Regional Intelligence Snapshot for the South East

June 2009

Summary of economic conditions

- According to the latest Purchasing Managers Index (PMI) Survey **business activity in the South East declined marginally in May. This is the slowest rate of decline since August 2008.** The latest FSB Snap Poll Survey (June 2009) shows that some **42% of small businesses in the region have seen a decrease in trade** over the past two months. This represents **a small improvement when compared to the last survey** (48% reporting a decrease in April). **Rural small businesses in the region performed similarly** (41% reporting falling trade) to those in urban areas (43%).
- The latest (largely anecdotal) evidence from businesses and business representative organisations shows that **the rate of deterioration in business conditions in the region has possibly bottomed out in June**. There has been an upturn in business confidence in the South East – preliminary results from the RDA business survey, carried out in May and June, show around **two thirds of businesses expect the business climate to improve or remain stable** (up from under 45% in December 2008). EEF reports that its members believe conditions remain patchy and it is too early to begin talking of a sustained recovery.
- The **labour market in the region continues to weaken** albeit at a slower pace than in May. The number of JSA claimants rose by more than 1,200 in May to over 154,800. The number of people in employment in the region fell by 22,000 in the three months to April. **Women's employment fell significantly faster than men's** (a drop of 16,000).
- The **level of investment is generally lower than in May**, while strong **competitive pressures continue to restrict firms' pricing power**. The latest RDA National Business Survey shows **more businesses expect to decrease rather than increase spending on future investment** (capital, product & process development and training & retraining) in the next 12 months. This **represents deeper cost-cutting efforts than reported in the December 2008 survey**. Marketing and sales are the only areas where firms expecting to increase spending outweigh those expecting to decrease spending.

Key challenges and hotspots

- The region is seeing more job losses in occupational groups such as managerial and professional positions. **Unemployment in more prosperous local authorities** has increased in recent months, with Reading experiencing the fastest increase in the region over the past year.
- **Credit conditions remain tight** but there are **some signs that bank overdrafts and term lending are returning to a manageable level** for many SMEs. According to the latest FSB survey the cost of existing finance increased for 22% of its members in the region, down from 27% in April 2008. Business Link reports that **more than 11,300 Health Checks will have been delivered in the region** by the end of June.

Business specific intelligence / information on key questions

- Overall, coastal areas and eastern parts of the region have seen a faster increase in unemployment over the past year. A higher concentration of lower value added and declining sectors, weak infrastructure and skills and lower concentration of businesses may impact on labour market prospects in these areas.
- Despite an increase in new buyer enquiries, the number of sales and new properties coming onto the residential market remain low. Access to finance remains difficult and rising yields on long-term bonds are pushing borrowing costs higher, which could prolong the downturn in the market. (See Annex for sectoral and business specific intelligence).

Sectoral Overview

Inward investment enquiries increased over the last year - the latest report by SEEDA and UKTI shows that in 2008/09 the number of investors locating in the region increased by 17%. A total of 90 investors within the target industries moved into the region, creating or safeguarding 3,846 jobs over the next three years.

Manufacturing: The ongoing weakness in global trade and exchange rate volatility continues to hamper the potential boost to the sector from a weaker pound, but there is some evidence that the slump in global demand may now have turned a corner. While the cheaper pound makes exports more competitive, manufacturers are increasingly concerned by its volatility. A sustained rise in oil prices further threatens manufacturers' profit margins and could potentially reduce the purchasing power of their suppliers.

According to EEF, companies are predicting that the pace of decline in the volume of new orders from domestic and overseas customers will ease over the next three months. Electrical equipment and motor vehicles manufacturers are more optimistic about a modest recovery in the third quarter. The latest RDA National Business Survey, carried out in May and June, shows that more businesses in the region expect their export orders to rise than to fall over the next 12 months - a reversal from the December 2008 survey.

Employment in manufacturing continues to decline, albeit at a slower pace than earlier in the year. According to EEF, in some sectors the proportion of companies reporting a reduction in their workforce has declined. Compared to May levels, for the basic metals, mechanical engineering and motor vehicle sectors more firms reported hiring workers in June than reported layoffs, as many firms in these sectors had already carried out significant job cuts in the last quarter of 2008 and first quarter of 2009. **BMW**, for example, is planning to recruit 250 workers for its Cowley, Oxford factory for the three months from July due to an upturn in demand. There is a shortage of skilled engineers and businesses continue to be concerned about losing the skill base which might be difficult to source in the upturn.

EEF reports fewer enquires from members seeking advice on implementing redundancies - the HR1 data shows that there were some 670 large redundancy notifications in manufacturing in the region in June - lower than the 713 recorded in May. Large-scale redundancies announced in June include **Linde,** which is to close its forklift truck manufacturing operation in Basingstoke over the next 12 months, with the loss of 350 jobs, in order to transfer production to France and Germany. Meanwhile, **VT Group**, based in Hampshire, is planning to shed about 300 jobs from its engineering support services business over the next year.

Some EEF members are reporting that some manufacturers re-contracting for their energy supply are being faced with onerous terms and conditions. Partly as a result of the collapse of third-party provision of credit insurance, some are being asked by suppliers for parent company guarantees, large up-front security deposits, or even full payment in advance.

