

South East Economy Review – June 2009

Contact: Ivan Perkovic
Research & Economics Team
Strategy & Communications Directorate
01483 470 162
research@seeda.co.uk

Contents:

Contraction in UK GDP accelerates in 2009 Q1.....5

Sharp downturn in business activity in the South East.....6

Manufacturing and construction affected most

Labour market weakening since the middle of last year.....9

Falling employment, but employment rates remain the highest of any region

Rising unemployment, but so far below the UK average

Labour market outcomes vary by age, gender and occupation

Trends in redundancy notifications

On the road to recovery – have we reached the bottom in the current cycle?.....24

Consumer and business confidence improving

Pace of decline appears to be bottoming out

Businesses more optimistic about the outlook

Forecasters confused?

Labour market prospects

Executive Summary

- The last quarter of 2008 and first quarter of 2009 were characterised by an unexpectedly sharp contraction in world trade, industrial production and GDP growth. In the UK, the decline in GDP growth accelerated in the first quarter of 2009, largely driven by a significant fall in manufacturing output, with services also recording a relatively steep decline in output. Around half the fall in output over the past six months has been due to destocking (that is, a fall in the level of unsold goods).
- In the context of rising inflation and the near-collapse of global financial markets in 2008, business and consumer confidence in the South East plummeted, although the decline in business confidence has been greater at UK level.
- There has been a sharp fall in business activity and the volume of new orders up to the end of the first quarter of 2009. A larger proportion of businesses in the South East have reported deteriorating business performance than improving performance.
- So far the economic downturn has had a greater impact on production and construction related activities than service activities in the South East. A majority of manufacturing firms reported a drop in both volume of output and new orders in the last quarter of 2008, while financial and business services performed better than expected.
- A combination of falling demand, high input costs and difficulties in accessing credit over the past year have squeezed businesses' profit margins and cashflow. In response, many have sought to conserve costs by cutting staff and reducing or cancelling capital expenditure.

- The labour market at both national and regional level began to betray signs of the worsening economic situation in the middle of 2008, with unemployment starting to rise, the number of vacancies dropping and employment rates also falling. In the South East, the labour market seems to have been faring better than the national average. Unemployment rates have been consistently lower, and employment rates consistently higher in the South East than almost all other regions.
- The number of people in employment in the South East has been falling since July 2008, but it wasn't until February 2009 that it fell below the level it had been one year before. The employment rate in the South East dropped by 1.3 percentage points in the year to March 2009, which is in line with the UK average.
- Women are more likely to be affected by the recession this time around, as there are more women than ever before in employment. However, men's employment rates in the South East have fallen faster than women's if we compare each quarter of the recession with the same period one year before. In terms of absolute numbers, the year-on-year drop in women's employment during the recession so far has generally been less marked than for men in the South East.
- Women are more likely to be employed in part-time, temporary jobs, making them particularly vulnerable to redundancy. However, because significantly more women than men are employed in the public sector, which is not as exposed to the recession, the short term prospects for women's employment should be reasonably good.
- Redundancy notifications in the South East have been on the increase since the fourth quarter of 2008, although the rate of increase appears to have been slowing down since March 2009. The manufacturing and construction sectors have been disproportionately affected by redundancies, although in recent months there has been an increase in the number of redundancy notifications in business services. This pattern is broadly reflected in trends in employee jobs, where there has been a significant reduction in employment in manufacturing, transport and financial and business services in the South East over the course of 2008.
- Sub-regionally, Kent, Berkshire and Milton Keynes appear to have been affected most by redundancies: over the past 8 months these areas have accounted for a larger proportion of redundancy notifications than their share of regional employment. This can be explained in part by the higher concentration of company headquarters in these areas, which sometimes register UK-wide redundancies.
- Unemployment in the South East has been rising since April 2008, but the rate of increase has been slower than in the UK. The unemployment rate in the South East has been consistently lower than almost all other regions throughout the recession so far. Unemployment rates for men have been rising at a faster rate than women's unemployment rates, partly because there have been more redundancies in male-dominated industries such as manufacturing and construction.
- Unemployment has not been rising as rapidly as expected in the South East despite continued falls in employment, which suggests that some people may be losing jobs and moving straight into economic inactivity rather than registering as unemployed. This is of concern, as these 'hidden unemployed' are outside of the labour market and therefore further away from mainstream employment and skills support.
- There were 154,000 people claiming Jobseekers' Allowance (JSA) in the South East in April 2009, which is 3% of all working age residents. This is the lowest claimant count unemployment rate of any region. The claimant count in the South East began to rise steeply from October 2008, but in recent months the rate of increase has appeared to slow. Although the South East has seen a large percentage increase in the claimant count in the past year, currently the number of new JSA claims as a percentage of employment in the South East is the lowest of any region.
- In recent months people from higher skilled occupations have accounted for a growing proportion of new JSA claimants in the South East, reflecting the fact that, unlike previous recessions, all sectors of the economy have been affected, including those employing mostly 'white collar' workers, such as financial and business services. Nevertheless, there has also been an increase in the proportion of process, plant and machine operatives signing on for JSA in the past year, reflecting the significant number of redundancies in manufacturing and production activities.

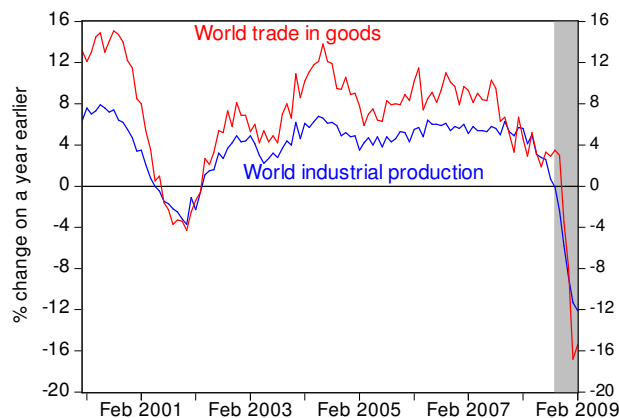
- Unemployment amongst young people has been on the increase since before the recession, partly because young people are more likely to be employed in more vulnerable low-paid, low skilled jobs. During a recession these jobs tend to be at greatest risk. So far in the South East young people aged 18-24 do not appear to have seen a faster rise in unemployment than other age groups, although it is likely that there will be a sharp increase in the number of young people joining the JSA register this summer following the end of the school and college year.
- Claimant count unemployment rates are highest along the coast and in some urban centres in the Inner South East. In the case of coastal areas, this can be explained by the fact that these areas have an above average concentration of manufacturing, construction and transport and distribution related activities, which have been affected more by the recession than other sectors. However, the most recent figures show that the claimant count rate has been rising fastest in northern and western parts of the region over the past quarter, suggesting perhaps that the peak of job losses has passed in some coastal areas.
- There are a number of indications that the pace of decline in the economy may be slowing, and the South East and UK may be close to the bottom of the economic cycle. Consumer confidence at UK level is beginning to improve, with people more optimistic about the outlook for the economy than at any time since August 2007. The fall in UK house prices appears to be slowing, with the number of new enquiries from potential buyers on the increase and mortgage approvals increasing slightly since the end of 2008.
- Banks appear to have started lending to each other again, and the stock markets have risen sharply since early March. The latest Composite Leading Indicator for the UK economy compiled by the OECD points to a possible trough in the UK in March 2009. In the South East, anecdotal and survey evidence shows a slower rate of decline in business activity and new orders since February / March 2009. Businesses surveyed in the South East in February were more optimistic about the prospects for their businesses and the wider economy than they had been in the fourth quarter of 2008.
- Businesses in Oxfordshire, Kent and East Sussex appear to be more optimistic about their volume of output in the next three months. Businesses in financial and business services, retail and hospitality are still significantly more optimistic about the outlook than those in manufacturing, construction and transport.
- Whereas in autumn 2008, forecasts suggested that the South East and London would see a sharper contraction in GVA growth than other regions, the fact that the recession has had a greater impact on production (especially manufacturing) than services so far has resulted in sharp revisions to the forecasts this year. According to Experian's forecasts for Spring 2009, the South East and London are now projected to see the smallest fall in GVA growth in 2009. Within the region, Sussex and Berkshire are forecast to see the slowest contraction in GVA growth and Hampshire and Buckinghamshire the fastest.
- There are early signs that the growth in both redundancy notifications and unemployment in the South East may be starting to slow, and businesses recently surveyed in the South East are more optimistic about their employment levels for the next few months than they had been previously. However, the labour market is a lagging indicator of economic activity, and based on the evidence of previous recessions, employment growth may not occur again until output growth is relatively strong.
- Since all economies recover eventually, the long-term prospects for the South East labour market are reasonably good, with the sectoral and occupational structure of employment unlikely to change dramatically as a result of the recession. However, it is important that the South East can safeguard its strong skills base in order to take advantage of the recovery when it begins.

