A perspective on the impact of the downturn on the Thames Gateway

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South East England Development Agency (SEEDA)
London Development Agency (LDA)
East of England Development Agency (EEDA)

Key messages

- There has been a sharp contraction in world trade, industrial production and GDP growth over the past six months. In the UK, the contraction in GDP accelerated in the first quarter of 2009. This contraction has been driven by a sharp fall in output in the manufacturing and construction sectors, with a lesser fall in the services sector, despite the widely held belief last year that the downturn would have a greater impact on services than production.

- In the Thames Gateway, a larger proportion of the workforce is employed in production and construction activities compared to the Greater South East average (13% compared to 12%), although the figure is lower than the English average (16%). This suggests that output in the Thames Gateway is likely to have declined faster than in the Greater South East but perhaps less than the national average.

- The labour market in the Thames Gateway appears to have weathered the recession relatively well so far, compared to the Greater South East and UK as a whole. The rate of decline in the employment rate and rate of increase in unemployment over the past quarter have been slower in the Thames Gateway than in the Greater South East and UK, and employment in the Gateway remains higher than one year ago, in contrast to the Greater South East and UK.

- Women's employment is up on the quarter and on the year in the Thames Gateway, while in the Greater South East and UK it has fallen. This can partly be explained by the better than expected performance of the retail and public services sectors.

- The claimant count rate in the Thames Gateway is higher than in the Greater South East and UK and has increased at a faster pace over the past quarter and past year.

- As in the Greater South East and UK as a whole, an increasing proportion of JSA claimants in the Thames Gateway over the past year have come from occupations associated with production and construction activities and from higher skilled occupations.

- In the Thames Gateway, the fastest increase in claimant count unemployment in the past year has been amongst the over 50s, while young people aged 18-24 have recorded the slowest increase.

- The majority of people living in the Thames Gateway also work there, but a significant number commute to London. There is a net out-flow of commuters from the Gateway into the Greater South East, with 1.3 million people with jobs living there, but 1.1 million jobs in the area.

Purpose of this paper

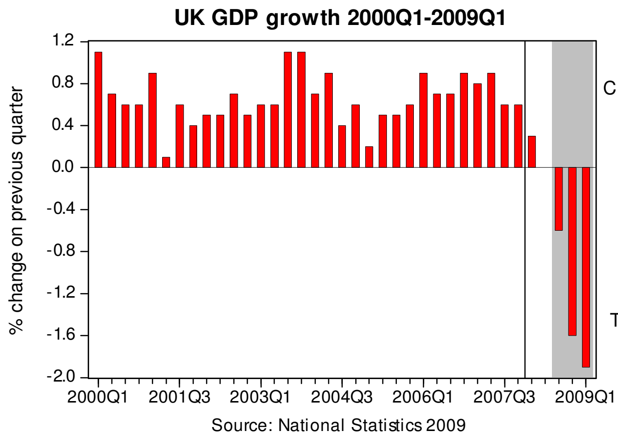
As the Thames Gateway area overlaps three regions, it is sometimes difficult to develop an overall picture of the performance of the area as a whole. Drawing on the latest available data, this paper sets out how the Thames Gateway as a whole has been affected by the economic downturn thus far. Based on the sectoral composition of the economy, the paper suggests how output in the Thames Gateway is likely to have been affected, given its higher concentration of manufacturing and construction employment compared to the Greater South East average. The paper also discusses recent trends in employment and unemployment in the Thames Gateway, highlighting differences by gender, age and occupation. Since the Thames Gateway area is an integral part of the wider London and Greater South East economies, external linkages with these economies are discussed, as well as linkages between different parts of the Thames Gateway area.

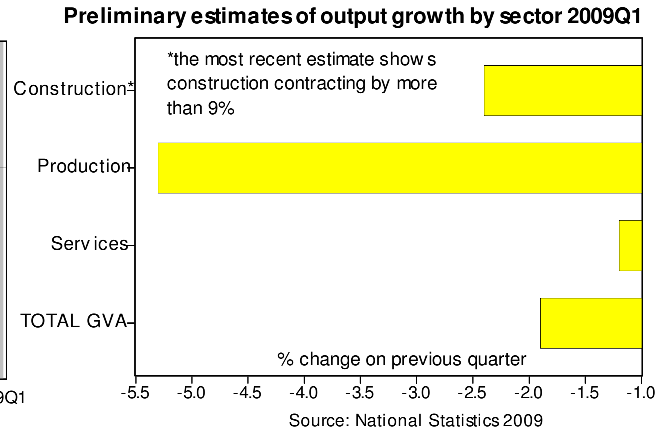
A highly synchronised contraction in demand and output in the global economy is underway

The downturn materialized over the summer and early autumn of last year and most major economies saw a small fall in GDP in the third quarter of 2009. However, the fall in output in all advanced economies accelerated sharply in the fourth quarter of last year following the collapse of Lehman Brothers and the near-collapse of other major banks in the US, UK and elsewhere. The near collapse of global financial markets and the subsequent liquidity squeeze has triggered a sharp fall in business and consumer confidence in the UK and the Greater South East. Firms responded by holding back capital spending and consumers reined back on making major purchases which led to an increase in unsold stock (the car industry is the most obvious example). The downturn was made even worse by the global integration of supply chains (in particular manufacturing supply chains), which has helped to transmit the shock around the world more rapidly than in previous recessions.

The sharp and synchronised fall in global economic activity that characterised the last quarter of 2008 continued in the first quarter of 2009. By February 2009 world industrial production declined by around 12% on the same period last year while world trade in goods declined by almost 17% over the same period.

In the UK, the contraction in GDP growth accelerated in the first quarter of this year**.** The UK economy had already recorded two quarters of falling GDP growth in the second half of last year. The latest (preliminary estimates) of UK GDP growth for the first quarter of this year show GDP growth contracting by 1.9% on the previous quarter – faster than the 1.6% contraction in the final quarter of 2008 (see chart). In the third week of June the Office for National Statistics will release its final estimate of growth for 2009Q1, but given the latest revised estimate for construction output, showing a contraction of 9%, it is possible (all things being equal) that UK GDP contracted by as much as 2.2% in the first quarter of 2009.





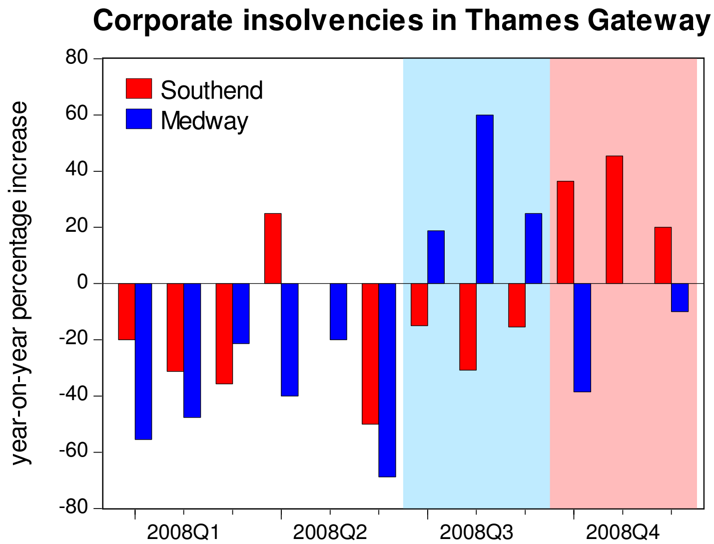
From peak to trough UK output so far has declined by 4%, which is still below the early 1980s level, but we have to remember that we are still in the depth of the recession (at least if we look at a number of backward-looking indicators such as output and the labour market).

Challenging times for businesses

Falling demand and high input costs over the past year have had a significant impact on cashflow across a range of businesses in the Thames Gateway and the UK more widely, and in particular SMEs. The problem was exacerbated by the liquidity squeeze in the financial markets over the past six months, and managing dwindling cashflow is one of the main challenges facing businesses across the UK. The liquidity squeeze and the sudden risk aversion by the financial sector first led to an increase in the cost of new or existing credit and then to difficulties in accessing finance, whether this was new credit and or renewals/extensions of overdrafts. The problem has been exacerbated by some insurers refusing to insure some businesses.

Falling profit margins and further worsening of cashflow positions have pushed businesses to increasingly conserve costs by cutting staff, reducing or cancelling capital expenditure or deferring expansion plans. There is also increasing evidence of de-stocking, while ordering on a just-in-time basis is on the increase. On the other hand, companies that are still doing well, and would normally expect to weather the recession, are increasingly concerned about the ability of their supply chain to withstand the current economic pressures.

With increasing pressure on businesses' cashflow and profit margins as the downturn has progressed, it is not surprising that there has been an increase in business failures in recent months. The number of corporate compulsory insolvencies[1] across England has increased year-on-year since June 2008, with a 46% increase in December 2008.



Source: Insolvency Service 2009

Corporate insolvencies at the Southend and Medway Official Receiver's Offices (covering the Thames Gateway area) have not risen as strongly as the national average, with a 22% year-on-year increase in November and a 5% increase in December. In 2008, corporate insolvencies in Southend and Medway accounted for 5% of the national total, down from 6.4% in 2007.

Table 1: Corporate Insolvencies: Year-on-Year Percentage Increase 2008

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Southend	-20.0	-31.3	-35.7	25.0	0.0	-50.0	-15.0	-30.8	-15.4	**36.4**	**45.5**	**20.0**
Medway	-55.6	-47.6	-21.4	-40.0	-20.0	-68.8	**18.8**	**60.0**	**25.0**	-38.5	0.0	-10.0
England	-23.2	-9.0	-33.3	-4.4	-4.3	**12.0**	**30.9**	**9.9**	**12.5**	**46.1**	**15.9**	**46.3**

Source: Corporate Insolvency Service 2008-9

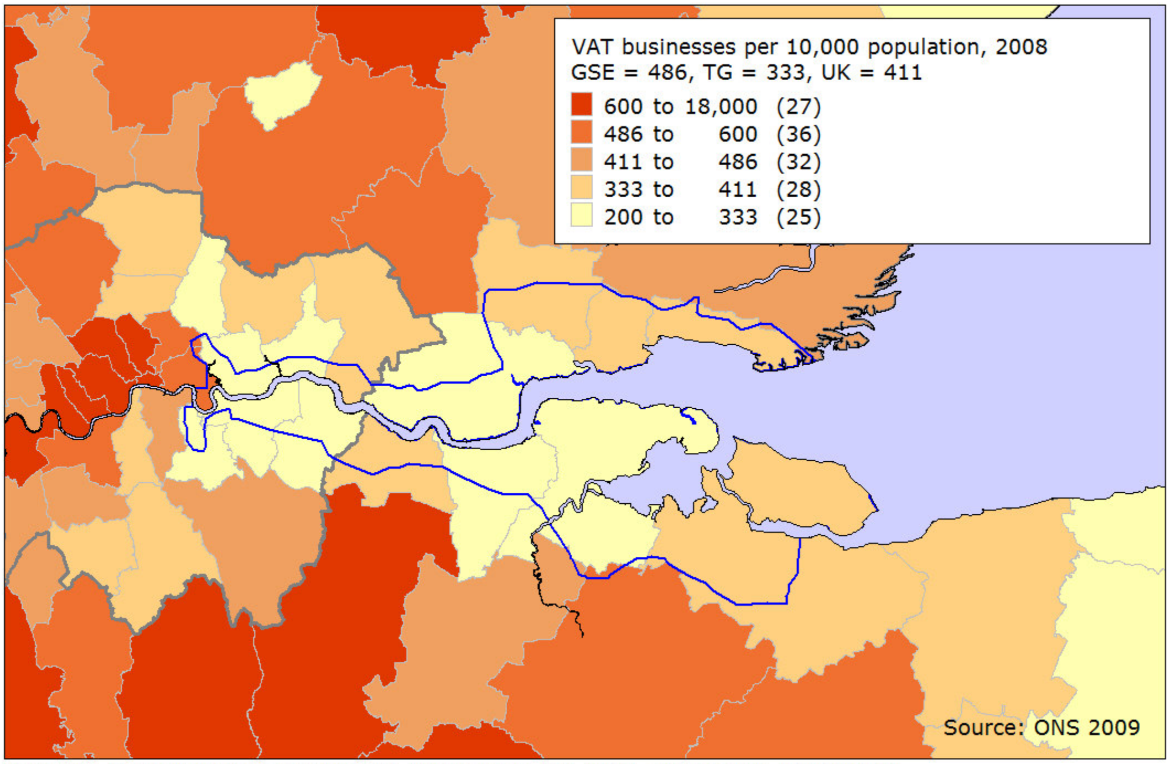
Looking at the two Official Receiver's Offices individually, Southend saw large year-on-year increases throughout 2008 Q4, in line with the national average, while Medway saw large increases earlier in 2008 Q3 (see chart).

