Regional Intelligence Snapshot for the South East

October 2009

Summary of economic conditions

- According to the Purchasing Managers' Index, both **business activity and new orders increased in the South East** in September for the third consecutive month. Sector data indicates that manufacturing was the driver of output expansion in September.
- **Our latest survey evidence suggests that a gradual recovery is underway in the South East.** One third of companies surveyed in SEEDA's Business Snapshot Survey (conducted in September) reported an improvement in their overall business performance over the last three months, up from less than 20% in March. The **proportion of businesses operating below capacity fell** from 70% in July to 58% in October.
- This is reflected in improved business confidence**: 40% of companies expect the business climate to improve in the next three months,** up from 28% in March.
- As companies are more positive about the future, **almost a quarter plan to increase overall investments in the next three months**, up from 15% in March.
- However, **employment fell by 20,000 in the three months to August,** while according to the Purchasing Managers' Index employment fell in September for the 15th consecutive month. Job shedding was sharper in the manufacturing sector than in services.
- **Unemployment** (as measured by the Labour Force Survey) **fell by 2,000 in the three months to August**, while the claimant count increased marginally (by 1,400) to 155,200 in September. The number of redundancy notifications fell in October; there were some 1,900 redundancies in October, compared to 4,125 in September (full month).

Key challenges and hotspots

- Access to finance has improved overall, according to evidence from our Business Snapshot Survey: **More than 40% of companies were able to obtain all the finance they were seeking, up from 34% in March.** However, at 21% there has been little improvement in the proportion of companies who could not access finance (down from 23% in March). Largely anecdotal evidence cautions that the high cost of credit is acting as a barrier to firms successfully obtaining finance, particularly in the manufacturing and construction sectors.
- **Businesses are starting to prepare for the upturn**: **20% of firms plan to increase investment in training and retraining** in the next three months, up from just 10% in March, according to our Business Snapshot Survey. However, largely anecdotal evidence indicates that many companies are struggling to source the required funding for training.

Business specific intelligence / information on key questions

- According to EEF's latest South East Business Trends Survey a **majority of manufacturers are expecting export orders to increase** in quarter 3. This is corroborated by research from the CBI, showing that small and medium-sized manufacturers in the South East are confident that their order books will stabilise in the next quarter. Largely anecdotal evidence suggests that many companies expect to benefit from the recent recovery in the economies of countries which receive a large proportion of South East exports (such as Germany).
- The CBI's monthly Distributive Trades Survey reports that **high street sales in the South East grew at their fastest rate in almost two years,** underlining improvements in sectors related to the housing market (particularly retailers selling white goods and furniture).
- Anecdotal evidence from businesses and business representative organisations suggests that **the increase in VAT is not expected to make a significant difference,** particularly for retailers selling less expensive goods.

Sectoral Overview

Manufacturing
At national level the manufacturing industry continues to face difficult trading conditions. Manufacturing output fell by 1.9% in August, taking it to its lowest level since 1992. Although official figures for manufacturing investment in quarter 2 of 2009 have been revised upwards, the figure of -15.4% is still the largest decline in investment since records began in 1965. EEF's Pay Bulletin reports that the three-month average pay settlement in manufacturing held steady at 0.3% in September. Pay freezes accounted for 80% of all settlements.

The latest EEF Business Trends Survey for the South East (August 2009) shows that manufacturers' expectations for the next three months are reasonably positive. Output and new orders (both domestic and export orders) are expected to be significantly higher, while numbers employed, costs and profit margins are expected to be flat. In the case of profit margins, domestic sales margins are predicted to increase, while export margins are expected to fall. A CBI survey of small and medium sized manufacturers in the South East in October found that firms feel more positive about business prospects than they have for two and a half years. Almost a quarter of firms reported a rise in new orders in the three months to October, while a majority of firms expect total orders to stabilise in the next three months. Numbers employed in SME manufacturing firms continued to fall in the three months to October, and while 15% took on more staff, 30% reduced their headcount.