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

A sharp contraction in world trade, industrial production and GDP growth over the past six months. The downturn materialised over the summer and early autumn of last year and most major economies saw a small fall in GDP in the third quarter of 2008. 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.¹ The near collapse of global financial markets and the subsequent liquidity squeeze has triggered a sharp fall in business and consumer confidence in the South East, UK and elsewhere. Firms responded by holding back capital spending and consumers reined back on 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.

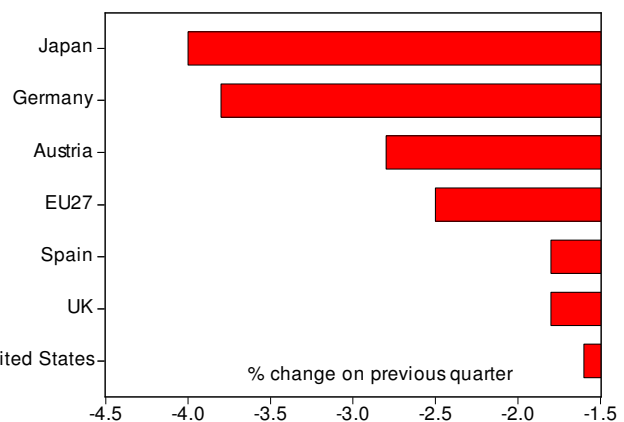
The sharp and synchronised fall in global economic activity that characterised the last quarter of 2008 continued in the first quarter of 2009. By February 2009 world industrial production declined by around 12% on the same period last year while world trade in goods declined by almost 17% over the same period (Figure 1).

Figure 1: World Industrial Production and World Trade in Goods (Volume)



Source: CPB Netherlands Bureau for Economic Policy Analysis and IMF

Figure 2: Developed economies GDP growth



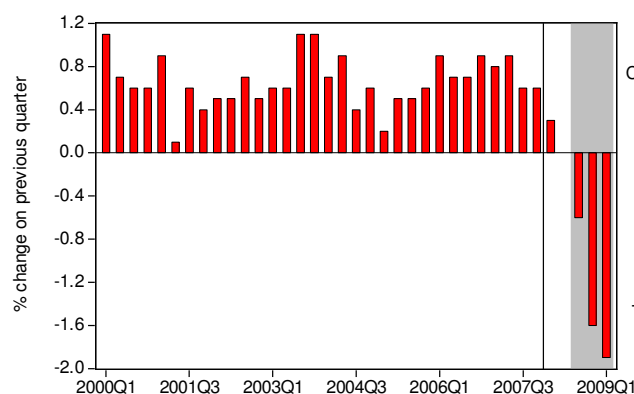
Source: Eurostat 2009

A sharp downturn in world industrial production and trade helps to explain why a number of major capital producing economies (such as Japan and Germany) have seen such sharp falls in output in the first quarter of this year. The fall in GDP in those economies in the first quarter of this year was much sharper than in the UK or the United States (Figure 2).

Contraction in UK GDP growth accelerates in the first quarter of this year. The UK economy has already experienced 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 (Figure 3). Output in production activities fell by -5.3% in the first quarter, the largest fall since the first quarter of 1974. A sharp fall in output was largely driven by a sharp fall in manufacturing output which contracted by -5.5%, which was the biggest quarterly decline on record. Within manufacturing transport equipment, machinery and basic metal and metals products contracted faster than other activities. Construction activities contracted by -2.4% compared with a fall of 4.9 percent in the last quarter of 2008 (Figure 4). Services contracted by -1.2% which was the steepest decline since the third quarter of 1973. Within the service sector it was business services and finance that contracted faster than other activities.

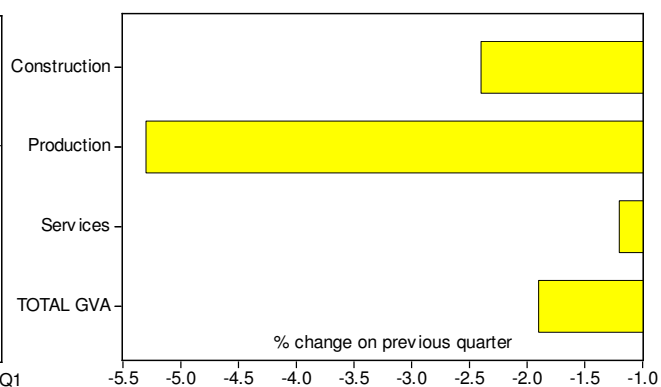
¹ For further details see SEEDA (2008) South East Economy Review, October 2008.

Figure 3: UK GDP growth



Source: National Statistics 2009

Figure 4: Output Growth 2009 Q1

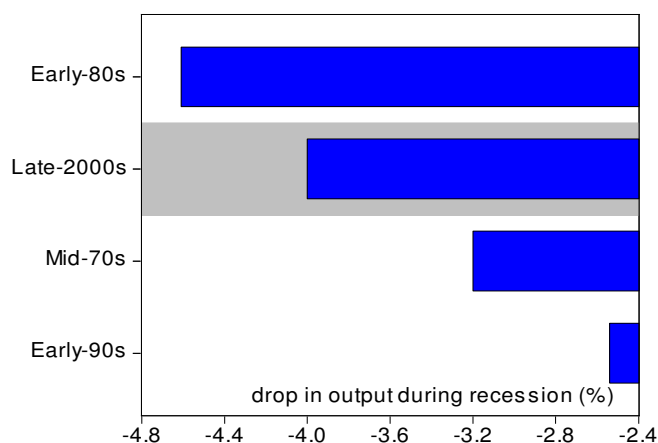


Source: National Statistics 2009

From peak to trough 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), Figure 5.

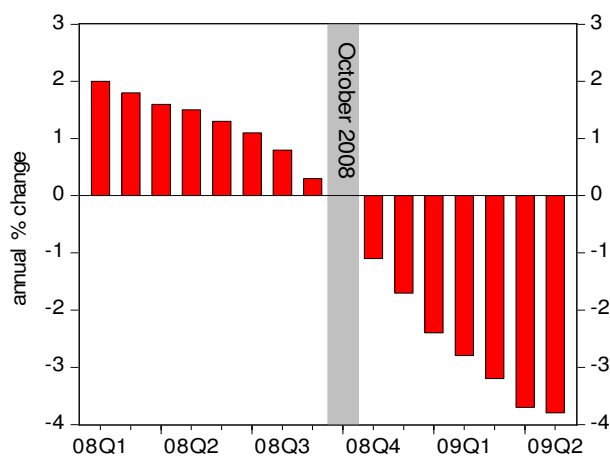
If we ignore the causes of the current recession the impact on output so far has been similar to the 1980s, in the sense that manufacturing and other production activities have been affected more than service related activities. Another similarity with previous UK recessions (and in particular the 1980s and 1970s recessions) is the speed with which the economy has moved from reasonably healthy growth into recession. The speed of contraction has surprised everybody (analysts and policy-makers alike). As shown in Figure 6, in September 2008 the average of independent forecasts was for the UK economy still to expand this year. However, the speed of contraction in the UK and global economies has led to a sharp revision of growth for this year. Independent forecasters now expect the UK economy to contract by 3.8% which is similar to the latest Bank of England central projection and the Treasury forecast announced in the Budget.