There are some 73,800 VAT registered businesses in the Thames Gateway or 333 VAT registered businesses per 10,000 resident adults. This is significantly lower than the Greater South East average of 486 businesses per 10,000 resident adults or even the UK average of 411 businesses.

[1] Source (Insolvencies Service). These are indicative measures only: data are based on where county courts are located and cases are heard. The boundaries for county courts can change over time; some courts may have to deal with cases outside their area due to resources or a company changing address. The location of insolvency may represent where headquarters are located rather than the site of a local unit

The Thames Gateway accounts for 12.7% of the total resident adult population in the Greater South East but it accounts for just 8.7% of the total number of VAT registered businesses in the Greater South East. There are some stark differences in the number of businesses per 10,000 adult population within the Thames Gateway (see chart).

Number of VAT registered businesses per 10,000 resident adults in The Thames Gateway, 2008



The latest insolvency data suggests that the Thames Gateway has perhaps seen a smaller increase in the number of corporate insolvencies than the national average. However, relatively low number of businesses within the Thames Gateway implies that the impact of business closure on local economies could be substantial.

According to London Thames Gateway a number of significant existing investors have gone under (eg. Capital Print & Display, Pinnacle Entertainment) with more likely to follow. However, business opportunities still seem to exist, and cash-rich companies from a variety of sectors, but particularly in environmental technologies, continue to generate investment enquiries and new projects.[2]

[2] London Thames Gateway – Inward Investment, June 2009.

The impact of the downturn on output (Gross Value Added) in the Thames Gateway and the Greater South East.

There is a lack of timely Gross Value Added (GVA) data below the UK level. Regional Gross Value Added (GVA) data is available annually and the latest estimate is for 2007 (the 2008 estimate will be published in December 2009). At the sub-regional level GVA data is available at county and unitary authority level with a time lag of almost three years.

Last autumn it was widely expected that the credit crunch and the downturn that followed would have a greater impact on services than production activities such as manufacturing. However, if we ignore the causes of the current recession the impact on output so far has been similar to the 1980s, in the sense that manufacturing and other production activities have been affected more than service related activities. Output in production activities in the UK fell by 5.3% in the first quarter of 2009 – the largest fall since the first quarter of 1974. This sharp fall in output was largely driven by a steep decline in manufacturing output, which contracted by 5.5% - the largest quarterly decline on record. Within manufacturing, transport equipment, machinery and basic metal and metals products contracted faster than other activities.

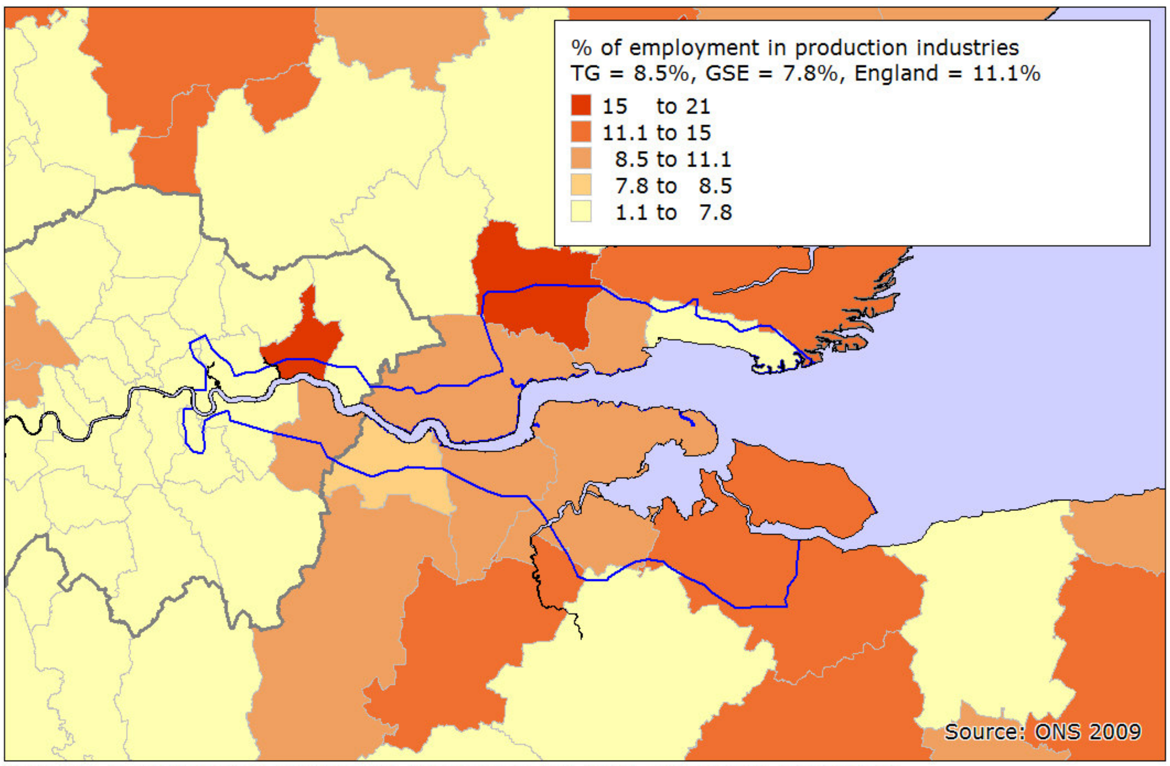
The initial preliminary estimate for construction activities showed a contraction of 2.4% in Q1 2009 compared with a fall of 4.9% in the last quarter of 2008. However, the latest revision to the data shows that construction contracted by as much as 9% in the first quarter of 2009. Services contracted by 1.2%, which was the steepest decline since the third quarter of 1973, but still significantly less than the declines recorded in the manufacturing and construction sectors. Within the service sector, business services and finance contracted faster than other activities.

Since the Greater South East economy is less dependent on manufacturing and construction, it is likely that it has been affected to a lesser extent than the other UK regions. Over the past year the Purchasing Managers Index (PMI) survey has been indicating that the rate of contraction in the Greater South East has been somewhat slower than the UK average.

The sectoral nature of the current downturn has prompted a number of studies by independent consultancies trying to identify the most ‘vulnerable’ sectors, the majority of which have included retail which so far has performed reasonably well in places such as London. Furthermore, some studies have also included public administration under ‘vulnerable’ sectors, although this is one of the sectors that normally fares relatively well in recessions. Arguably, with potential cuts in real spending the prospects for this sector in the future might be less bright than in the past but the available evidence shows that so far employment and output in public administration have been increasing. Furthermore, a number of reports include estimates of job losses by sector based on independent forecasts, but the speed of contraction so far has surprised everyone (forecasters are making continual revisions to their forecasts).

Given the sectoral nature of the current downturn one way of assessing the impact of the downturn on the Thames Gateway is to look at employment within the production and construction sectors (the two sectors so far affected most by the downturn).

Proportion of employment in the production sector within the Thames Gateway, 2007



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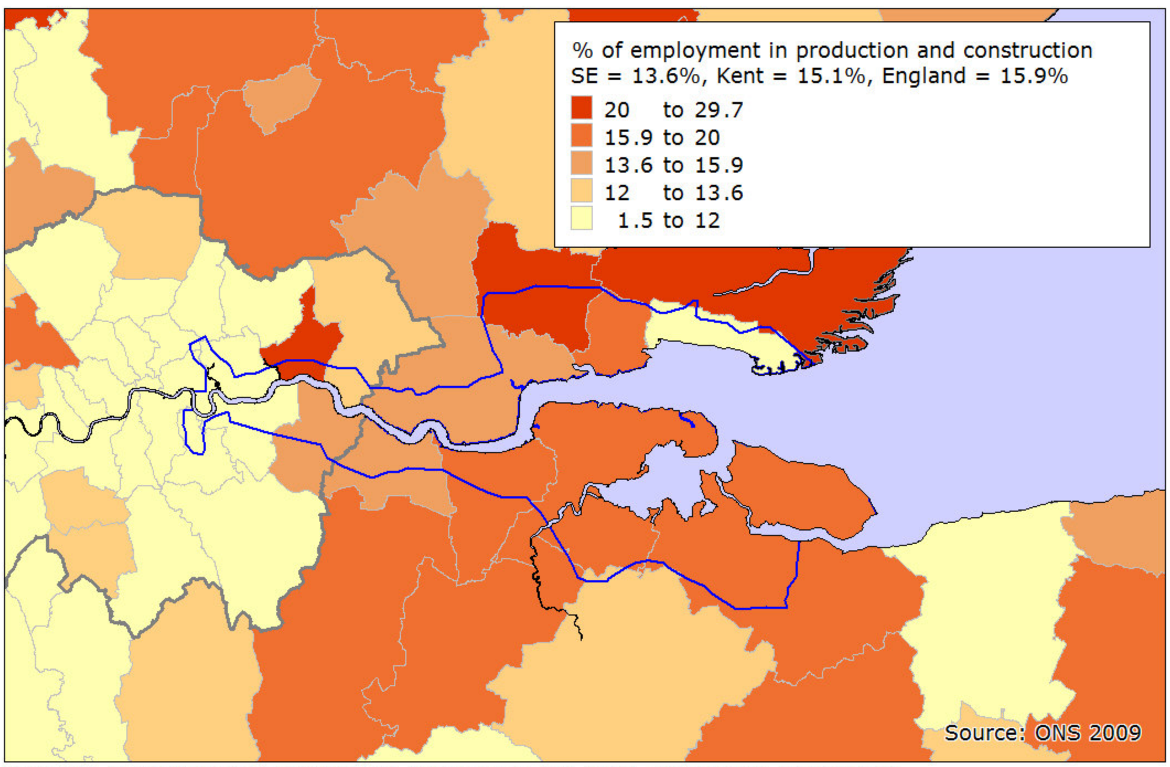
The latest available figures (for 2007) show that there were almost 780,000 people within the Greater South East employed in the production sector (largely manufacturing), which represents 7.8% of total employment. The share of production activities was well below the English average of 11.1%. Within the Thames Gateway almost 87,000 people were employed in the production sector or 8.5% of the total (see chart). Manufacturing within the Thames Gateway accounted for some 8.1% of the total – above the Greater South East average but below the UK average.

