Summary of economic conditions

- The latest evidence from businesses and business representative organisations shows that the **rate of deterioration in business conditions** in the South East **has further slowed** this month, with output, new orders and numbers employed being broadly flat compared to April. This could be indicative of the recession 'bottoming out', or could reflect businesses simply 'hanging on'.
- Business Link and Economic Partnerships report that many businesses are **focussing more on short-term survival strategies than looking to the future:** eg. moving to short-time working to avoid redundancies (particularly in smaller companies); networking and collaborating with other firms in their sector; increasing online trading; and diversifying products and services.
- Some **businesses are starting to consider restocking,** but trying to strike a balance between committing too soon and delaying too much so that their stocks run out.
- **Claimant count unemployment continues to rise, but at a slower rate** than in previous months. The number of JSA claimants in the region rose by 3,700 between March and April, to 154,000.

Key challenges and hotspots

- The **manufacturing sector is still being affected more severely than other industries**. EEF reports that the rate of job shedding increased in May, while export orders fell at a faster pace than earlier in the year. The volume of output and new domestic orders also fell, but at a slower rate than previously.
- **Cashflow remains a major challenge** for businesses, even where order books are stable, although there are reports that the demand for and supply of debt finance are gradually coming more into line.

Business specific intelligence / information on key questions

- There are **mixed reports on bank lending**. Some banks are generally reported as being co-operative, and more receptive to the EFG scheme, but Business Link reports that the others have been slow off the mark. Furthermore, the performance of some banks is difficult to gauge as they are participating in the EFG scheme but are preoccupied with restructuring.
- The sectors most severely hit by the downturn (eg. automotive supply chain, furniture retail) are still having problems accessing finance.
- In many parts of the region, **redundancies are down compared to the first quarter of 2009**, and EEF reports that it has received fewer queries about redundancies than earlier this year.
- There is a perceived **lack of readily available funding for retraining** following redundancy or restructuring. A **squeeze on FE budgets** is putting a strain on training provision.
- A **shortage of skilled job applicants** is still a problem for some employers.
- See Annex for details.

Sectoral Overview

The downturn continues to impact across a broad range of production and service activities. Business specific intelligence shows that companies' survival strategies have now led to a number of job transfers across the region.

Manufacturing and engineering: The manufacturing sector continues to face difficult trading conditions and businesses are experiencing mixed fortunes. EEF reports that exports were down in May for the majority of companies, and that further redundancies could not be avoided. Indeed, there is anecdotal evidence that some firms are continuing to cut temporary and contract staff, as well as reducing hours. Retaining specialist staff through the downturn is proving a challenge for many manufacturers. Accessing new markets and maintaining growth in a global marketplace is also a significant concern currently. On the positive side, however, some companies have benefited from the lower exchange rate – particularly in Milton Keynes, Oxfordshire and Buckinghamshire.

The **motor industry** reports a mixed picture in May. In general trading in the first few months of 2009 is down on the same period a year ago, but an improvement on the last quarter of 2008. Largely anecdotal evidence through Business Link shows that the scrappage scheme is generating interest but has not yet led to sales. Most interest has focused on the fuel efficient models rather than luxury cars. Some car retailers are reporting increased demand and staff retention as a result of the scheme's introduction, although some claim a lack of awareness that manufacturers are required to contribute half the £2,000 grant.

BMW is looking to recruit 250 temporary staff at its car plant in Cowley, in order to reinstate shifts following a rise in demand. **Mclaren** has unveiled plans to build a sports car factory next to its technology centre in Woking by 2011, with the creation of up to 800 jobs and **Rolls-Royce Motor Cars** is to create a further 150 jobs at its factory in West Sussex, in order to manufacture the new Ghost model. Slough based **Citroen** is to terminate 40 of its 200 car dealerships, as they have underperformed or have unsuitable locations. **Wyatt Motor Group** has gone into administration, casting doubt on the future of 46 jobs at Kia and Citroen dealerships in Winchester.

The decision to close **Vestas** on the Isle of Wight is having a significant negative impact on local supply chain industries. The Isle of Wight Council has approved plans for the multi-million pound expansion of the Vestas Technology wind turbine blades factory near Newport, which could create 200 jobs. **Parlex Europe** is to shed 44 of the 101 jobs at its flexible electrical circuits manufacturing business on the Isle of Wight. Meanwhile, Hampshire based **VT Group** is planning to shed approximately 300 jobs (UK wide) from its engineering support services business over the next year.