**Figure 5: UK recessions
Drop in output during recessions**



Source: National Statistics 2009

**Figure 6: Average of independent forecasts
UK GDP growth in 2009**



Source: HM Treasury 2009

Another common feature of the current recession with previous downturns is a sharp fall in the level of unsold goods. Around half the fall in output over the past six months (or 2%) has been a reflection of destocking. There is some evidence that the rate of destocking has eased over the past couple of months which is a factor that contributed to the slower pace of decline over the past two months (according to the National Institute of Economic and Social Research, the level of output was broadly flat in April 2009) and it is just a matter of time before firms start to increase production. However, it is important to remember

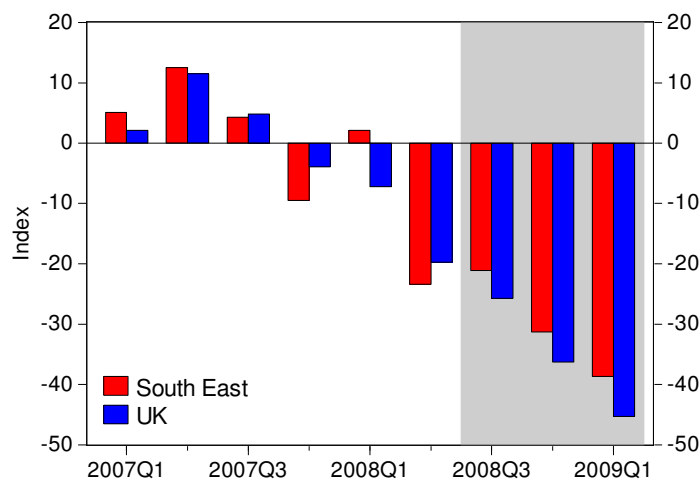
that the inventory (destocking) effect has to an extent exaggerated the scale of the downturn and it is possible that it could also exaggerate the scale of the recovery (when the recovery finally arrives).

Another development that could impact on the speed of recovery is a sharp fall in investment in capital. Following a fall of 1.4% in the last quarter of 2008, capital investment fell by 3.8% in the first quarter of this year or 8.3% when compared to the same period last year. Fall in investment was largely due to a fall in business investment. A large fall in business investment could have a significant impact on the long-term growth rate of the economy, since the lack of new machinery could have an impact on productivity, innovation in new products and processes (the targets in the South East Regional Economic Strategy 2006-2016).

Sharp downturn in business activity across the South East

Business and consumer confidence in the South East plummets in the wake of the collapse of Lehman Brothers. Following the collapse of Lehman Brothers and the subsequent liquidity squeeze the crisis of confidence spread across the South East and the global economy. The *Business Confidence Index*, as surveyed by the Institute of Chartered Accountants in England and Wales (ICAEW), has been declining steadily over the past year. However, businesses in the South East were still more confident than the UK average (Figure 7).

Figure 7: Businesses confidence



Source: ICAEW 2009

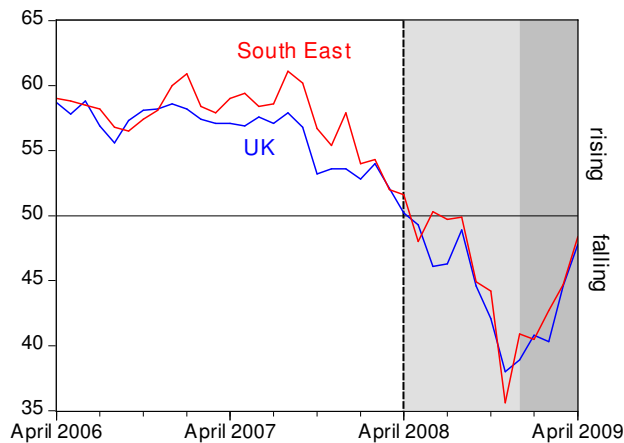
Consumer confidence in the South East and across the country also plummeted in the wake of rising inflation and the near-collapse of the global financial markets. Demand and business investment plummeted in the wake of a sharp fall in business and consumer confidence.

A sharp fall in business activity and the volume of new orders over the past six months. The twin impact of high inflation and diminishing business and consumer confidence in the wake of the collapse of Lehman Brothers have had a significant impact on business activity in the South East over the past 12 months. Both survey and anecdotal evidence have been pointing to falling levels of activity (output) and the volume of new orders (a useful leading indicator of growth) over the past 12 months in the South East. According to the Royal Bank of Scotland's *Purchasing Managers' Index (PMI)* business activity (output) and the volume of new orders in the South East fell to a record low in December 2008 (Figure 8 and 9).

The *Federation of Small Businesses* survey showed that more than 6 in ten businesses in the South East had experienced decreasing **trade conditions** over the last two months to November, whilst only 1 in ten companies reported an improvement in their trade.²

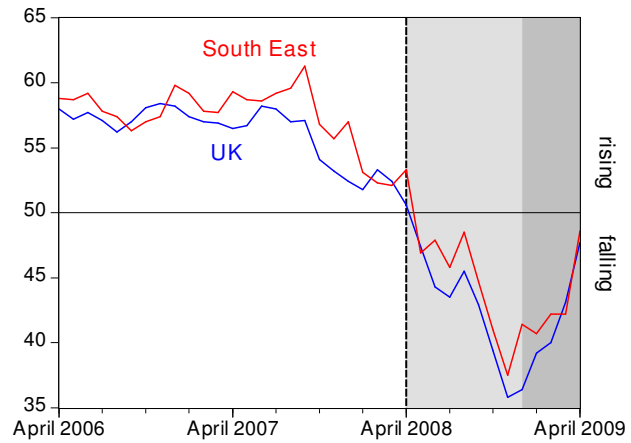
² Federation of Small Businesses Snap Poll 3, November 2008.

Figure 8: Business activity (output)



Source: RBS PMI 2009

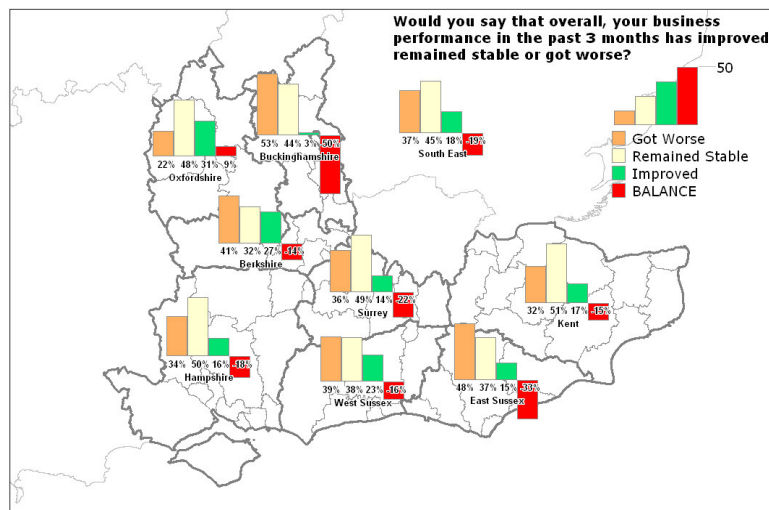
Figure 9: Volume of new orders



Source: RBS PMI 2009

Our latest survey of 600 businesses across all sizes/sectors of the economy and the South East counties reinforced the deteriorating conditions and deepening recession in the South East economy in the early months of this year. According to the latest *Business Survey Quarterly Snapshot*, business performance had deteriorated for almost 4 in 10 companies in the South East in the three months to the end of February 2009.³ A higher proportion of firms reported deteriorating business performance than improved business performance (net balance was negative).

Figure 10: Business performance, South East counties



© Crown Copyright Ordnance Survey, 'Boundary Line' 2008, License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

Source: Business Survey Quarterly Snapshot, March 2009

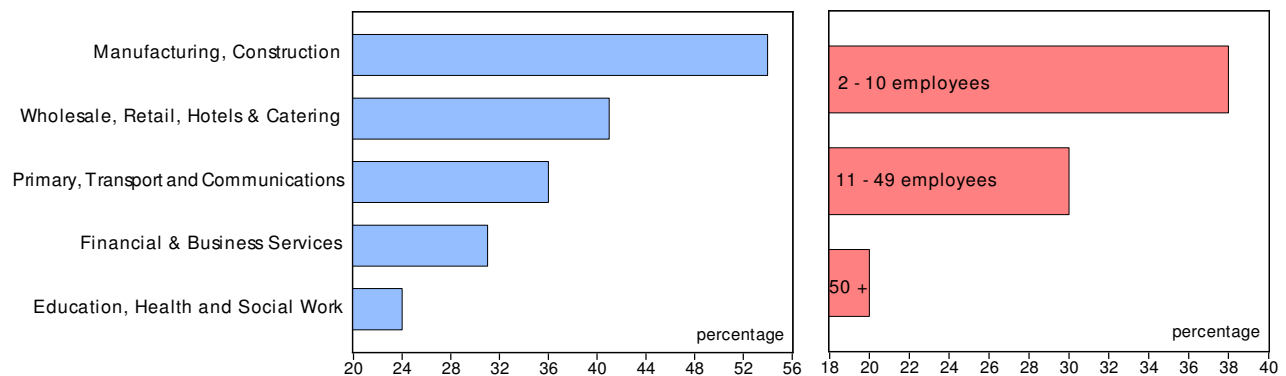
At county level some 53% of businesses in Buckinghamshire and 48% of businesses in East Sussex experienced deterioration in their business performance over the period. Those counties also had the lowest net balance within the South East (Figure 10). The difference in performance was largely driven by differences in industrial structure and differences in average business size.