Ford's Dagenham engine plant, for example, has scaled back production, in common with other companies in the sector. Ford's Dunston Research centre, based in Basildon has furthermore announced a number of redundancies at the beginning of the year.

In an attempt to gauge the impact of the downturn, a study by the Local Futures tried to identify the sectors most vulnerable to the impact of the downturn. For the manufacturing and utilities part of the economy[3] this paper comes to the conclusion that, within the Thames Gateway such jobs are concentrated in Barking, Basildon, Medway and Swale, whilst concentrations of resident employees in these jobs are in Medway, Basildon, Swale, Havering and Thurrock. The estimated job losses in 2008-9 were 8,390, (largely in Barking Medway and Swale).

Proportion of employment in production and construction sectors within the Thames Gateway, 2007



The most recent preliminary estimates show that in the UK in 2009Q1 the construction sector contracted faster than manufacturing. Within the Thames Gateway almost 50,000 people (or 4.9%) of the total were employed within this sector in 2007. The share of total employment in this sector in the Thames Gateway was above the Greater South East average and marginally above the national average (4.8%), see chart. Although the Thames Gateway has above average employment in this sector, given the high concentration of public sector

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[3] Which has been identified as: manufacture of pulp, paper and paper products, publishing and printing, manufacture of basic metals and fabricated metal products, Manufacture of office machinery and computers Manufacture of motor vehicles.

projects at least in some parts of the Thames Gateway, the impact on output here might not be as severe as indicated by the latest UK data.

Thus, with some 136,500 people employed in production and construction or 13.4% of total employment, these sectors account for a greater proportion of employment in the Thames Gateway than the Greater South East average but a smaller proportion than the national average.

Furthermore financial services in the UK have been significantly affected by the global downturn. The financial and business services sector is seen as one of the major drivers of economic development in the Thames Gateway. With 40% of UK financial services sector concentrated in the London and South East, the Thames Gateway development is being affected significantly at the moment.[4] Evidence shows that the Thames Gateway has developed as a place for jobs in financial and professional services. There were up to 102,000 jobs in financial services and in professional services (law, accounting, consultancy etc) in the Thames Gateway in 2007. The number of jobs is estimated to have more than doubled since 1995.[5] Since a significant proportion of the Thames Gateway population commutes into London (and in particular the City), a further restructuring within the sector could have a significant impact on the employment rates in the Thames Gateway.

The Local Futures study estimates that there could be as much as 54,600 job losses in the financial and other businesses services sectors[6] especially in boroughs with a high concentration of jobs in these sectors (e.g. City of London, Tower Hamlets as well, as Hackney, Medway and Basildon to a significant extent, with further concentrations of employees in these jobs in Havering, Redbridge, Bexley, Lewisham, Basildon, Southend and Waltham Forest). However, these estimates are based on independent sector forecasts, which under the current climate are constantly being revised and are therefore to be treated with some caution. Furthermore, the impact of the recession has, so far, been more felt in the manufacturing and construction sectors than in the financial and business services sector, contrary to earlier expectations.

The residential impact of job losses in financial and business services is being felt across a number of areas in the Thames Gateway. Those losing highly paid job and seeking employment locally are facing a significant reduction in earnings. This will have a longer term impact on spending since their earnings are less likely to return to their former level.

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[4] Thames Gateway Sector Skills Dialogue - Financial and Business Services - 20th May 2009.

[5] HM Government and Homes and Communities Agency (2009): The Thames Gateway Annual Report 2008-09.

[6] Which have been defined in this study as: financial Intermediation, Except Insurance and Pension Funding, Activities Auxiliary to Financial Intermediation, – Legal activities, Architectural and engineering activities and related technical consultancy.

Given the sharp decline in world trade, shipping and related activities (the Port of London, Tilbury), ports and logistics investments earmarked for the Thames Gateway have been affected. The freight side of the sector has been particularly hard hit by the downturn while the passenger sector has been relatively less affected. Container volumes fell by 10 per cent in 2008 – equivalent to around 200,000 containers, followed by even sharper falls in the first quarter of this year. All other areas of the port's core business are experiencing steep declines, particularly vehicle handling, which has seen a slump of 30 per cent – equivalent to a quarter of a million cars. Key port investments are also under threat. DP World's £1.5 billion investment at London Gateway is facing uncertainty. The port operator has stalled all projects worldwide while it undertakes a review of its international investment to cut costs in response to the recession.

However, mixed freight business at Felixstowe, for example, is holding up relatively well, though container traffic through Tilbury has suffered a significant drop in activity. Furthermore, Dubai Ports/Shell Haven investment has been delayed, affecting a potential 20,000 jobs in the longer term. It is unclear whether this is a temporary or potentially permanent delay.

Nonetheless, the transport and logistics sector is experiencing significant levels of infrastructure investment as part of the development of the Thames Gateway (e.g. extension of DLR platforms in anticipation of the Olympics) and these should contribute to an increase in activity and/or reduction in cost.[7]

Thus, based on sectoral employment share it is quite likely that in terms of output the Thames Gateway has been affected more than the Greater South East but perhaps less severely than the UK average.

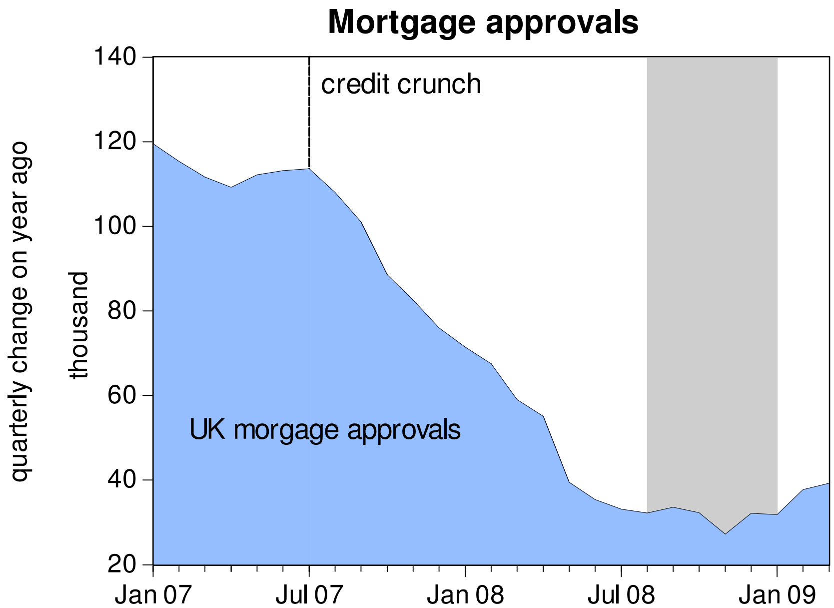
Looking at the possible impact of the downturn on output is just part of the story since the downturn also has an impact on the labour market. Given the commuting patterns into London and other parts of the Greater South East, the labour market in the Thames Gateway is affected not only by the performance of its own industries but also by the performance of other areas within the Greater South East.

Mortgage availability and house prices have fallen sharply since the end of 2007

The downturn in the labour market, stagnant wage growth, general insecurity about the economic outlook have, together with the liquidity squeeze which forced UK financial institutions to ration their lending, lead to a substantial reduction in housing demand and prices.

[7] Thames Gateway Sector Skills Dialogue - Transport - 24th April 2009.

Mortgage approvals in the UK have fallen sharply over the past two years. In March 2009 there were just 39,320 mortgage approvals, compared to 58,995 the same month a year ago (see chart). However, since the end of last year, there has in fact been a small increase in mortgage approvals.



Source: Bank of England 2009

The Halifax UK house price index has been falling for 6 consecutive quarters, with the strongest decline in the last half of 2008 (-5.6 in Q3 and -5.4 in Q4). Between quarter 1 2008 and quarter 1 2009, the Halifax house price index for the UK declined by 17 percentage points. The decline was even greater in the South East (-20%), in the East (-18%) and in London (-20.9%)[8].

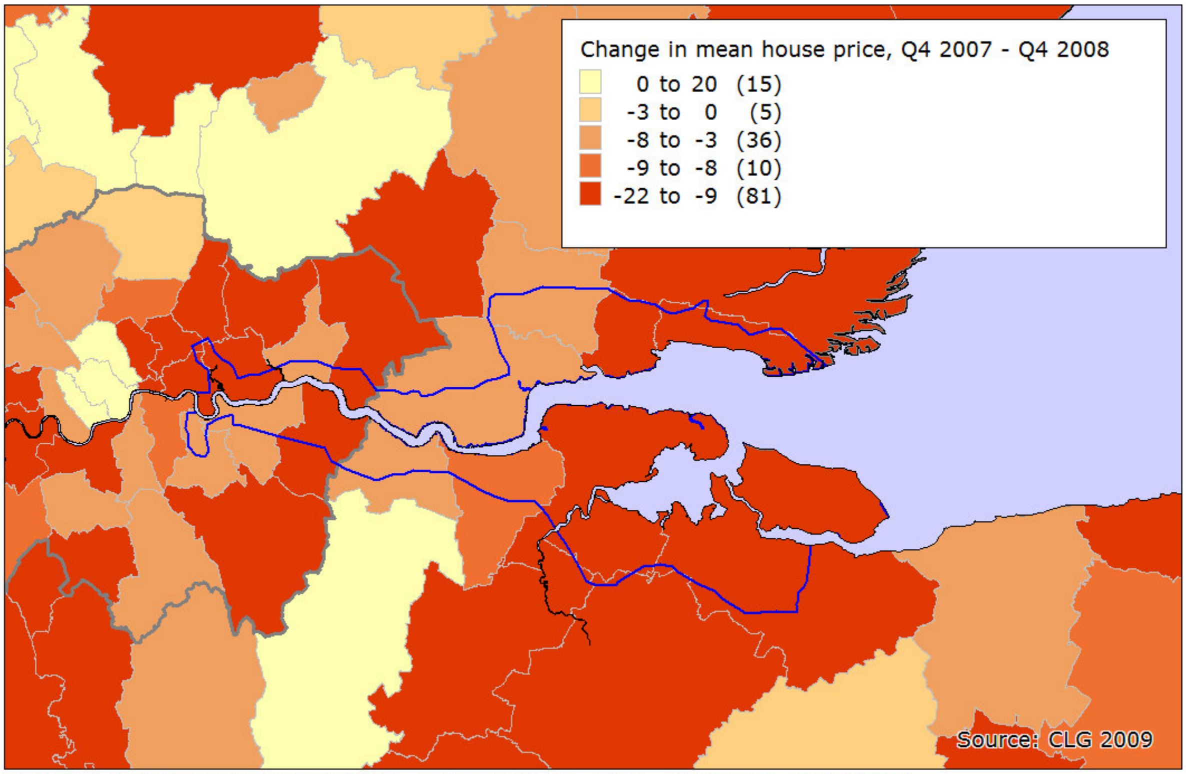
Data from Communities and Local Government (CLG) shows smaller falls in prices than Nationwide or HBOS data. Over the past year for which data is available (quarter 4 2007 to quarter 4 2008) in much of the Thames Gateway house prices have declined faster than the UK average (see chart). On this measure the average price fall in the Thames Gateway was greater than 10% (above the national average).