Construction: A moribund housing market and weak private sector investment continue to weigh heavily upon the construction industry. Revised April data shows that new project starts in the South East fell by a third compared to a year ago. This was mainly due to a halving in the number of housing schemes (both private and social housing schemes) and a sharp fall in non-residential projects. In contrast, the flow of civil engineering project start ups has picked up sharply since the start of the year, partially offsetting the decline in new building projects.

Despite signs that mortgage availability and uptake have begun to improve, market activity is still extremely weak, prompting developers to focus their efforts on building out and selling existing projects rather than opening up new sites. Developers are unable to make a profit as customers expect high discounts.

The lack of long term order bookings is making it difficult for construction companies to plan ahead. Business Link providers report some evidence of "trading down" as companies are taking on smaller jobs to keep going. Many companies are being forced to cut their prices to unsustainably low levels in order to compete for a smaller amount of work. Construction companies expect the upturn to be slow in coming, and many will then need to re-skill.

There are signs that the residential property market may be improving. One local solicitor in Milton Keynes reports conveyancing figures increasing month on month since January. In Surrey there is still a shortage of property coming to market. When good quality, reasonably priced properties are marketed they are selling quickly and relatively close to the asking price.

Some companies – in the civil engineering sector for example – are continuing to secure or create new jobs despite the current situation. **i20** the Hampshire-based (Chilworth Science Park) technology company, has raised £4.2m to roll out an innovative system to reduce water leaks. This is expected to create 200 jobs. **Trant Construction** is forming a joint venture with **Barhale** to maintain water pumping stations and pipes in Hampshire and West Sussex for Southern Water, with the transfer of 160 jobs to Havant.

Retail: Footfall is relatively subdued, with Brighton and Berkshire town centres reporting larger falls in footfall than the national average. Small independent shops are most under threat, and there have been some shop closures. The most high profile of these recently has been the Berkshire based retailer **Clinton Cards**, which has put its subsidiary chain of 223 Birthdays stores into administration, putting more than 2,000 jobs at risk. A further negative consequence of the recession has been an increase in shoplifting in some areas. In Bracknell Forest, for example, shoplifting has increased by 46% in the past year, according to new crime figures.

However, in some areas rental discounts are helping trading conditions. Home improvement stores are reportedly faring better as people choose to make improvements to their existing homes rather than move house. The use of online trading has significantly increased, causing some high street shops to suffer. In response to the negative affects on the retail sector, West Berkshire Council for example has announced free parking on market days in June and July.

Some retailers, such as discounters or pawnbrokers, are seeing increased business. Pawnbrokers are one of the winners of the recession. Berkshire based **Albemarle & Bond** is planning to open up to 50 pawnbroking outlets over the next three years, including the acquisition of independent stores. **Lidl** has unveiled plans to build a new distribution centre at Wade Park Farm near Southampton, which is estimated to create 200 jobs. Furthermore, as customers opt to 'grow their own' in the credit crunch, the future looks rosy for the gardening business. **Dobbies Garden Centres** announced record £1 million sales of its home-grown range this year. This marks an 82% rise in like-for-like sales year-on-year as shoppers look to save money and eat more healthily.

Financial services: Compared to the beginning of the recession there is relatively little news from the financial sector in May. **Legal and General** has confirmed that up to 300 full time and 260 part time and temporary jobs are to be lost (following the announcement of 450 redundancies less than 3 months ago). The firm's offices in Kingswood near Banstead (Surrey) and in Hove are expected to bear the brunt of the job losses. However, **HSBC** is to create 200 jobs at its Investment Service and Wealth Management Centre in Southampton over the next 12 months, in order to transfer work from Leamington Spa.

Business services: Across the business services sector, shrinking corporate budgets and a lack of consumer confidence are causing difficulties for firms in securing contracts, retaining staff and maintaining cashflow. In the IT sector, companies are struggling to win orders which will generate profit, as they are being forced into offering lower prices which are unsustainable. A number of companies may need to restructure in the near future. As an example, **Xploite**, a West Sussex based IT company, is to sell its Anix managed services division to ACS Business Process Solutions for £31m. The legal profession is seeing a large number of lay-offs, with many firms reportedly reducing their employees' working weeks to two or three days. Legal firms are expecting an increase in insolvency business this year.

Leisure industry: Business Link providers report that companies in the leisure industry are currently concentrating on tight margins and advertising to take advantage of UK holidays/days out. So far, local visitor attractions are seeing good visitor numbers for the time of year, although their success is highly weather dependent. Hotel and conference bookings in some areas are down on last year, but hotels in parts of Berkshire are starting to report strengthening in some markets. The corporate market is still the hardest hit but conference bookings seem to be on the increase, wedding bookings are coming in and leisure business is on the rise. In general the tourism industry is expecting a successful forthcoming season, helped by the weak pound encouraging European visitors, and an increasing number of Britons saving money and holidaying 'at home'.

