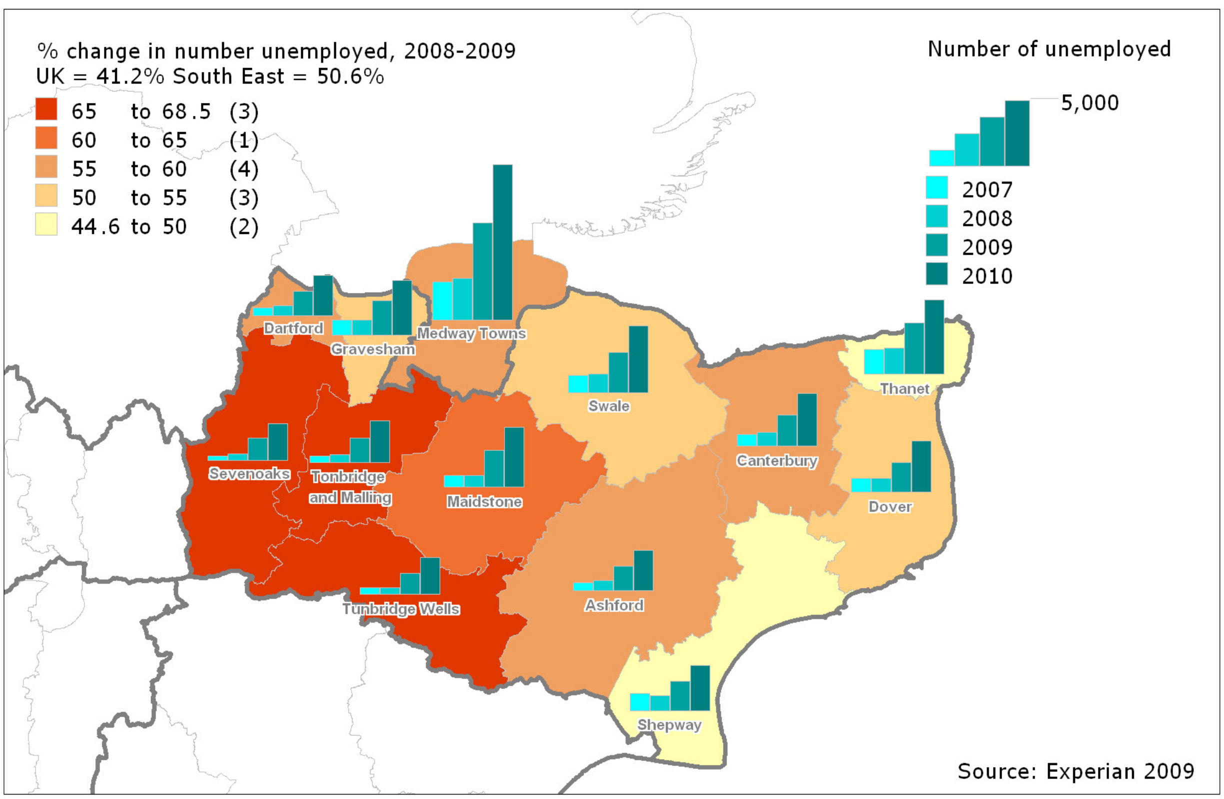
Claimant count unemployment rate, forecast 2009-10



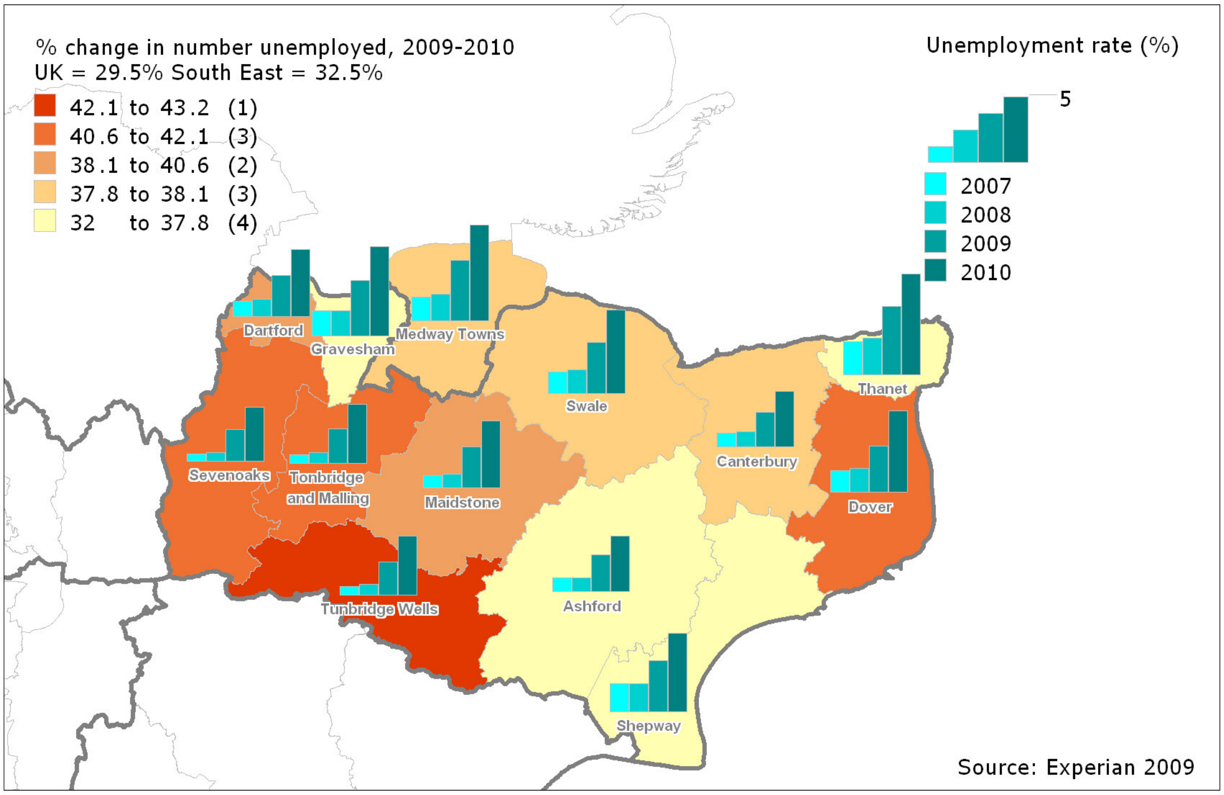
Source: Experian, Spring 2009

The percentage increase in the number of people claiming JSA is projected to be higher in Tunbridge Wells, Tonbridge Malling and Sevenoaks. This can be explained due to the fact that the latter started at a relatively low base of people registered in the claimant count (for example: in Sevenoaks some 660 people were registered in 2008, the latest independent projections expect this number to increase to 3,500 by 2010).

% change in the number of people claiming JSA and the number of JSA claimants (blue bar), 2008-2009



% change in the number of people claiming JSA and the number of JSA claimants (blue bar), 2009-2010



South East England Development Agency (SEEDA)
Research & Economics Team
10 July 2009