A sharp fall in house price and the liquidity crisis that followed the collapse of the Lehman Brothers in September is having a significant impact the housing sector in the Thames Gateway. Although some developments (in particular those financed by the public sector) are still underway, some projects are no longer viable and others are on hold due to the liquidity constraints. Overall, there has been a sharp stall in development within the Thames Gateway over the past nine

[8] Halifax Housprice Index, NSA

months, which is putting a break on the number of new homes and commercial property, which in turn is impacting on the labour market.

Change in house prices – 2007Q4-2008Q4

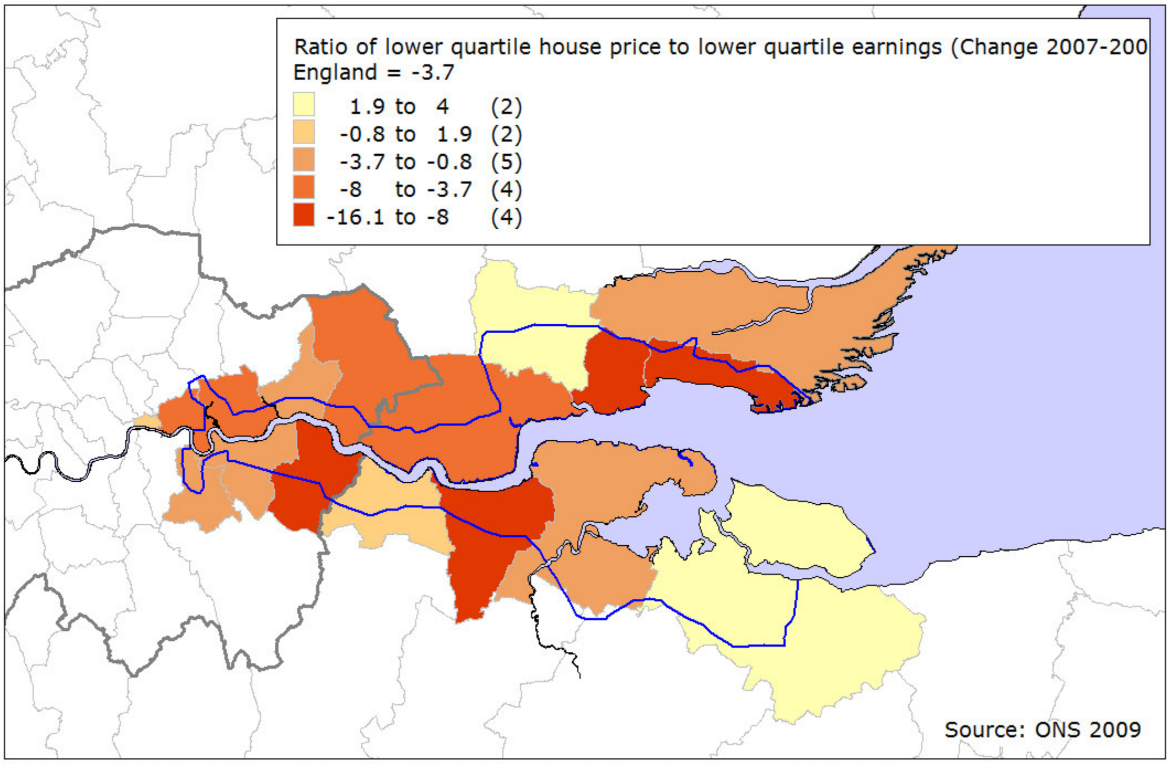


Falling house prices have resulted in improved affordability in the Thames Gateway over the past 18 months (see chart). In some districts the ratio of house prices to income declined by up to -16 percentage points to December 2008. However, a significant fall in prices has been more than offset by the lack of mortgage availability. Thus, although the price to income ratios are lower, so far this has not benefited would be house buyers.

Between 2001-2 and 2007/8, around 48,000 new dwellings were produced in the Gateway. However, at present rates (6,900 per year) it is estimated to take longer to achieve the aspiration to build 160,000 new dwellings - the annual delivery rate would have to increase by nearly 80% to around 12,400 to achieve this by 2016. The impact of the downturn on the construction industry makes this objective even more challenging in the short term. For example, Tower Hamlets Borough Council report a significant reduction in private sector development activity, with some evidence that residential developers looking to off load sites (even at loss) and generally fewer housing starts. There is also some concern on the current shortage of new high-quality commercial property in key employment areas, and serious concerns about pipeline, with progress on many developments having stalled.[9]

On the other hand, publicly funded construction activity in the Thames Gateway is compensating for downturn in privately financed activity. However there is a concern about how long this will be sustained. This relates to both work financed through central government and that local authorities are facing an increasing demand for core services while tax revenue is declining.[10]

Change in the ratio of lower quartile house price to lower quartile earnings 2007-2008

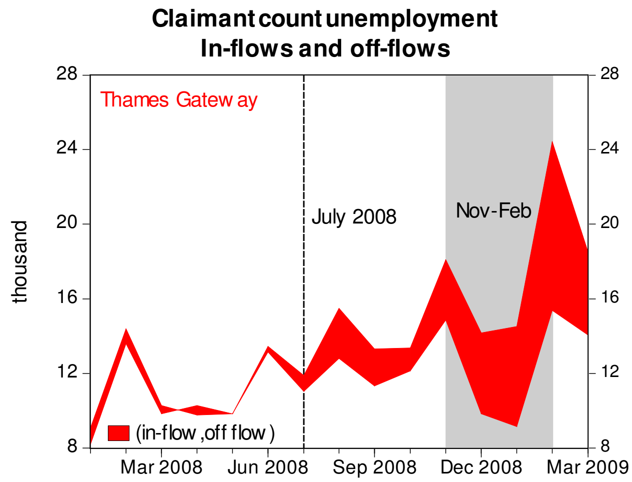


Unemployment in the Thames Gateway has been on the increase since the summer of last year.

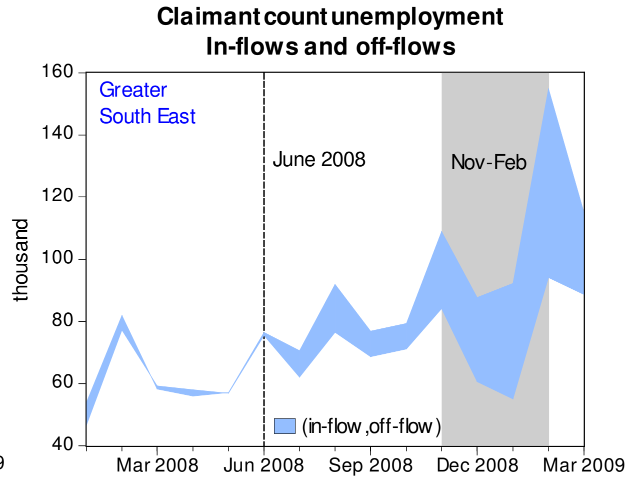
Claimant count unemployment in the Thames Gateway started to increase in early summer last year (see chart). The rate of increase was particularly sharp between November and February. Over this time the number of new Job Seekers' Allowance (JSA) claimants increased by over 71,000 and with some 49,000 people leaving the pool of unemployed the total number of people claiming JSA

[9] London Thames Gateway – Inward Investment, June 2009.
[10] Thames Gateway Sector Skills Dialogue - The Built Environment - 20th May 2009.

increased by some 22,000 (shaded area in the chart below). A similar trend was observed in the Greater South East and nationally.

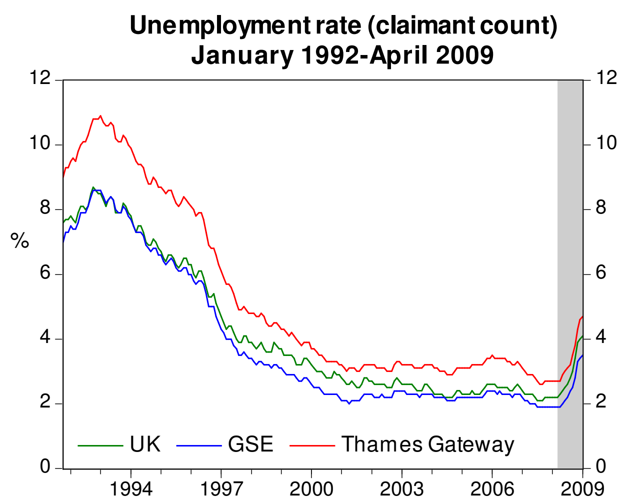


Source: National Statistics 2009

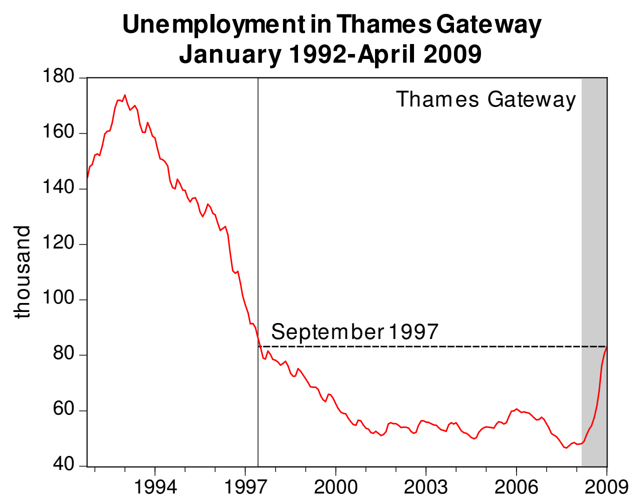


Source: National Statistics 2009

The unemployment rate on this measure in the Thames Gateway has been historically higher than the UK and Greater South East averages. In May 2009 the claimant count rate in the Thames Gateway reached 4.8%, up from 2.7% in May last year (see chart). Over the same period the claimant count rate in the Greater South East increased from 1.9% to 3.6% and in the UK from 2.2% to 4.1%.