There has been a range of positive news from the leisure sector this month. **Soldiers of Oxfordshire Trust** has secured a £1.5m donation to go towards the cost of building a £4m museum in Woodstock by 2011. **Mabledon** is looking into the possibility of transforming its Tudor revival country house in Kent into a 250-room five-star hotel. Hastings Borough Council has approved plans for the creation of the £4m Jerwood art gallery and the £5.5m redevelopment of the Stade area of the town, which will create up to 90 jobs. Meanwhile Kent brewer **Shepherd Neame** has bought 13 pubs from the UK's largest pub group, Punch Taverns, in a £14.9m deal. The Faversham based brewer, which has about 1,000 staff, said that the new pubs would strengthen its presence in Greater London and Surrey.

Health and Social care: There is evidence of increased recruitment and retention in the care sector, as people made redundant from other industries are seeking alternative employment. Many more UK workers are now expressing an interest in working in the care sector, which marks a change from the recent past when the sector relied extensively on migrant labour. However, there is a shortage of trained nurses as many of them choose to work in the NHS in search of better terms of employment, while enquiries from overseas nurses have dried up due to new work permit rules. Meanwhile, many care services charities are starting to struggle as their income is reduced and fee increases are being scrapped. In the health sector, good news was reported by **Injury Care Clinics** in Fareham, which is set for significant growth after securing funding from the Co-operative Bank. As a result approximately 30 jobs will be created.

Printing: This sector is feeling the effects of the curb on marketing activities as businesses try to cut costs. **Wyndeham Press Group** is planning to shed about 30 of the 96 jobs at its Wyndeham Grange printing site in West Sussex. Berkshire based Yellow Pages owner **Yell** has seen annual revenues from its UK printed directories slump nearly 11% as a result of the economic downturn. However, **Lime PM**, the Aldershot based printing firm, has been sold out of administration to Synergy Print Management, saving eight jobs.

Creative industries: Businesses are increasing their level of collaboration in response to an increasingly competitive trading environment. Some sub-sectors of the creative industries are benefiting from the current conditions, such as web design companies who are seeing an increase in business as companies are looking to expand or improve their online presence. **G-Forces**, a web management company based in Bearsted, has seen strong growth over the last six months. Fifteen new staff have joined the company in the last three months and it is now the largest web management company in Kent.

Transport and communication: There are some positive signs in the transport sector this month: Dover Port's operating profits rose last year, despite the economic downturn. Revenue increased by more than 5% and there was a record number of cruise ship visits, but the freight volumes fell by 2.4%. **LD Lines** (Dover) is planning to introduce high-speed catamaran sailings between Dover and Boulogne from the end of May. Approximately 80 crew jobs and 80 shore-side jobs could be created. Southampton-based freight firm **Meachers Group** is expanding its fleet by one-third after winning its largest-ever contract. The company has invested £2.5 million in 38 new tractor units and 40 trailers after signing a national delivery deal with Finnish Packaging Company, Huhtamaki. Meanwhile, **Hampshire County Council** has secured government funding for the development of a £20m high speed bus route though Gosport and Fareham. However, the Berkshire based transport giant **FirstGroup** has seen annual profits at its UK rail division fall by 21% in the wake of the credit crunch. **Reading Buses** has said it may have to make some of its drivers redundant after a dramatic drop in the number of fare-paying passengers. Takings are down by £100,000 a month - a 14% drop, the firm said. Up to 25 driving jobs are threatened as part of a recovery plan, which also includes cutting services over the summer and putting up fares in October.

There are further jobs at risk in the transport and communications sector. **BT** has said it will cut about 15,000 jobs this year, mostly in the UK, and has reported an annual loss of £134 million. The firm also said it had cut 15,000 jobs in the past year, which was 5,000 more than expected. **Vodafone** (Berkshire) is speeding up its cost-cutting programme, raising fears of more job losses, after the company saw annual profits more than halve to £4.2 billion partly because it slashed the value of its struggling Spanish and Turkish businesses. In February, the company axed 500 British jobs, about 5% of its UK workforce.

Agriculture / Rural: Reports from Kent Economic Board suggest that the agricultural sector is benefiting from reduced input costs, but horticulturalists are seeing increasing staff costs. There is reportedly now real evidence that activity at the bottom end of the rural property market is starting to increase, and demand for commercial property is holding up.