Manufacturing and construction have so far been affected to a greater extent than other sectors. A sharp downturn in the economy has so far had a greater impact on production and construction related activities than service activities in the South East. The latest *Business Survey Quarterly Snapshot* shows that more than half of South East businesses in the manufacturing and

³ The Business Survey Quarterly Snapshot was conducted by SEEDA and three other English regions in February 2009. In the South East the results are available at sub-regional level, the report is available at: http://www.seeda.co.uk/Publications/Research_Economics/Business_Surveys/

construction sectors saw their recent business performance deteriorate (Figure 11). The pace of decline was similar to the level regularly reported by the Engineering Employers Federation (EEF). The EEF survey showed that in the last quarter of 2008 the majority of (manufacturing and engineering) firms reported a drop in both volume of output and new orders over the quarter.⁴ In the wholesale, retail trade and hotels and catering sectors 4 in 10 companies reported deterioration. A downturn in consumer spending was the main factor behind the relative underperformance of this sector. On the other hand, companies in the financial and business services sector performed better than expected. Given the structure of the South East economy (a high concentration of financial and business services and relatively low concentration of production and construction related activities relative to a number of regions in the midlands and north of the country) it is more likely that the contraction in output in the region was less severe than elsewhere.

Figure 11: Business performance by company size and sector



Source: Business Survey Quarterly Snapshot, March 2009

Smaller companies were at the forefront of a sharp fall in demand and the liquidity squeeze which affected their ability to borrow or extend their current lines of credit. This is perhaps less surprising knowing that they form the supply chains for larger businesses and that smaller companies in the region are largely dependent on wholesale markets for funding. Smaller companies were twice as likely to say that their recent business performance had deteriorated than large companies (Figure 11). This is a factor that perhaps helps explain why those counties with a high concentration of certain activities and small businesses such as Buckinghamshire and East Sussex appear to be affected to a greater extent than other counties.

The unprecedented events require an unprecedented policy response

Key challenges facing businesses across the South East. Falling demand and high input costs over the past year had a significant impact on cashflow across a range of businesses in the South East 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 region. 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.⁵

Falling profit margins and further worsening of cashflow positions have pushed businesses to increasingly conserve costs by cutting staff (see section on redundancy), reducing or cancelling capital expenditure or deferring expansion plans. There is also increasing evidence of de-stocking, whilst 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.

Unprecedented events require unprecedented policy response. Over the past twelve months two events of global proportion (a sharp increase in global inflation and the near-collapse of the global financial system) have had an unprecedented impact on the South East and global economies.

⁴ Engineering Employers Federation – Business Trends, quarter 4 2008.

⁵ See SEEDA's Monthly Regional Intelligence Snapshots available at:
http://www.seeda.co.uk/Publications/Research_&_Economics/Monthly_Updates/

However, we have also seen an unprecedented policy response in the UK and across the developed and developing world. Monetary policy has been heavily used over the past six months with the Bank of England base rate now at the lowest level ever (at just 0.5%) and the use of unorthodox measures (through its policy of 'quantitative easing' the Bank has committed to increase money supply by at least £125 billion by the end of July). Fiscal policy has also been in heavy use and over the past six months the UK Government has announced a number of measures aimed at re-starting lending and helping businesses in the downturn.

Labour market weakening since the middle of 2008

The most recent labour market figures relate to the first quarter of 2009 (January to March), which coincides with the third quarter of the UK recession. This is therefore an appropriate time to assess what impact the recession has had and is likely to have on the labour market. Reduced demand in the economy always tends to have an effect on employment because firms do not require the same amount of labour as before since they are producing fewer goods and services. The timing and nature of the impact on the labour market varies depending on the causes of the recession.

Employment has been falling and unemployment rising in the UK since the middle of 2008. At UK level the labour market began to betray signs of the worsening economic situation in the second quarter of 2008, and by the third quarter of that year almost all labour market indicators showed quarterly changes consistent with a contraction in the economy. As firms faced restricted access to credit and their confidence in the future path of the economy fell, they responded by scaling back recruitment. As a result, vacancy levels began to drop from the first quarter of 2008, while redundancy and employment levels were slower to react.⁶

Since the middle of 2008, unemployment in the UK (whether measured by the claimant count or the Government's preferred ILO⁷ definition) has been rising rapidly, the number of vacancies has been falling and the employment rate has been in decline.

The South East labour market appears to be faring better than the national average. In general, while the South East has seen deteriorating labour market conditions, it has not been as severely affected as other regions. Unemployment rates have been consistently lower, and employment rates consistently higher in the South East than in almost all other regions. The downturn also seems to have affected the labour market in the South East later than many other regions. Employment rates in the South East showed their first quarterly fall in the fourth quarter of 2008, while the UK employment rate fell in the third quarter of 2008.

Employment falling in the South East, but less rapidly than in other regions

The employment rate in the South East has remained high despite falling numbers of people in employment. As Figure 12 shows, employment in the South East has been falling since just before the official start of the recession in July 2008. In the last quarter of 2008 the South East saw the largest quarterly fall in employment of any region, but it wasn't until February 2009 that employment fell below the level it had been one year before. In other words, the first two quarters of the recession only served to reverse the employment growth that had occurred in the first half of 2008. The employment rate in the South East has remained the highest of any region throughout the recession so far – currently standing at 78.2% (quarter 1 2009). Some regions, most notably London, recorded increases in employment in recent months (perhaps due to London's relatively small manufacturing base and the resilience of its retail and hospitality sectors as the strength of the Euro attracted foreign tourists to the capital).

In the most recent quarter for which data is available (January to March 2009), however, employment fell quite sharply in London (by 57,000) which was by far the largest fall of any region. In the South East, employment was down 17,000 on the previous quarter, which was one of the smaller falls amongst the regions.

⁶ Office for National Statistics, *The impact of the recession on the labour market* (May 2008).

⁷ International Labour Organisation.

Figure 12: Employment trends in the South East, Feb 2007-Feb 2009

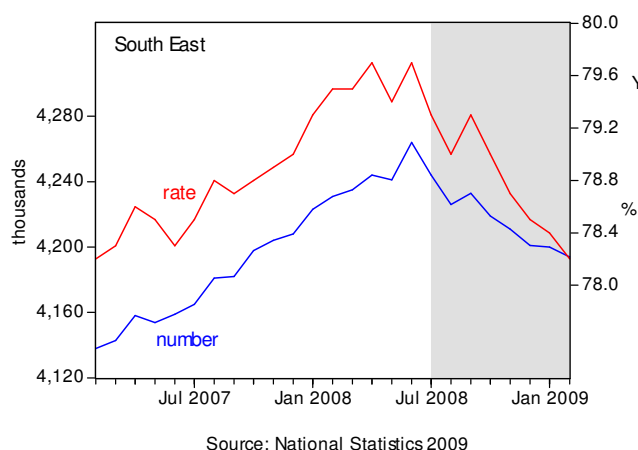
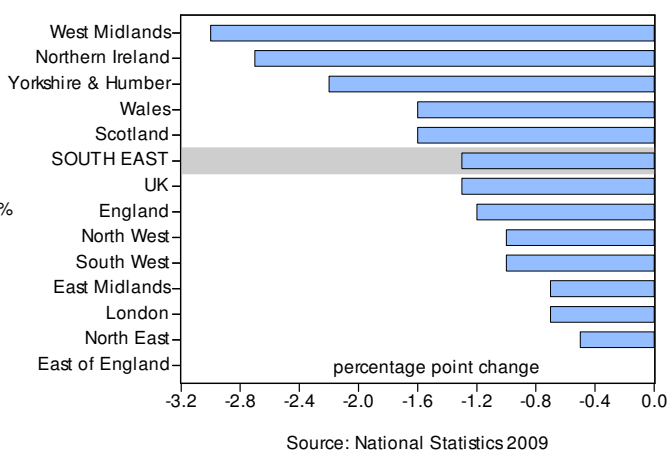


Figure 13: Annual change in employment rate, Q1 2008-Q1 2009,



Although employment rates in the South East have remained relatively high, the region has seen a relatively large fall in both the number of people in employment and the employment rate if we compare the first quarter of 2008 and the first quarter of 2009. Employment in the South East over the year fell by 37,000, with only Yorkshire and the Humber (-55,000) and the West Midlands (-88,000) recording larger falls. Comparisons using absolute numbers can be misleading as the South East has a larger working age population than most other regions. A more realistic way of comparing regions is to use the employment rate. The South East employment rate dropped by 1.3 percentage points in the year to March 2009, which is in line with the UK. Yorkshire and the Humber, the West Midlands and the three devolved administrations saw larger falls (Figure 13).