Expectations for cashflow are significantly lower than when the survey was last run three months ago. This bears out the findings of national EEF research in September, which found that some manufacturers are still having difficulties gaining access to credit. Although the availability of credit has improved marginally, the cost of credit has increased for many businesses. The number of companies reporting a reduction in the availability of new lines of credit fell from 42% to 33% in the quarter to September. However, almost half of businesses (47%) reported an increase in the cost of finance from banks and other lenders in quarter 3 of 2009 – up from 37% in the first quarter and 44% in the second. The corollary of these difficulties in accessing finance is that businesses are forced to continue cost cutting. The CBI survey of South East manufacturers in October found that access to finance is continuing to constrain some firms' export and output plans, with 30% of medium-sized firms saying it is likely to limit their investment plans.

Business specific intelligence includes the news that **Duco** (a blanket manufacturer) in Slough has closed, leading to the loss of 60 jobs. **BAe Systems** will be cutting almost a third of its workforce at its regional aircraft base in Weybridge. A total of 16 jobs across all levels will be lost by the end of 2009. In more positive news, **AvMan Engineering** is looking to create up to 40 jobs at its new aircraft maintenance business at Kent International Airport by the end of the year, while **Gemma Electronics** of Cosham has been bought out of administration by Bombardier Transportation, securing most of the 150 jobs.

Automotive
EEF's Business Trends Survey (UK wide) shows that while motor vehicles and basic metals were the first sectors hit by the recession, they have also been the first to see an improvement in conditions. The pace of decline eased in the third quarter of 2009 following a year of steep declines in output and orders. It seems that UK firms have benefited from scrappage schemes in the UK and abroad. However, some motor manufacturers in the South East are not reporting many signs of improvement. **McLaren Automotive** is considering plans to close its car parts factory in Portsmouth, with the loss of up to 98 jobs. Meanwhile, automotive retailers report that price competition remains keen. The scrappage scheme has helped to generate trade, but has served to reduce dealers' margins in some cases.

Construction / property
Current uncertainty about the timing and scale of any cuts in Government spending on infrastructure projects is making it difficult for construction firms to plan for the future. Competitive

pricing is being used to win tenders, which is unlikely to be sustainable once demand picks up and suppliers begin to increase their prices.

In the commercial property sector there has been a noticeable improvement in business confidence, alongside the upturn in the housing market. However, there is some concern that the VAT increase could have a negative effect. A number of major redevelopment projects have recently been approved in the region, including the £400 million Station Hill scheme in Reading (offices, shops and a public arts venue) planned by **Sackville Developments**, which has been approved by Reading Borough Council. In Slough, **Segro** has been granted consent for the first phase of the 20-year 'Vision for the Future' development plan to transform Slough Trading Estate.

Retail
There is a mixed picture in this sector overall. The CBI's monthly Distributive Trades Survey reports that high street sales in the South East grew at their fastest rate in almost two years**,** underlining improvements in sectors related to the housing market (particularly retailers selling white goods and furniture). Footfall was up in some towns in August compared to the same month in 2008 (eg. Slough) but footfall has fallen in other towns (eg. Reading). A significant proportion of retail units are still vacant (10% in West Berkshire for example), but there has been some growth in short-term and temporary lets of retail units. Several town centres will see new stores opening in the coming weeks, including six in Woking. **Marks & Spencer** has been recruiting 118 staff for a new 25,000 sq ft store due to open in Witney, Oxfordshire, in October. Meanwhile **Bhs** is to open a store in the Westwood Retail Park in Thanet in October. There has reportedly been an increase in the number of hair and beauty salons and grocery stores in town centres across the region. A number of rural shops have closed, but this is not necessarily as a direct result of the recession. Several rural town centres (such as Hungerford) appear to be thriving.

Anecdotal evidence suggests that the VAT increase is not expected to make a great deal of difference, particularly for shops selling cheaper items, but it will involve an additional administrative burden at a busy time of year for retailers.