Marine/**renewables**: Marine specialist **EMU** has started work on its plans to double the size of its Durley (near Southampton) HQ. The firm is to add a further 3,000 sq ft to accommodate its increasing workforce. The company currently employs 80 people and evaluates sites in the UK and Europe for the development of offshore renewable generation.

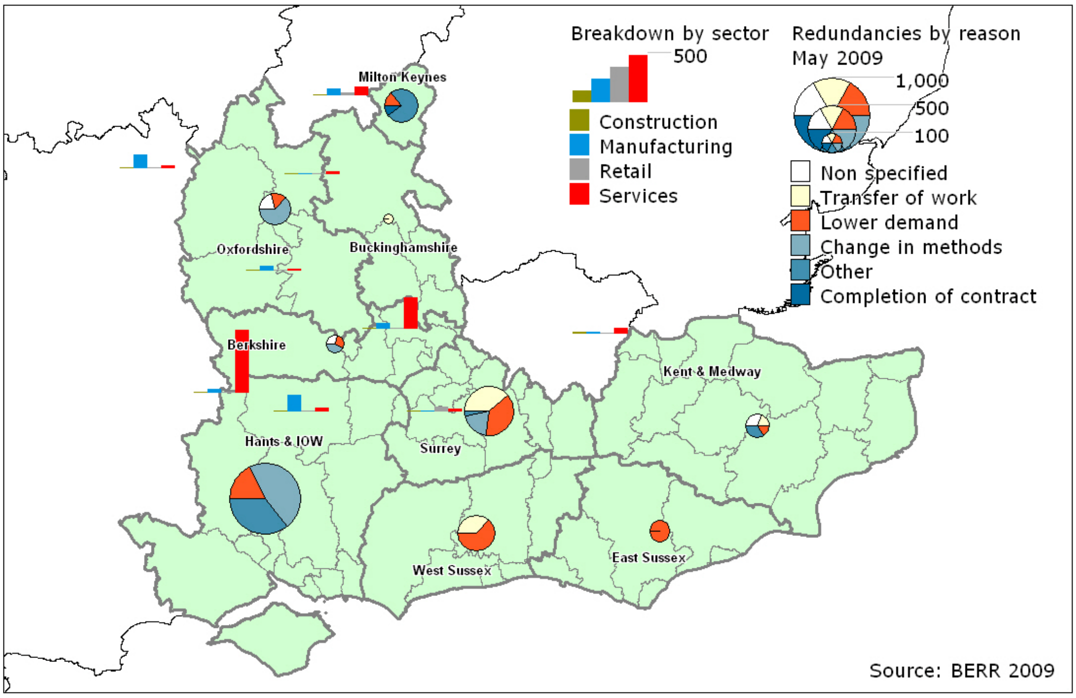
News International is shutting its subsidiary Convoys, a forest products importer and warehousing business, based at Chatham Docks. The firm has been up for sale for about six months. A port source said that the industry had been badly affected by the economic downturn. Around 42 jobs will be lost.

Charities: Advice charities such as the CAB have received some additional funding recently to help them cope with growing demand for their services, but there is concern about the possibility of substantial public sector funding cuts next year. Charities with investments are seeing the same loss of income as other sectors. Although legacies and donations have not yet fallen markedly, surveys suggest that these will drop next year, causing some charities to postpone investment. There is a risk that the closure of charities could lead to unsustainable demand for statutory services.

Redundancy Notifications: According to HR1 data, the level of redundancy notifications in the South East in May increased marginally faster than in April. There were some 2,500 redundancy notifications in the South East in May against 2,100 in April 2009.[1]

[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
May 2009 (Source: HR1 data via BERR / Job Centre Plus)



Service sector activities which accounted for almost 50% of all redundancy notifications last month appear to have been hit harder in May. Two thirds of the redundancy notifications announced in May were in this sector. The manufacturing sector accounted for some 28% of all redundancy notifications in the South East in the past month (similar to the monthly average since October 2008). There were relatively few redundancy notifications in the construction and retail sectors in May (less then 5% of total redundancies).

Hampshire and the Isle of Wight recorded disproportionately more redundancy notifications than other sub-regions, accounting for 36% of the total. Some 20% of the notified redundancies were recorded in Surrey. Services accounted for more than 90% of all redundancy notifications in Hampshire and the Isle of Wight and more than 80% in Surrey. Within services, telecommunications accounted for around half of all redundancy notifications.