Source: National Statistics 2009

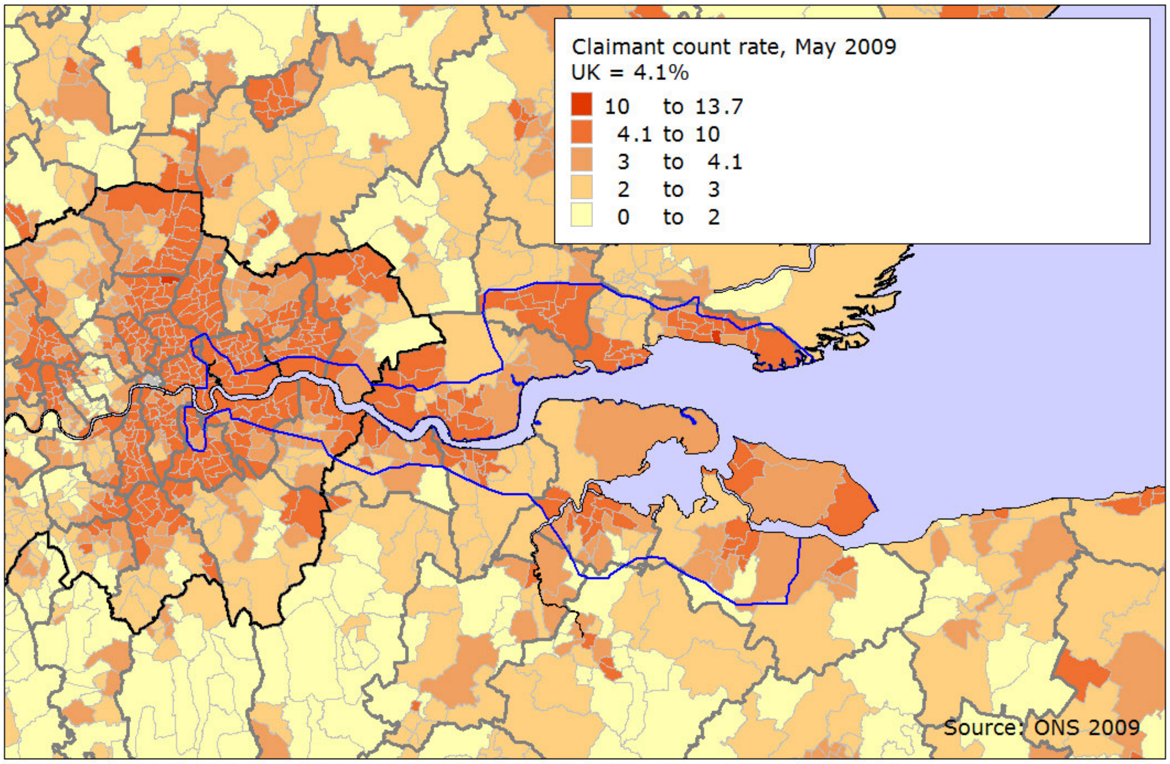


Source: National Statistics 2009

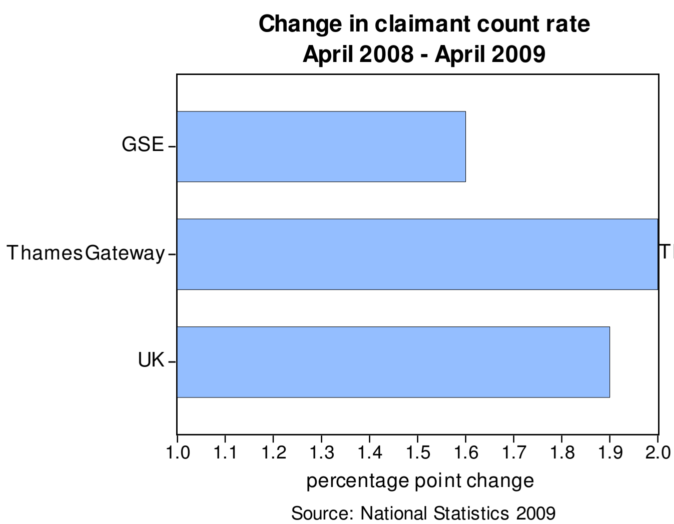
In May 2009 the number of people claiming JSA reached some 84,500 or more than 36,500 higher than a year ago. The total number of people claiming JSA is now at its highest level since September 1997, but still well below the peak of the early 1990s (almost 174,000 in April 1993).

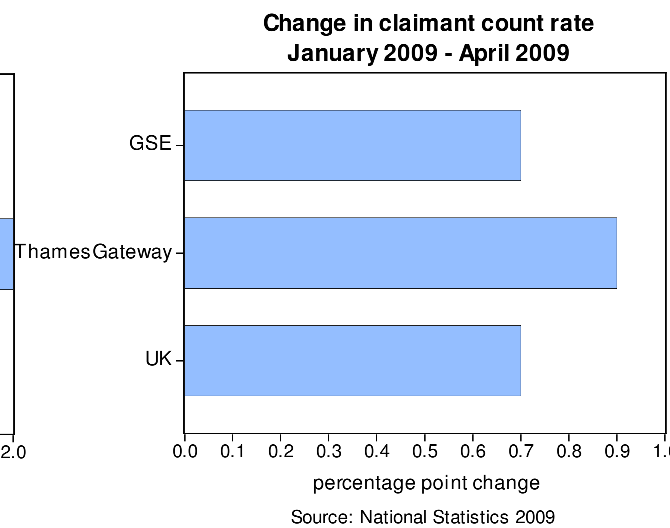
In May 2009 claimant count unemployment in almost all districts within the Thames Gateway was above the Greater South East average. Claimant count unemployment in most of London's Thames Gateway wards is above the national average and there are some concentrations of high unemployment in Essex and Kent (see chart).

Thames Gateway - claimant count unemployment, May 2009



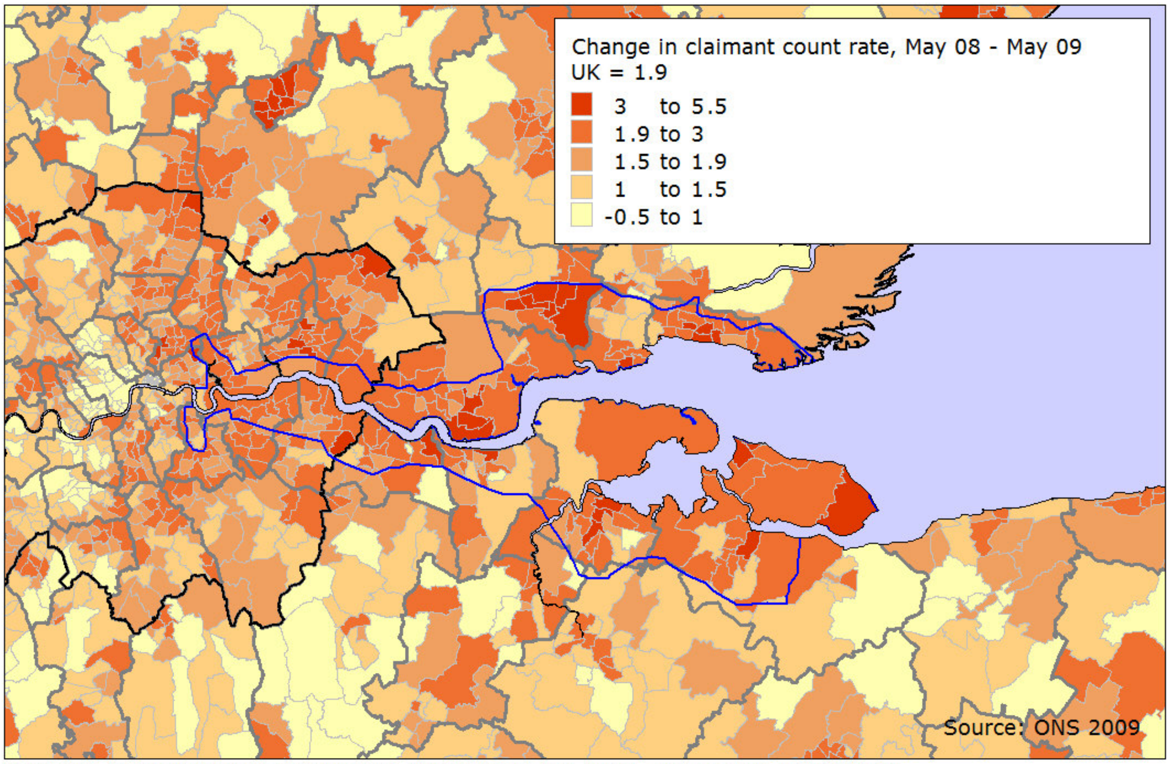
The claimant count rate in the Thames Gateway over the past quarter and the past year increased faster than the UK or the Greater South East averages. Over the year (May 2008 to May 2009) the rate in the Thames Gateway increased by 2.1 percentage points, marginally faster than the UK average and faster than the 1.7 percentage points increase in the Greater South East (see chart).





Over the past year in most of the districts within the Thames Gateway the unemployment rate has increased faster than the Greater South East or national average. In a number of wards (largely in Essex and Kent parts of the Thames Gateway) the change in the rate was well above the national average (see chart).

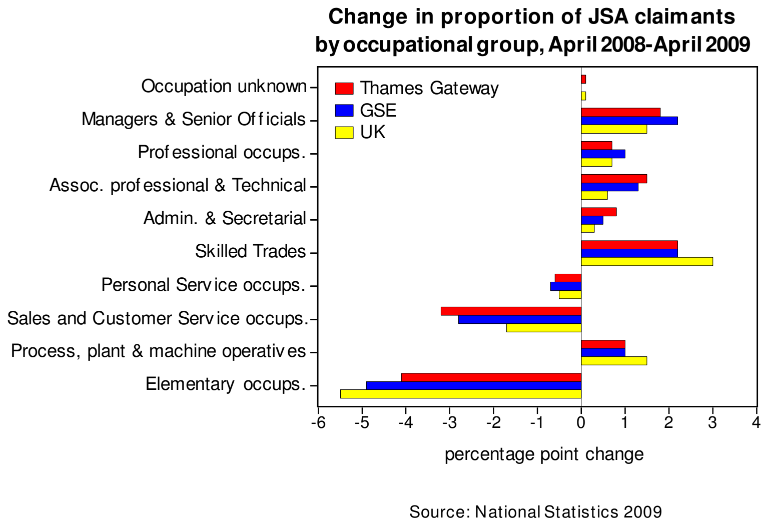
Thames Gateway – percentage point change in claimant count rate May 2008-May 2009

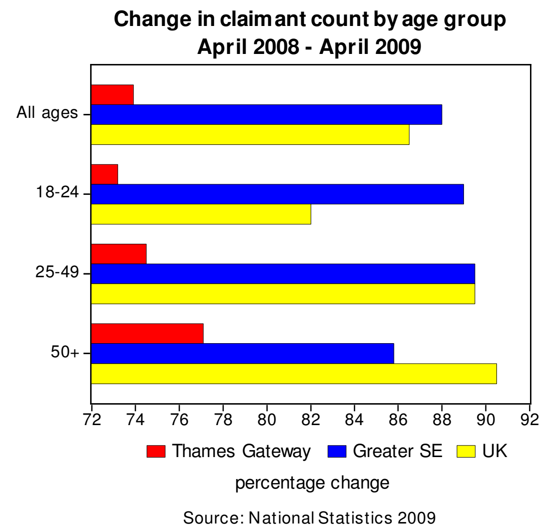


However, studies show that in many sectors an individual's place of employment is different to their place of residence. This is particularly truer of more skilled and higher paid occupations. Consequently, the impact of a reduction in employment in location may have both a local effect (e.g. in supply of business to business services) and a second effect in other locations through reduced consumer expenditure. For example there are over 200,000 financial services jobs in the Thames Gateway but only 106,000 of these are filled by people living in the Thames Gateway.