Construction: There has been an increase in new buyer enquires, but the number of sales and new properties coming onto the residential market remains low. Difficulties in accessing finance, rising unemployment and uncertainty about the outlook for the economy over the short term continue to depress activity in construction and property development. In June it was announced that **Junared**

Property Group, the property development firm with a head office in High Wycombe, has gone into administration. The latest (national) CIPS construction purchasing managers index, a useful leading indicator, increased significantly between April and May to the highest level since April 2008. The index still indicates contraction but it appears that the rate of decline is easing. Demand from the public sector has provided a much needed boost for the construction industry in several areas of the region. For example, **Galliford Try** has won a £54m contract to redevelop the Tonbridge campus of West Kent College by 2011, including a new performing arts building. However, there is some anecdotal evidence that public sector orders have started to contract, which could have a severe impact on the industry.

Firms continue to enter wage cutting agreements to preserve jobs, but since May there has been a sharp increase in redundancy notifications in construction related activities. The HR1 data shows that there were over 400 large redundancy notifications in the South East in June in the construction sector, some 30% of which were in Kent and Medway (though note that some of these are likely to be changes of contract or nationwide redundancies rather than actual job losses).

Retail: A combination of heavy discounting and warm weather helped to boost sales in June. Food retailers and larger stores are generally doing better than smaller independent retailers who cannot compete with larger outlets in a heavily discounted market place. **Sainsbury's** is planning a supermarket in Carterton retail park in Oxfordshire, which could create 300 jobs, while **Lidl** has unveiled plans to build a new distribution centre at Wade Park Farm near Southampton, with the creation of 200 jobs. Anecdotal evidence suggests that retail centres in rural areas are suffering more than those in urban areas. **Marks & Spencer** have confirmed that they will employ approximately 100 workers at the new Witney (Oxfordshire) town centre shopping development to open in October. **Debenhams** plans to create about 50 jobs, and there will also be a cinema, cafes and a restaurant. Other towns are seeing more mixed fortunes in the retail sector. In Milton Keynes, **River Island** is to proceed with plans to develop a new 480,000 sq ft fashion distribution centre at Magna Park by 2011, but at the same time **TK Maxx** has confirmed plans to close its clothing distribution centre in Milton Keynes by summer 2010, with the loss of up to 275 jobs.

The latest research by OFT has shown that online retailers are not selling as much as they could because of a lack of confidence that the sites from which consumers are buying are secure. A recent study by the market intelligence company CACI found that 8 of the top 20 retail destinations likely to resist the recession are located in the South East - four of which are in Surrey. Hastings is the only area in the South East on CACI's list of the UK's 20 *least* recession proof retail centres.

Financial services: Sentiment within the UK and global financial markets has been improving over the past couple of months and with it the outlook for the financial services sector in the region. For example, **Hastings Direct**, with a head office in Bexhill, is planning to create a further 150 jobs in its insurance business, with vacancies in marketing, finance and call centres. However, employment within the industry is exposed to further restructuring, particularly within the retail side of the sector. As an example, **Lloyds Banking Group** is to close its customer services office in Chatham, Kent, by the end of the year, with the loss of 210 jobs, and a further 320 jobs will be lost in sales, mortgages and network support. Meanwhile, **AXA PPP Healthcare** is looking into the possibility of shedding up to 300 of the 2,000 jobs at its healthcare insurance offices in Tunbridge Wells, Leicester and Glasgow.

Business services: The picture remains mixed with some companies such as specialist lawyers and insolvency practitioners seeing an increase in demand. As reported previously, in May and June mergers and acquisitions have been increasing with a growing number of firms seeking investment opportunities.

Alongside manufacturing, the telecommunications sector has seen the sharpest rise in redundancy notifications in the South East in recent months and there are fears for jobs in the region following the recent announcement by **BT** to cut its mostly UK workforce by up to 16,000. **Vodafone** is to relocate its global headquarters and up to 200 staff from Newbury to its Paddington office in London in October, but a further 900 staff with global functions will remain in Newbury.

Leisure and tourism: Hotels and conference facilities at the top end of the market are seeing reduced demand as companies economise on discretionary activities. Warm weather in June, an increasing number of international visitors and strong domestic demand have supported budget hotels and facilities which are still performing reasonably well.

Agriculture / Rural: The depreciation of the pound has helped to make local producers more competitive. However the credit crunch and volatility of commodity prices, in particular oil and fertilisers are causing uncertainty amongst some farmers. Consumers are increasingly switching their expenditure from organic food to cheaper alternatives.

The latest FSB survey (June 2009) shows that the cost of existing finance increased for 22% of its members in the region - down from 27% in April 2008. However, a slightly higher proportion of rural businesses reported a higher cost of existing finance than those located in urban areas.

Redundancy Notifications: According to HR1 data, the level of redundancy notifications in the South East in June increased marginally faster than in May. There were some 4,000 redundancy notifications in the South East in June against 2,500 in May 2009.[1] The sharp rise in redundancy notifications in June may be due to businesses undergoing re-planning exercises in the light of poor end of financial year results.

The service sector continued to be hardest hit with almost 70% of all redundancy notifications in June – similar to the proportion reported in May. The proportion of redundancies in the manufacturing sector dropped to 16%, compared to 28% of all notifications in May. Redundancies in the construction sector also increased in June with the sector accounting for 10% of all notifications, compared with only 1% in May.

Berkshire, Hampshire and the Isle of Wight reported disproportionately more redundancy notifications than other sub-regions, accounting for nearly 70% of the total. Almost 40% of all notifications were in Berkshire, which accounted for over half of the redundancies in the service sector. Analysed by sector, as seen in previous months, telecommunications accounted for around half of all redundancy notifications in the service sector.

[1] 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 June 2009 (Source: HR1 data via BERR / Job Centre Plus)