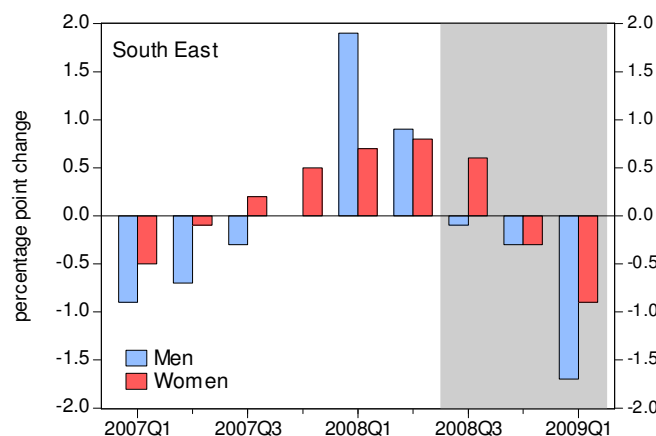
Has the recession affected men's employment more than women's?

Women are more likely to be affected by the recession this time, if only because there are more women than ever before in employment. The extent to which the recession has had a disproportionate effect on men or women has been a subject of considerable discussion in recent months. Whereas in previous recessions men tended to bear the brunt of job losses, which were usually concentrated in particular (male-dominated) sectors such as manufacturing and construction, circumstances this time are different, for two main reasons: firstly, there are now more women than ever before in employment and hence a larger number of women in total are potentially at risk of losing their jobs; and secondly, this recession has affected all sectors of the economy, including those in which women make up a significant proportion of the workforce. Women are much more likely than men to be employed in administrative, personal services and sales and customer service occupations and in the retail, hospitality and public sectors. Much of the growth in women's employment in the past decade or so has been in these industries and occupations.⁸

Men's employment rates have fallen faster than women's since the official start of the recession. The available data suggests that so far the recession has had a greater impact on men in employment than women. Looking at each of the three calendar quarters during which the UK economy has been in recession (from the third quarter of 2008) and comparing each of them with the same period one year before, men's employment rates have fallen faster than women's. (See Figure 14, which shows the annual change in the employment rate for men and for women for each quarter from the beginning of 2007). The employment rate for men in quarter 1 of 2009 was 82.4% – down 0.5 percentage points on the previous quarter and 1.7 percentage points lower than the same period a year ago. By comparison, the employment rate for women was 73.6% in the first quarter of 2009 – 0.5 percentage points lower than in the previous quarter but just 0.8 percentage points lower than the same period one year earlier.

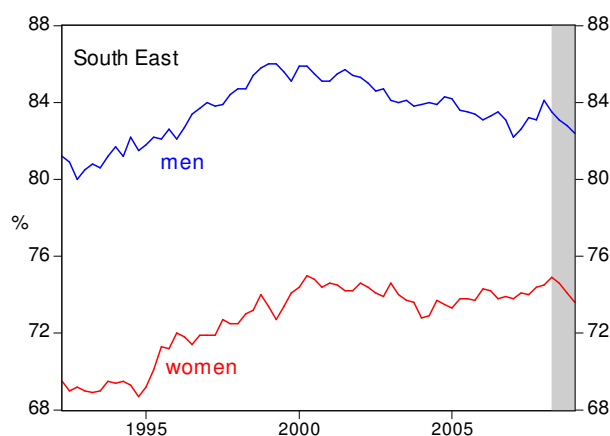
⁸ TUC, *Recession Report number 3* (January 2009).

Figure 14: Annual change in employment rate by gender



Source: National Statistics 2009

Figure 15: Employment rate by gender, Q2 1992 – Q1 2009



Source: National Statistics 2009

The gap between men's and women's employment rates has been narrowing since the recession of the early 1990s. Since there is significant volatility in monthly and quarterly data, it can be helpful to consider longer-term trends, drawing comparisons with previous recessions. Labour market data at regional level is only available in a consistent format back to 1992, which coincides with the low point for employment rates following the end of the recession of 1990-91. After that point, as Figure 15 shows, the employment rate for both men and women rose quite rapidly, reaching a peak around the year 2000. Since then, women's employment rates have held up relatively well, while the employment rate for men has been falling steadily. Although the current male employment rate (for quarter 1 2009) is still higher than it was just after the 1990s recession, at 82% compared to 81%, the female employment rate is currently 74% compared to just 70% in 1992. What we are seeing is a continuation of a trend that has been going on for the past three decades, whereby the 'gap' between men's and women's employment rates has been narrowing. Since the 1970s, employment rates for men in the UK have fallen by about 10 per cent, while for women, employment rates have increased by about 10 per cent.

In terms of absolute numbers, the year-on-year drop in women's employment during the recession so far has generally been less marked than for men. In the year to the end of quarter 3 2008, the number of women in employment rose by 23,000 – slightly higher than the 22,000 increase in men's employment. For the year from Quarter 4 of 2007 to quarter 4 of 2008, men's employment rose by 13,000 while women's employment fell by 6,000. However, the latest data shows that in the year to quarter 1 of 2009 the number of men in employment fell by 22,000, compared to a drop of 14,000 for women.

Women are more likely to be employed in part-time, temporary jobs, making them particularly vulnerable to redundancy. Much of the recent unexpected increase in employment in the South East was accounted for by growth in men's employment, while women's employment continued to fall. This could be related to the fact that women are more likely to be employed on part-time and/or temporary contracts and therefore are more vulnerable to redundancy in uncertain economic times. In the South East, 46% of women in employment work part-time, compared to just 16% of men. In addition, a very significant number of redundancies occurred in the male-dominated manufacturing and construction industries in the early months of the recession, so it could be the case that the rate of job loss has now slowed down significantly for men, while redundancies in the service sector (in which women are more likely to work) have continued.

In the longer term the prospects for women's employment should be reasonably good. More women than men are employed in the public sector: 43% of jobs held by women in the South East are in the public and 'other services' sector compared to 20% of men's jobs. This sector has not seen such high redundancy rates as other sectors, though any major cuts in public spending could put these jobs at risk. Although the retail and service sectors where women predominate are likely to be hit hard by the

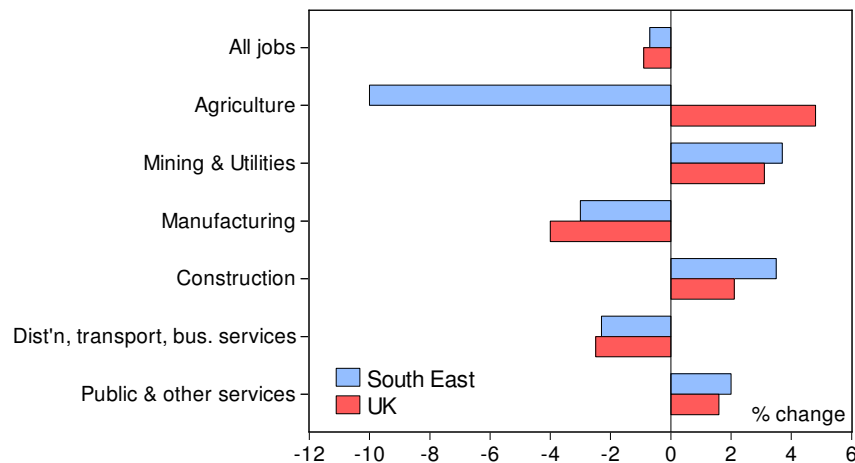
recession, the longer term growth prospects for these sectors are better than for parts of manufacturing in the last recession.⁹

Impact on employment in different industries

Employment fell in almost all sectors except the public sector and construction in 2008.