Over the past year people from higher-skilled occupations have accounted for a growing proportion of JSA claimants.

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 sales occupations. This partly reflects the fact that as the recession has progressed and firms have seen their cashflow and profit margins squeezed, they have been forced to make substantial cost savings by laying off more senior, highly skilled members of their workforce rather than only making redundancies from amongst temporary, lower skilled workers. There has also been an increase in the proportion of claimants who previously worked in skilled trades or process, plant and machinery occupations, reflecting the significant numbers of recent redundancies in the manufacturing sector.





The Thames Gateway has generally seen a smaller percentage increase in the proportion of managers and professionals claiming JSA over the past year, compared to the Greater South East average, but a larger percentage increase in the proportion of people from associate professional, technical and administrative occupations claiming JSA (see chart). At the lower-skilled end of the occupational spectrum, the proportion of JSA claimants from sales and customer services occupations has fallen faster in the Thames Gateway than in the Greater South East or UK, while the drop in the proportion of claimants from elementary occupations has been smaller in the Thames Gateway.

As a consequence of this trend Jobcentre Plus, for example, is having to adapt to a different, more skilled and experienced, client base. There is also a possible shift in the service required; from placing people into jobs in their original sector into re/up-skilling for transfer into different sectors. Nonetheless, there is a concern that employment initiatives will focus on the “easy to place” rather than more challenging unemployed people who will be “parked”. A further concern is related to longer term skills development, as currently many apprenticeships (in the build environment sector) are disappearing. There is a growing interest in use of consortia and group training arrangements for recruitment of apprenticeships.[11]

[11] Thames Gateway Sector Skills Dialogue - The Built Environment - 20th May 2009.

SEEDA, for example, are promoting an initiative for senior professionals to transfer to another sector or start their own business. It is anticipated that the high calibre business experience of former business and financial services sector employees will make them more likely to be successful in their new careers. It may also be an opportunity for other business to strengthen their senior management team which will then have a secondary impact of improving business success rates of existing companies.[12]

So far young people do not appear to have seen a faster rise in unemployment than other age groups.

In the Thames Gateway, the age group that has seen the fastest increase in claimant count unemployment in the past year has been those aged 50 and above, while the rate of increase for young people aged 18-24 has been below the average for all age groups (see chart). This could reflect the fact that larger proportions of people in the Thames Gateway area are employed in production activities, and these industries tend to employ larger numbers of older workers. The manufacturing sector in particular has been affected by significant numbers of redundancies during the recession, so this could help to explain the relatively faster rate of increase in unemployment amongst the over-50s in the Thames Gateway. The picture in the UK as a whole is similar.

At the same time, the slower rate of increase in young people's unemployment in the Thames Gateway could relate to the fact that significant proportions of young people are employed in the retail and hospitality sectors, which have fared relatively well in London despite the recession – helped by the strength of the Euro attracting large numbers of tourists to the capital. However, it is likely that in the Thames Gateway, as in the rest of the country, the end of the school and college year later in the summer will bring a substantial rise in the number of young people joining the JSA register.

In the Greater South East, by contrast, unemployment amongst people in the 'prime' working age group – 18-49 – has increased at a slightly faster rate than the average for all age groups, while those aged 50 and over have seen the slowest rate of increase in unemployment. However, what is perhaps most worthy of note is that the rate of increase in claimant count unemployment (in absolute terms) in all age groups has been significantly slower in the Thames Gateway than in either the Greater South East or the UK. This could be explained by the fact that large numbers of people commute into London from the Thames Gateway, and London's labour market has performed relatively well in 2008.

On the broader (survey based) measure of unemployment, unemployment in the Thames Gateway is on the increase but the rate of

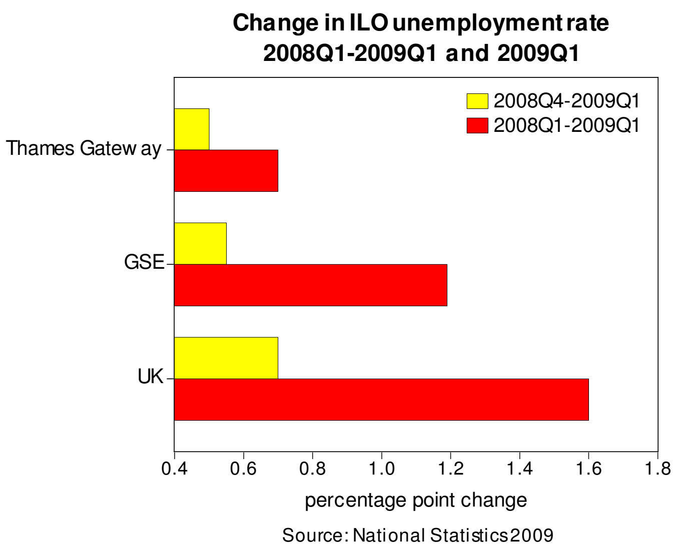
[12] Thames Gateway Sector Skills Dialogue Financial and Business Services - 20th May 2009.

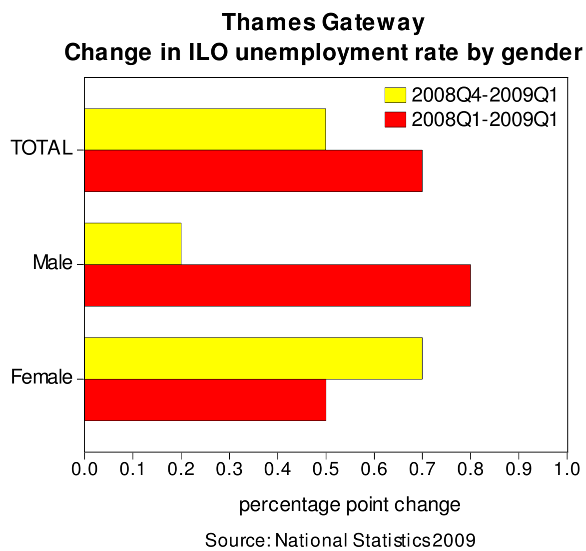
increase so far has been below the national and Greater South East averages.

The claimant count is an administrative (narrow) measure of unemployment which excludes those people who are unemployed but not eligible for state benefits. The broader survey based measure of unemployment (ILO or LFS measure), although less timely and currently not available at district level is the preferable measure of unemployment in the UK and abroad.[13]

In the first quarter of 2009 there were 120,000 unemployed people in the Thames Gateway or 8,000 greater than in the last quarter of 2008, and 12,000 higher than a year ago. In the Greater South East there are some 737,000 unemployed people, which is 77,000 greater than in the last quarter of 2008 or 167,000 higher than a year ago.

In January 2008 the unemployment rate in the Thames Gateway was 6%, above the Greater South East and UK averages of 4.2%. Over the past year the unemployment rate in the Thames Gateway increased by 0.7 percentage points to 6.7% (2009Q1), see chart. The rate of increase in the Thames Gateway was below the Greater South East average (+1.2 percentage points) and the UK average (+1.6 percentage points).





In the first quarter of this year there were some 52,000 unemployed women in the Thames Gateway (or 4,000 higher than a year ago) and some 68,000 unemployed men (or some 8,000 higher than a year ago). Over the past year male unemployment increased by 0.8 percentage points to 7.3%, and female unemployment increased by 0.5 percentage points to 6% (see chart). However, in the first quarter of this year women's unemployment increased much faster

[13] The unemployment rate based on the International Labour Organisation (ILO) or the Labour Force Survey (LFS) measure of unemployment is the proportion of residents of working age who say they are unemployed and looking for work and are available for work

than men's, which perhaps reflects the spread of the downturn to services. The change in unemployment for both males and females compares favourably to the Greater South East (the rate of increase was well below the Greater South East average).

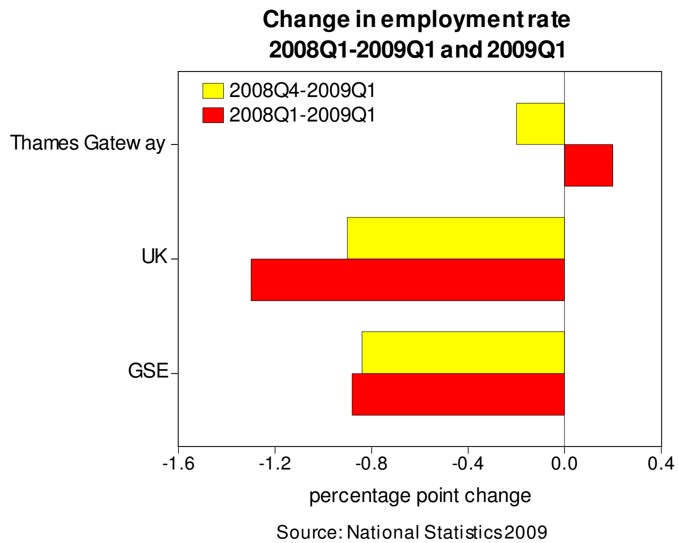
Employment in the Thames Gateway falls in the first quarter of 2009, but it is still higher than a year ago.

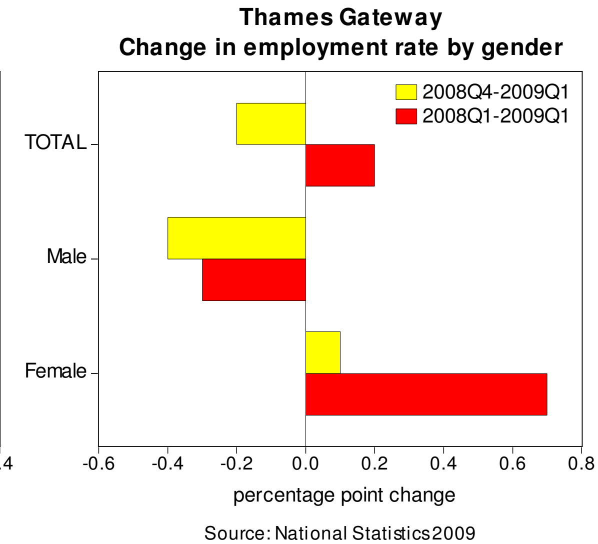
The number of jobs in the Thames Gateway has increased by nearly 69,000 since 2001. However, at the present rate it is highly likely that it will take longer to meet the targets than originally anticipated. The economic downturn is likely to make the 2001-2016 aspiration of 225k extra jobs even more challenging.

Historically the employment rate in the Thames Gateway has been below the national and Greater South East averages. Before the onset of the current downturn (in the first quarter of 2008) the employment rate in the Thames Gateway was 71.3% against 74.6% for the UK and the average for the Greater South East of 75.8%.

In the first quarter of this year the employment rate in the Thames Gateway declined by 0.2 percentage points on the last quarter of 2008. The rate of decline was below the Greater South East average and the UK average (see chart).[14] Furthermore, in the first quarter of this year there were some 5,000 more people in employment in the Thames Gateway than at the same time last year, and the employment rate was still 0.2 percentage points higher than at the same period last year. This is in sharp contrast to both the UK and Greater South East as a whole, where the employment rate fell by -1.3 percentage points and -0.9 percentage points respectively (see chart).