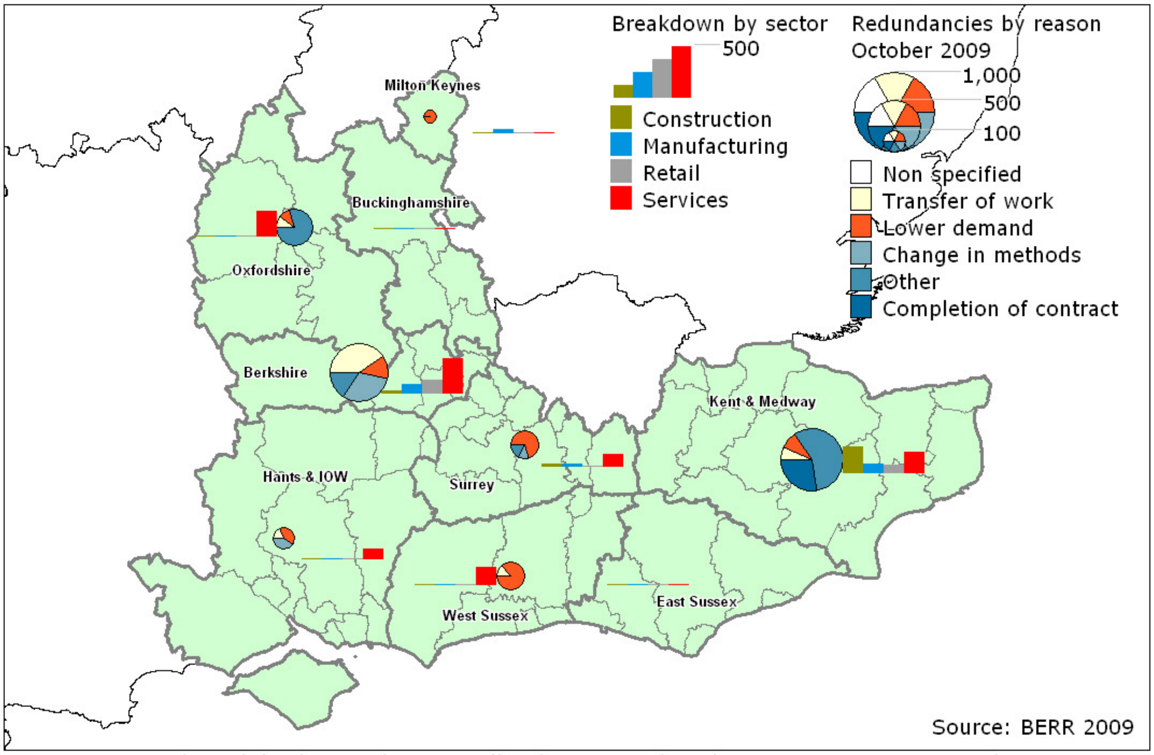
Redundancy Notifications: According to HR1 data, the number of redundancy notifications decreased in October, following the increase observed in September. There were some 4,125 redundancy notifications in the South East in September (full month)[1] against 1,900 in October 2009.[2]

The service sector (excluding retail) continues to account for the greater proportion of redundancies, totalling 60% of all notifications in October. Notifications in the construction and retail sectors saw an increase in October, compared to the relatively low levels recorded in August and September.

For the third month running, there were no notifications in East Sussex. However, West Sussex reported notifications for the first time since July 2009. Buckinghamshire also reported no redundancies in October. Together, Berkshire and Kent & Medway accounted for approximately 60% of all notifications, with Kent & Medway reporting its highest level of redundancies since April 2009.

[1] This figure is different from the figure reported in the September Snapshot, which covered only the first three weeks of September. In the last week of September a single company in the South East announced a large number of redundancies, some of which are likely to have occurred at national level, so the figure of 4,125 notifications in September should be interpreted with some caution.
[2] 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 by sub-region, volume, reason and sector
September 2009 (Source: HR1 data via BERR / Job Centre Plus)



Service sector redundancy notifications were distributed across Berkshire, Hampshire & Isle of Wight, Kent & Medway, Oxfordshire, Surrey and West Sussex. Both the construction (predominantly in Kent & Medway) and retail sectors saw an increase in redundancy numbers in October.

Lower demand was cited as the reason for redundancies in approximately a quarter of all notifications.