Although the recession has touched almost all sectors, some have been affected to a greater degree than others – which can be seen when analyzing changes in employment by industry. Figure 16 shows the percentage change in the number of employee jobs in different sectors between December 2007 and December 2008 (the latest data available). Employee jobs figures are derived from a quarterly survey of employers and provide estimates of the number of jobs available in different sectors of the economy.¹⁰ In general the number of employee jobs tends to be positively correlated with output, so when output falls the number of employee jobs also falls. It is not surprising, therefore, that at both regional and national level, there has been a similar small drop in the number of jobs available in the economy over the year to December 2008 (-0.7% in the South East against -0.9% in the UK). This equates to 26,000 fewer jobs in the South East and 284,000 fewer in the UK as a whole.

**Figure 16: Employee jobs by sector
% change December 2007-December 2008**



Source: ONS 2009

The only sectors to have seen an increase in employment between December 2007 and December 2008, at both regional and national level, were mining and utilities (although the numbers involved are very small); construction; and the public and 'other services' sector. There were 23,000 additional jobs in this latter sector in the South East, and an increase of 159,000 at UK level. Usually the public sector escapes recessions relatively unscathed as demand for public services is maintained. However, this time there could be significant cuts in public spending in the coming months as Government borrowing reaches record levels. Already a number of local authorities in the South East have laid off staff, so there could be further job losses to come in this sector.

Employment in construction has been supported by the continuation of public sector building projects through the recession. Perhaps surprisingly, there has been continued jobs growth in the construction sector despite a recent spate of redundancies. The number of jobs increased by 6,000 and 47,000 respectively in the South East and UK between the end of 2007 and the end of 2008. This could be partly because public sector building projects have continued through the recession, thereby maintaining demand for significant numbers of construction workers. The increase has been greater in the South East than the UK average, perhaps because many South East firms are involved in major capital projects in the

⁹ TUC, *Recession Report number 3* (January 2009).

¹⁰ The changes in total jobs recorded in the employee jobs figures are different from the changes in employment as measured by the Labour Force Survey. This is because the employee jobs figures are a measure of jobs rather than people – hence an individual with two jobs would be recorded twice. Also, in the Labour Force Survey people provide their own definition of the industry they work in, which could be different from their employer's definition of that industry.

London area, such as the 2012 Olympics and Thameslink projects. Nevertheless these figures are a little dated, and cover a period from December 2007 when the construction industry was still in relatively good health. It is likely that when later figures are released they will reflect the impact of recent large-scale job losses in the sector. In fact when we look at the figures in more detail, the number of construction jobs in the South East continued to rise until September 2008, before falling back to June levels in the fourth quarter of 2008. This is consistent with a rise in redundancies in the construction industry from the autumn of 2008.

The manufacturing and transport, financial and business services sectors saw significant reductions in employee jobs over the year to December 2008, at both regional and national levels. This reflects the significant drop in output in these sectors. Indeed at UK level the reduction in workforce jobs in the financial and business services sector has been more severe than in the recessions of the 1980s and 1990s¹¹, reflecting the fact that the present recession started in the financial sector.

The only industry where the South East picture is significantly different from the UK is agriculture, where there was a 10% drop in employee jobs in the year to December 2008 at regional level but a 5% increase at UK level. It is difficult to explain this divergence, but it is important to bear in mind that the numbers involved are relatively small (4,000 fewer jobs in the South East and 22,000 more jobs in the UK) so a large percentage change can give a misleading impression of the scale of change. Moreover, the agricultural data is particularly volatile.

Trends in redundancy notifications

The South East appears to have been less severely affected by redundancies than other regions. As the recession has progressed, the number of redundancies has grown. All regions have seen an increase in the 'redundancy rate' since the third quarter of 2008, although the percentage increase in the South East was one of the smallest of any region. In the first quarter of 2009, the North East had the highest redundancy rate at 16.9 per 1,000 employees, while the South East rate was the second lowest, at 9 per 1,000 employees.¹²

Redundancy notifications in the South East have been on the increase since the fourth quarter of 2008. A more up to date picture can be gained by looking at trends in the number of redundancy notifications in the South East. All firms who intend to make more than 20 staff redundant are required to notify BERR via an 'HR1' form. It is important to note the limitations of this data: smaller-scale redundancies are excluded, and it is very difficult to capture these using existing data. In many cases, redundancies are registered at a firm's headquarters in the South East, but the actual job losses could be taking place across the country. Sometimes the redundancies are not scheduled to take place for a number of months. Firms use the HR1s simply to note their intention to lay staff off – we do not know for certain whether these planned redundancies will in fact happen. In some cases the 'redundancies' are simply changes of contract rather than lay-offs. Finally, this data only captures redundancies which affect workers in the South East, rather than those who live in the South East but work elsewhere (including in London).

Bearing these caveats in mind, it is useful to look at broad trends in redundancy notifications by sector and sub-region. There were a total of 14,200 redundancy notifications in the South East in the last quarter of 2008. This had increased to 19,800 in the first quarter of 2009 – a trend which is borne out by the most recent *Business Survey Quarterly Snapshot* (February 2009), which found that only 5% of firms in the South East had seen an increase in the numbers they employ in the previous three months, while 20% of the companies surveyed reported that they had had to shed staff.¹³

Has the rise in redundancy notifications started to slow down? Figures for the second quarter of 2009 so far suggest that the level of redundancy notifications may have started to fall. There were almost 6,000 notifications in April and the first half of May – if the picture is similar for the rest of May and June, this would mean a total of about 12,000 redundancy notifications in the South East for the second quarter of this year. There was a significant drop in total notified redundancies between March and April (from 5,900 to 2,100), and it remains to be seen whether this trend will continue.

¹¹ ONS, *The impact of the recession on the labour market* (May 2009).

¹² ONS Labour Force Survey. The redundancy rate is the ratio of the redundancy level for a given quarter to the number of employees in the previous quarter, multiplied by 1,000.

¹³ BMG Research on behalf of SEEDA, *Business Survey Quarterly Snapshot – South East Report* (February 2009).

Sectoral impacts of redundancies

The manufacturing and construction sectors have been disproportionately affected by redundancies. A number of sectors have been affected disproportionately by redundancies during the present recession – mainly those which have seen the most marked falls in demand and hence in output. In the past eight months there have been more than 11,100 redundancy notifications in the manufacturing sector, which is 28% of all notifications. The manufacturing sector accounts for just 8.5% of total employment in the South East, so it has clearly been affected disproportionately. The construction sector has also seen significant numbers of redundancy notifications, with 3,480 since the beginning of October 2008. This accounts for 8.7% of total notifications in the South East, while the sector represents just 4.6% of total employment in the region. The figure for construction should be treated with some caution, as it is likely to have been inflated by the announcement of a number of large-scale redundancies at the headquarters of UK construction firms located in the South East. Changes of contract also tend to be more common in this sector, and we do not know for sure how many of these are in fact job losses and how many are simply contract renewals.

The transport and telecommunications sectors have also seen large numbers of redundancy notifications in recent months, with the telecommunications sector accounting for a larger proportion of total notifications relative to its share of total employment in the South East each month from October 2008 to March 2009.

Redundancy notifications are on the increase in business services, while jobs losses in manufacturing and construction may have passed their peak? In recent months, there has been an increase in the number of redundancy notifications in business services (accountancy, marketing, publishing and so on), with manufacturing and construction accounting for a smaller proportion of total redundancy notifications than previously. This could partly reflect the fact that firms are starting to cut back more heavily on spending on marketing and other support services as they focus primarily on keeping their business afloat. The relative fall in the number of redundancies in manufacturing and construction could be related to the fact that the majority of firms in these sectors have laid off as many staff as they need to without sacrificing their valuable skills base that will be needed as they prepare for the upturn.