[14] The latest publicly available Labour Force Survey (LFS) data at district level is available on an annual rolling average basis and the latest period is October 2007 – September 2008. The district level data has been accessed via the LFS data set and aggregated to arrive at the estimates for the Thames Gateway up to the end of March 2009 (data below the aggregate is not available). Unless otherwise stated these estimates have not been seasonally adjusted, and a great deal of care is needed when looking at the quarterly change (2008Q4-2009Q1). We are grateful to Neil Park from the Office for National Statistics Regional Team in the South East for providing us with the estimates for the Thames Gateway, the Greater South East and the UK





The perceived threat to female employment (high concentration of employment in the service sector and large proportion of women in more vulnerable part-time and temporary employment) does not appear to have materialised as yet, based on recent labour market statistics. The downturn has so far had a greater impact on those predominantly male dominated industries such as production and construction activities, which is reflected in the changes in employment by gender.

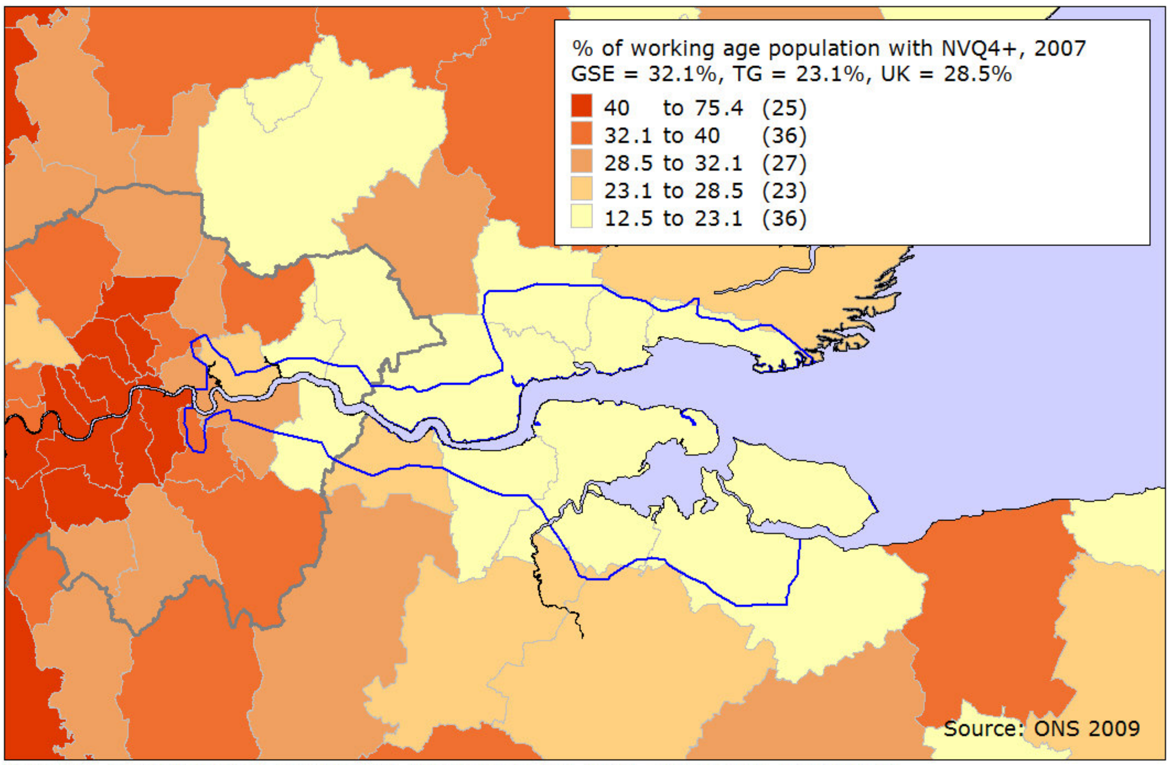
The employment rate amongst men in the Thames Gateway declined in the first quarter of this year and compared to the first quarter of 2008 it was some 7,000 or 0.3 percentage points lower (see chart). The decline in the employment rate in the Thames Gateway still compares favourably with the national and Greater South East averages, however, where the employment rate for men fell by 1.8 percentage points and 1.5 percentage points respectively.

The employment rate for women in the Thames Gateway in the first quarter of this year was 65.3%: 0.1 percentage points higher than in the last quarter of 2008 and 0.7 percentage points higher than a year ago (see chart). There were some 12,000 more women in employment in the first quarter of this year than at the same time last year. Again, this is in sharp contrast to the UK and Greater South East averages, both of which showed a decline in female employment over the quarter and over the year. This could be explained in part by the higher proportion of employment in the public sector in the Thames Gateway compared to the Greater South East and UK. Women are significantly more likely than men to work in the public sector, and this sector has been relatively unaffected by job losses during the recession so far. The decline in employment amongst women in the Greater South East was well below the UK average over the past year.

There is a large skills deficit in the Thames Gateway compared to the Greater South East or national average.

The latest data (2007) shows that the Thames Gateway has a significant skills deficit with the Greater South East or the UK average. In the Greater South East some 32.1% of all people of working average have at least NVQ4+, well above the national average of 28.5%. The comparable figure for the Thames Gateway is just 23.1%.

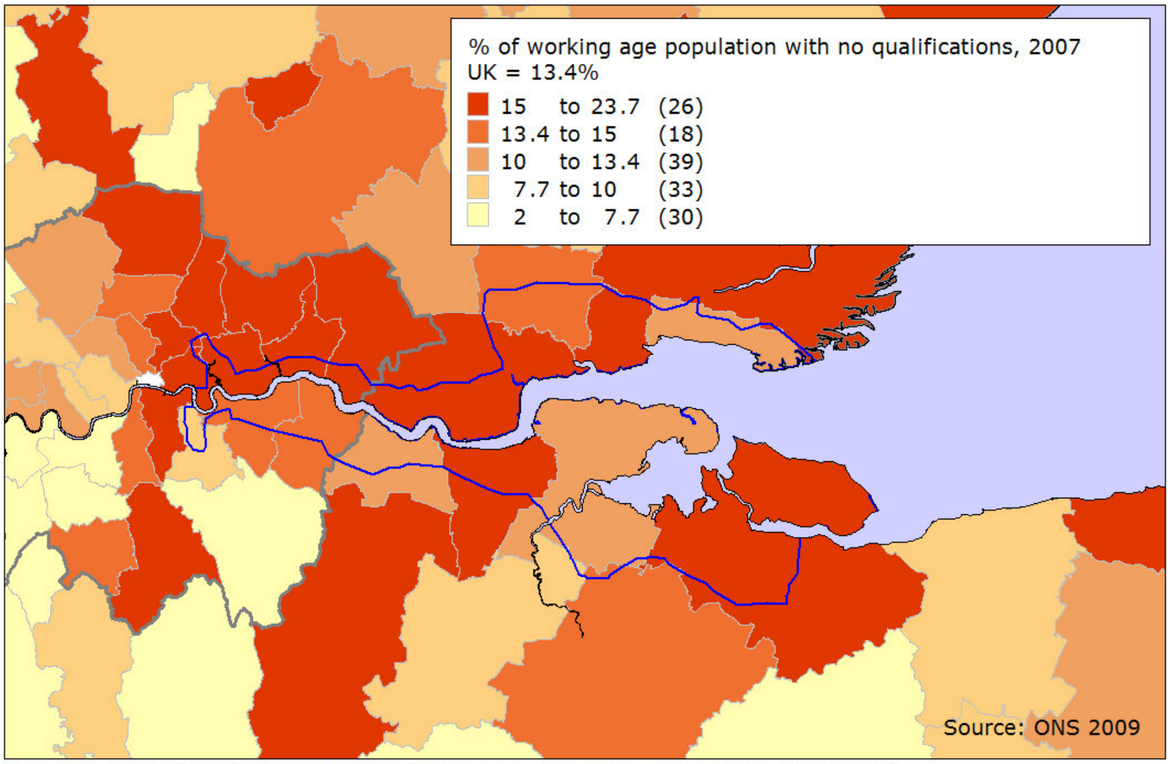
Thames Gateway – proportion of working age population with NVQ4+



Within the Thames Gateway the proportion of people of working age with NVQ4+ in Thurrock and Gravesham is just 14.2% and 15.5% respectively, with the much of the Essex parts of the Thames Gateway having the rate below 20% (see chart). The rate in several metropolitan districts is close or above the Greater South East average.

There are some 277,000 people of working age in the Thames Gateway with no qualifications or 15.8% of the total working age population. This is well above the Greater South East average of 11.5% or the national average of 13.4%. Almost one in four people of working age in Barking and Dagenham and more than one in five in Newham has no qualification (see chart).

Thames Gateway – proportion of working age population with no qualifications

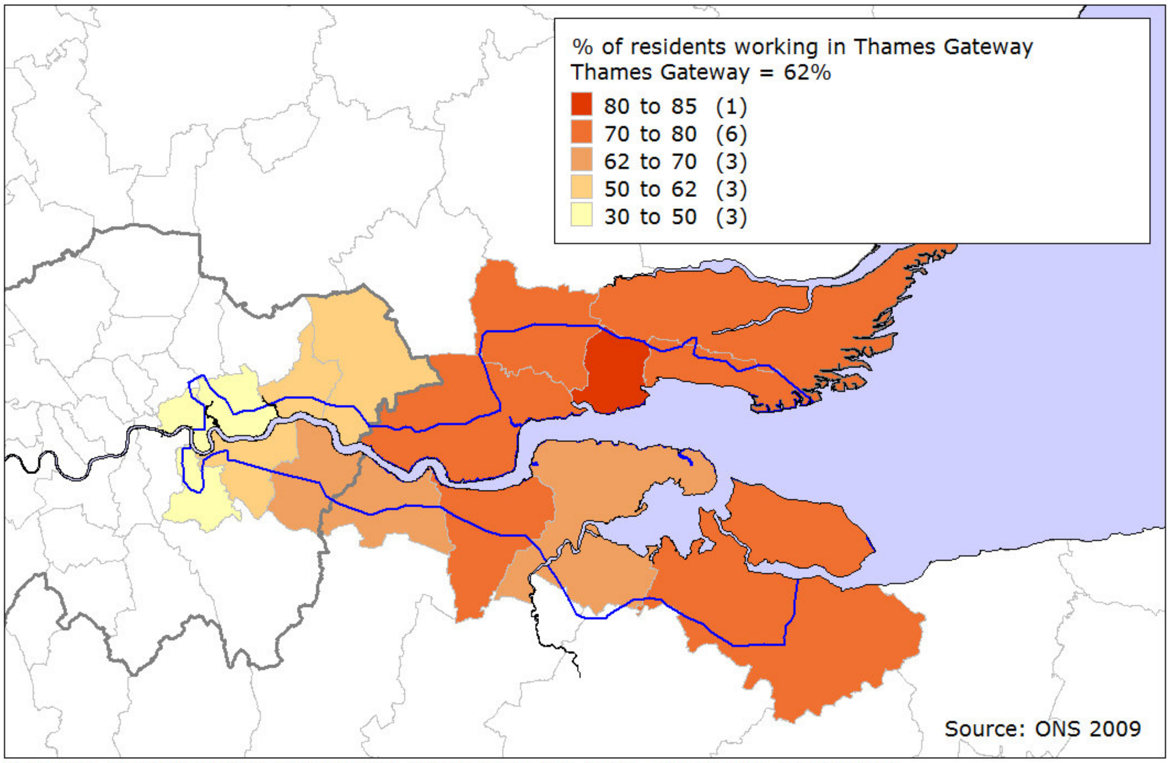


In the current downturn the number of available vacancies in the Thames Gateway, the Greater South East and nationally has declined significantly over the past twelve months. More people chasing fewer jobs usually implies that employers have a bigger pool of labour from which to select new staff and skills play an important part in the process. It is often the case that people with relatively low level of skills are at a disadvantage in securing new employment and this is one of the factors that could impact on the speed of the recovery of the labour market in the Thames Gateway and the long-term prospects for the Gateway.