Indeed, one of the features of this recession has been the greater flexibility of employers in trying to avoid large-scale redundancies and to hold on to skilled, permanent staff. Short-time working, making pay cuts or offering staff extended periods of leave have been adopted by many employers to try and avoid the expense (both financial and in terms of lost skills) of making people redundant.¹⁴ At UK level over the past year there has been a reduction in the proportion of people in employment working full-time and an increase in the proportion working part-time (with this latter increase being split equally between men and women). There has also been an increase in both the number and proportion of workers who are working in part-time jobs because they cannot find full-time employment. All of this is indicative of the increased use of short-time and flexible working as a response to the downturn.¹⁵

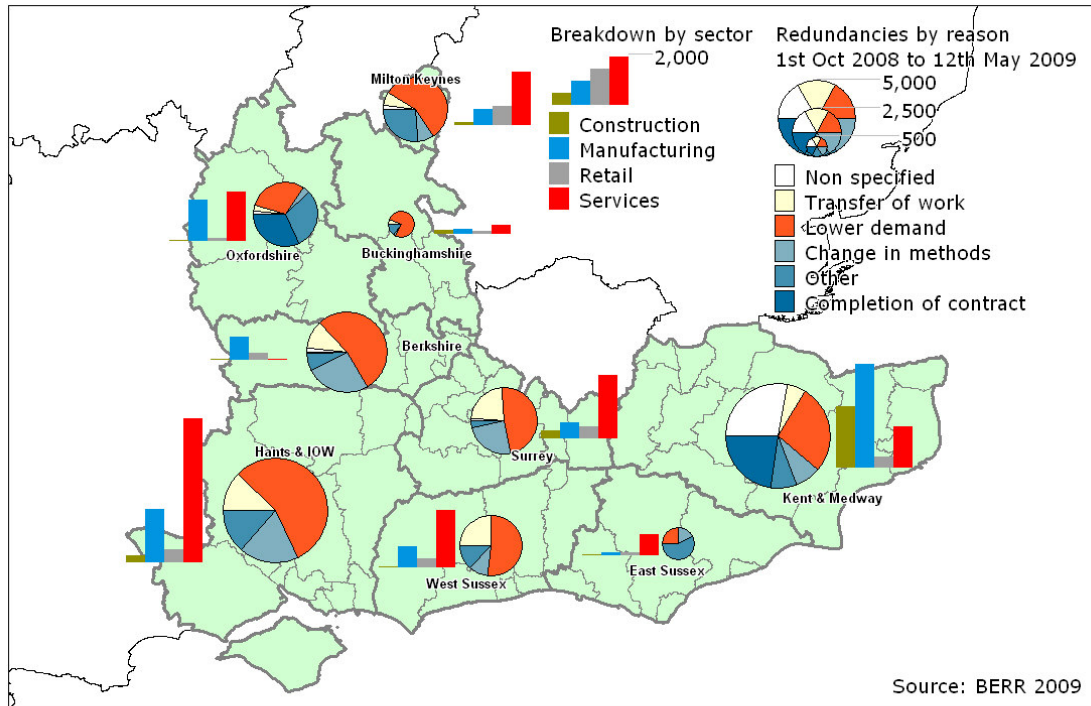
Sub-regional patterns in redundancy notifications

Kent, Oxfordshire, Berkshire and Milton Keynes have been affected most by redundancies since October 2008. As Figure 17 shows, the largest number of redundancy notifications since October 2008 (as represented by the size of the pie charts) have been in Kent and Medway and Hampshire and the Isle of Wight. This is slightly misleading given that these two counties have larger numbers of businesses. It can be more instructive to compare the proportion of total redundancy notifications accounted for by each county against the proportion of total regional employment in each county.

¹⁴ According to the Chartered Institute of Personnel and Development, the average cost to an employer of making a member of staff redundant is £16,000.

¹⁵ TUC, *Recession Report Number 5* (March 2009).

**Figure 17: South East redundancy notifications by sector, sub-region and reason
October 2008 – May 2009**



© Crown Copyright Ordnance Survey. 'Boundary Line' 2008. License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

As Table 1 shows, the areas that have accounted for a larger proportion of total redundancy notifications relative to their share of regional employment are Kent and Medway, Berkshire, Oxfordshire, and most notably, Milton Keynes. This is borne out to a large extent by the most recent *Business Survey Quarterly Snapshot* results, which show that companies in Berkshire and Oxfordshire, followed by Kent and Medway, were more likely than firms in other counties to state that the numbers they employ had fallen in the three months to February 2009.¹⁶ As Figure 6 shows, redundancy notifications in manufacturing and construction have been more heavily concentrated in Kent and Medway than in any other sub-region (45% of all South East redundancies in these two sectors between October 2008 and May 2009 were announced in Kent and Medway) which helps to explain why the area has accounted for the largest total number and share of redundancies, out of proportion to its share of regional employment.

Table 1: Redundancy notifications by sub-region, October 2008 – May 2009

Sub-region	Total redundancies	% of total	% of regional employment
Kent and Medway	8,573	21.4	17.1
Hampshire and IOW	8,509	21.3	21.8
Berkshire	5,508	13.8	12.4
Surrey	3,944	9.9	13.7
Oxfordshire	3,776	9.4	8.5
Milton Keynes	3,631	9.1	3.7
West Sussex	3,509	8.8	9.0
East Sussex	1,025	2.6	7.7
Buckinghamshire	803	2.0	5.4
Total South East	40,011	100	100

Source: BERR HR1 redundancy notifications (via Job Centre Plus)

¹⁶ BMG Research on behalf of SEEDA, *Business Survey Quarterly Snapshot – South East Report* (February 2009).

However, it is important to treat these figures with some caution, as the number of redundancy notifications can be artificially inflated in areas with a high concentration of company headquarters, such as Milton Keynes and Berkshire. In many cases, a large number of redundancies which are due to take place at branches across the UK are registered in these areas as they are home to the company HQ. Areas which have seen a relatively small number of redundancy notifications compared to their share of regional employment include East Sussex and Buckinghamshire. In the case of East Sussex this can be explained by the high concentration of small firms in the county, which would not fall within the net of the HR1 notifications since these apply only to firms where more than 20 employees are being made redundant.

Unemployment trends

The rise in unemployment in the South East has been slower than in the UK as a whole.

Unemployment in the South East has been rising since April 2008, as Figure 18 shows. This is consistent with the UK, where the unemployment rate began to rise in the second quarter of 2008. Since then both the number of unemployed people and the unemployment rate have continued to increase in the South East, but generally at a slower rate than the UK average. Over the three quarters of the recession so far (quarter 3 2008 to quarter 1 2009), the number of unemployed people in the South East increased by 34,000, or 17%. In the UK, the increase was proportionally greater, at 390,000 or 21%. The unemployment rate increased by 0.7 percentage points over the same period in the South East, while the increase was 1.3 percentage points for the UK as a whole.

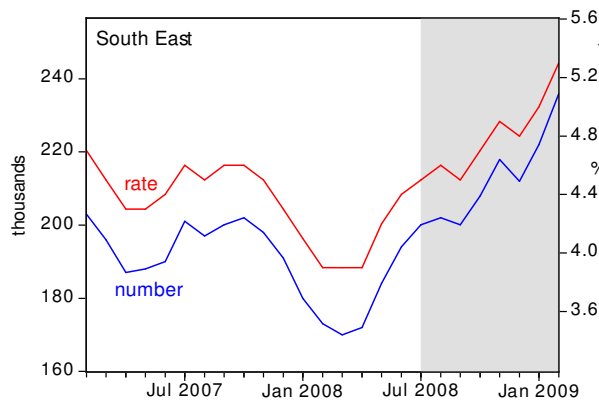
The unemployment rate in the South East has been consistently lower than almost all other regions throughout the recession so far, despite reaching its highest level since 1997 (5.3%) in the first quarter of this year. The most recent figures show that the rise in unemployment in the South East has continued to be one of the smallest of any region – increasing by 18,000 between the fourth quarter of 2008 and first quarter of 2009, to 236,000. Only the North West and East of England (along with Wales and Northern Ireland) recorded smaller increases, while in the North East unemployment fell marginally (by 1,000). The unemployment rate increased by 0.4 percentage points on the previous quarter, compared to a 0.8 percentage point increase in the UK.

Unemployment figures do not tell the whole story, as they don't account for the economically inactive or 'hidden unemployed'. The fact that unemployment has not been rising as rapidly as expected despite continued falls in employment could be a sign that people are losing their jobs and moving straight into economic inactivity rather than registering as unemployed. Indeed economic inactivity rates in the South East have been rising gradually since September 2008, with the increase being more marked amongst women. This could be related in part to the fact that unemployed women are less likely than men to qualify for Jobseekers' Allowance (JSA) because if their partners' earnings are taken into account their household income is above the threshold for JSA eligibility.¹⁷ A rise in the number of 'hidden unemployed' is of concern because once people are outside of the labour market they are further away from mainstream employment and skills support and can find it difficult to re-enter employment.