High degree of spatial interdependency within the Thames Gateway.

Of the 1.3 million people with jobs living in the Thames Gateway, the majority (62%) both live and work there (see chart). It is perhaps less surprising that those areas closer to the City tend to have higher proportion of people commuting outside the Thames Gateway. Connectivity is an important factor in economic development, with those areas with relatively poor transport links having lower proportion of residents in employment commuting outside the Thames Gateway.

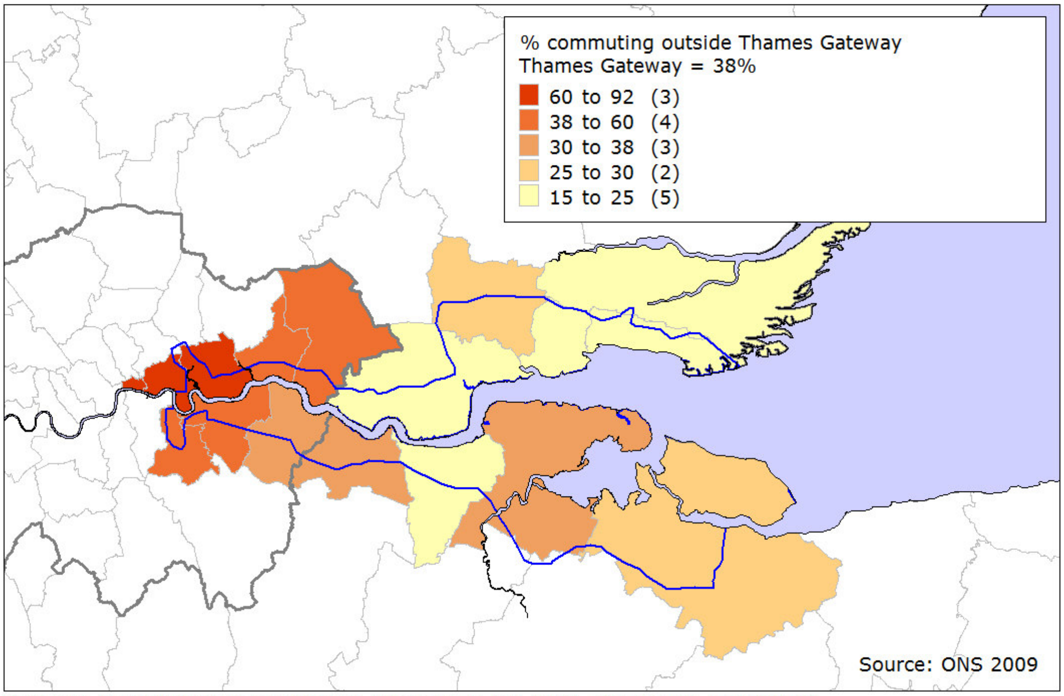
Percentage of Thames Gateway residents working within the Thames Gateway



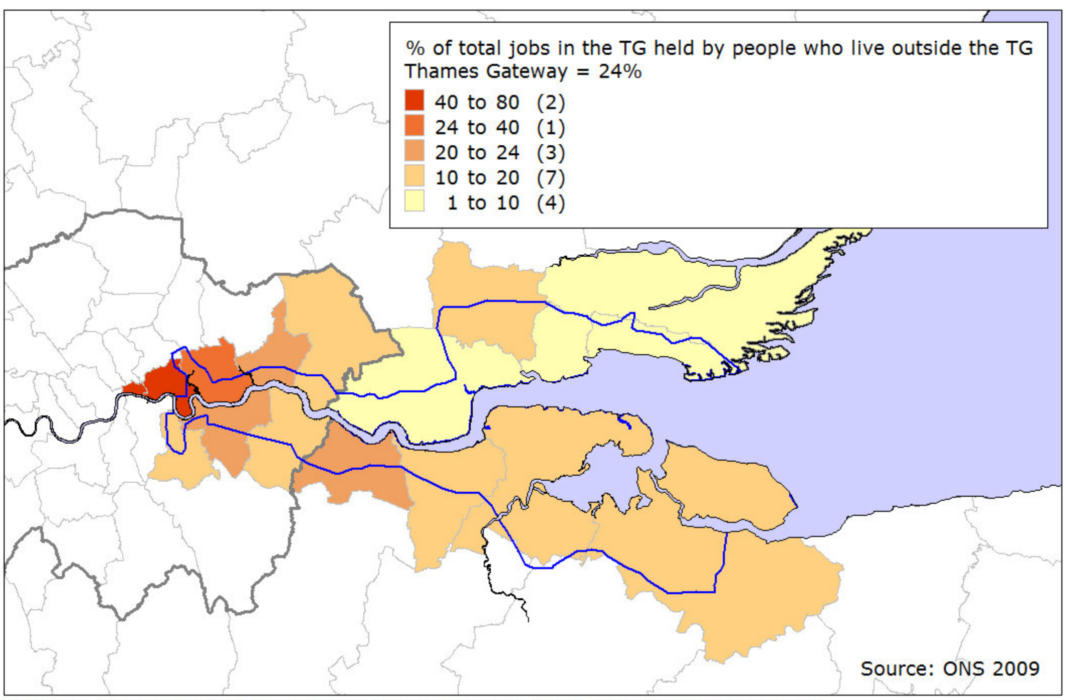
London is an important provider of jobs for people living in the Thames Gateway and vice versa. Although the majority of people living in the Thames Gateway also work there, a significant number of people (497,000) commute to a workplace outside of the Thames Gateway. The majority of those commute to the rest of London (380,000 or 29% of the total number of people in employment) while a much smaller number commute to the rest of the South East and East of England (60 thousand and 36 thousand respectively), see chart.

On the other hand, there are also many people who commute into the Thames Gateway. Although there is a net-outflow from the Thames Gateway (there are 1.3m people with jobs living in the Thames Gateway but only 1.1m people work in the Thames Gateway) some 149,000 people from the rest of London commute to work in the Thames Gateway, while from the rest of the South East the number is 55,000 (see chart). Only a small number commute from the rest of East of England to the Thames Gateway (12,000).

Thames Gateway residents working outside of the Thames Gateway

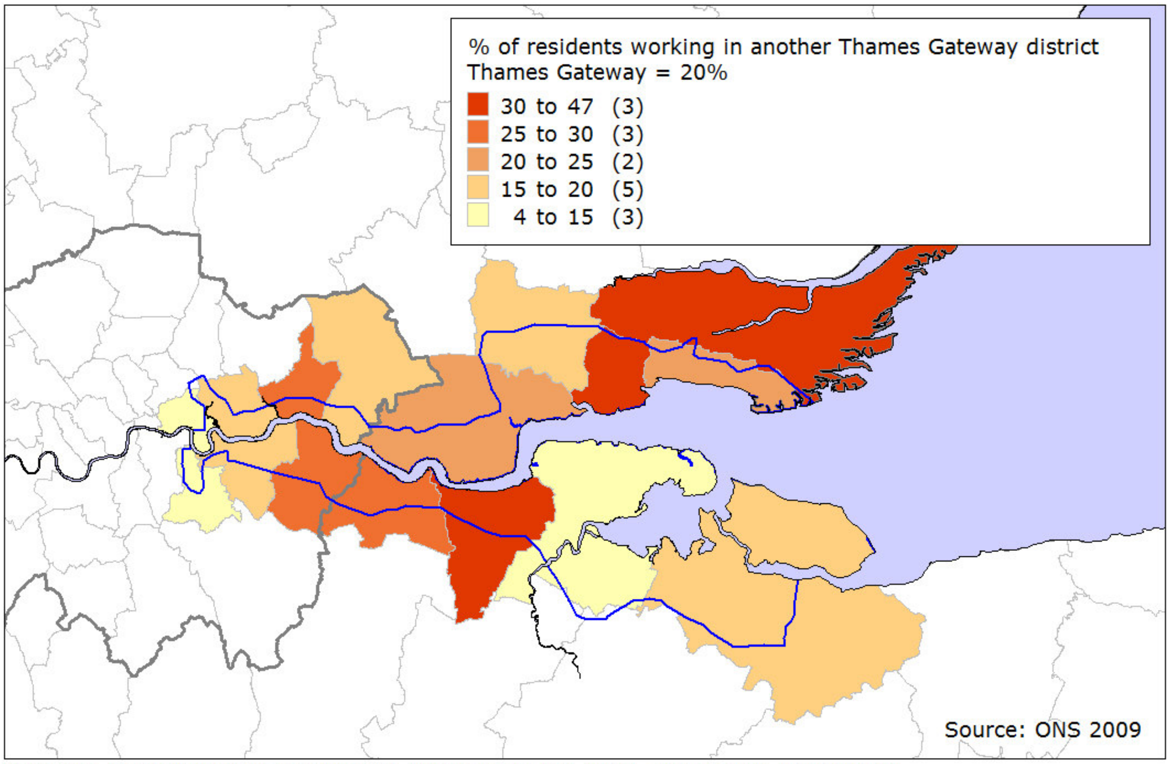


Percentage of total jobs in the Thames Gateway held by people who live outside the Thames Gateway



It is necessary to remember that there is a high degree of interdependency between districts that for the Thames Gateway. Some 20% of those who both live and work in the Thames Gateway commute to another district within the Gateway (see chart).

Spatial interdependencies: percentage of residents commuting to another Thames Gateway district



However, many parts of the Thames Gateway are not easily accessible for major urban centres or the international transport hubs, nor are they easily accessible to each other. The eastern reaches of the river Thames and the Thames Estuary act as barriers to travel, journeys between northeast London and southeast London are extended because of the limited number of river crossings.
Furthermore, the extension to Dagenham Dock dropped from TfL Business Plan for 2009-2018, impacting on Barking Riverside and Dagenham Dock employment area.[15]

Business and consumer confidence is improving?

[15] Gateway to London, June 2009.

Over the past two months business and consumer sentiment has started to improve and it appears that the pace of decline in business activity and new orders has slowed down in the UK and the Greater South East economies.[16] Furthermore, confidence within the global financial markets has been improving and banks have started to lend to other banks.

The labour market in the Thames Gateway appears to be faring better than the Greater South East or the UK average. One of the reasons behind this can be explained by commuting into London – in 2008 London's economy performed better than expected. However, we have to remember that the labour market is still a lagging indicator of economic activity and that it will take some time before unemployment starts falling again.

[16] See Monthly Intelligence Snapshots from SEEDA, LDA and EEDA and regional Purchasing Manager Indices from Markit/Royal Bank of Scotland.