Comparing the first quarter of 2009 with the first quarter of 2008, unemployment in the South East rose by 63,000, which is a relatively large increase compared to other regions. However, this can be related to the fact that the South East population is one of the largest of any region. A more accurate way of comparing regions is to consider the change in the unemployment rate. The South East saw an increase of 1.4 percentage points over the year – only London and Scotland saw a smaller increase (1.3 percentage points) – see Figure 19.

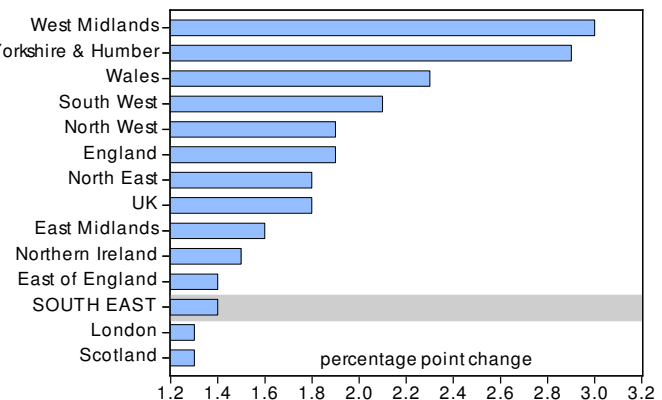
¹⁷ TUC *Recession Report Number 3* (January 2009).

Figure 18: Trends in unemployment in the South East, February 2007 – February 2009



Source: National Statistics 2009

Figure 19: Annual change in unemployment rate, Q1 2008 – Q1 2009, by region

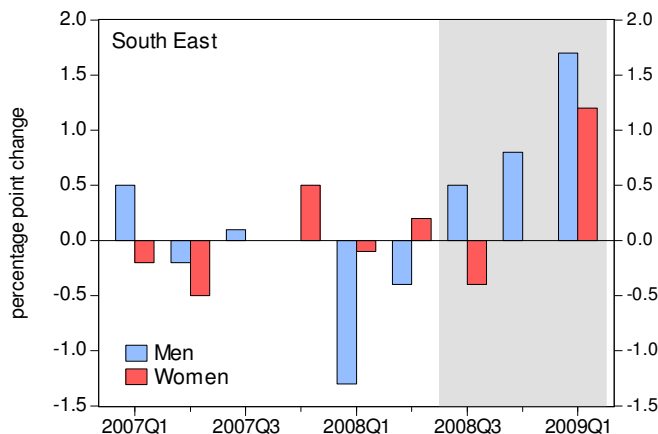


Source: National Statistics 2009

Unemployment rates for men have been rising at a faster rate than women's unemployment rates. There is a gender dimension to the unemployment picture. Although redundancies have been taking place across all sectors of the economy, a significant proportion of job losses have been seen in traditionally male-dominated sectors such as manufacturing, construction and transport. Data at UK level suggests that men have been losing their jobs at a faster rate than women, with redundancy rates for the first quarter of 2009 being 14 per 1,000 for men compared to 8 per 1,000 for women.¹⁸

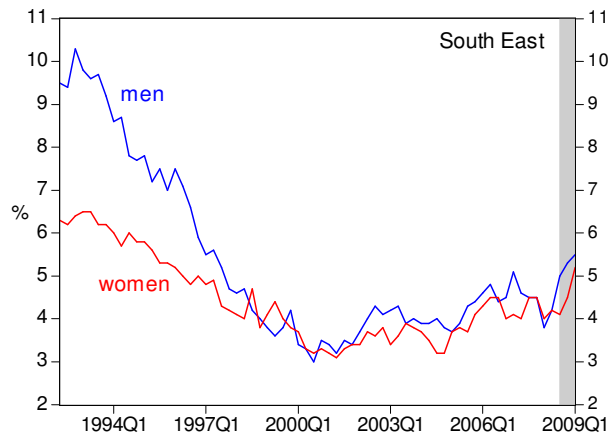
Over the course of the recession so far, unemployment rates for men in the South East have been increasing at a faster rate than for women, as Figure 20 shows. Indeed it is only in the most recent quarter of this recession (quarter 1 2009) that women's unemployment rates have risen rapidly on the previous year.

Figure 20: Annual change in unemployment rate by gender, South East



Source: National Statistics 2009

Figure 21: Unemployment rate by gender, South East, Q2 1992 to Q1 2009



Source: National Statistics 2009

Men's and women's unemployment rates have started to converge since the early 1990s. Looking back to previous recessions, unemployment rates for men and women have followed similar cyclical trends, but the recessions of the 1980s and 1990s had a greater impact on men. The 1980s recession led to a sharp increase in the unemployment rate for men, which overtook the female unemployment rate in the second half of 1980 and has remained above it ever since. The recession of the

¹⁸ ONS, *The impact of the recession on the labour market* (May 2009).

1990s prompted another sharp rise in male unemployment rates, to a much greater extent than women's unemployment rates. This gender difference is clearly visible in Figure 21, which plots trends in men's and women's unemployment rates in the South East since just after the recession of 1990-91. As the chart shows, men's and women's unemployment rates have started to converge since the early 1990s, but it remains to be seen whether the male unemployment rate will start to rise above the female rate in this recession, as in previous ones.

Claimant count unemployment

Claimant count and ILO unemployment figures tend to converge during a recession, but the situation may be different this time. An alternative and slightly more timely measure of unemployment, which also provides sub-regional detail, is the number of people claiming Jobseekers' Allowance (JSA). Generally claimant count unemployment is slightly lower than ILO unemployment, because not everyone who is out of work is eligible to claim JSA. However, during periods of recession the two measures tend to converge (as happened in the last two recessions) because there is an increase in the number of people on 'inactive' benefits (such as what was formerly Incapacity Benefit) who therefore are counted as economically inactive rather than unemployed. As a result the number of people who are inactive increases and the number of unemployed people falls, so that the unemployment figure moves closer to the claimant count figure.

Figure 22 shows that the claimant count and unemployment figures in the South East have started to converge over the course of the recession so far, but unlike previous recessions, the two measures are less likely to converge completely this time. This is because the new Employment and Support Allowance (which replaced Incapacity Benefit last Autumn) is classed as an 'active' benefit as it requires claimants to undertake some work-related activities. Lone parents on Income Support are now under new obligations to undertake some work, so people on both these benefits are more likely to be counted as ILO unemployed than inactive, which will keep the number of unemployed people higher than the claimant count.¹⁹

Claimant count on the increase, but South East faring better than other regions

The South East currently has the lowest claimant count unemployment rate of any region. The latest data, for April 2009, shows that there are 153,600 people in the South East claiming JSA, which represents 3% of all working age residents. This is the lowest claimant count rate of any region. In the UK there are 1.56 million JSA claimants, or 4.1% of the working age population. The regions with the highest claimant count rates are the North East and West Midlands (5.4%) – see Table 2.

Table 2: Number and proportion of working age residents claiming Jobseekers' Allowance by region, April 2009

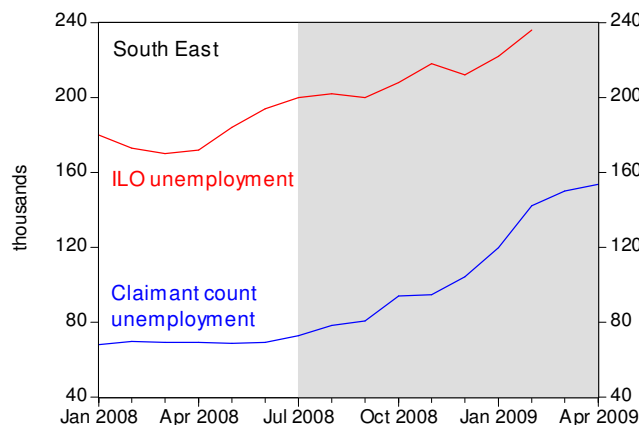
Region	Claimant count	Claimant count rate (%)
North East	85,437	5.4
West Midlands	178,108	5.4
Yorkshire and Humber	152,149	4.7
North West	195,119	4.6
Wales	79,477	4.4
Northern Ireland	46,857	4.3
UK	1,557,616	4.1
East Midlands	111,959	4.1
London	209,345	4.1
Scotland	126,826	3.9
East of England	121,355	3.5
South West	97,376	3.1
South East	153,608	3.0

Source: ONS Labour Market Statistics via Nomis (May 2009)

¹⁹ P. Bivand, 'How high will unemployment go?', in *Working Brief* (February 2009), p. 6.

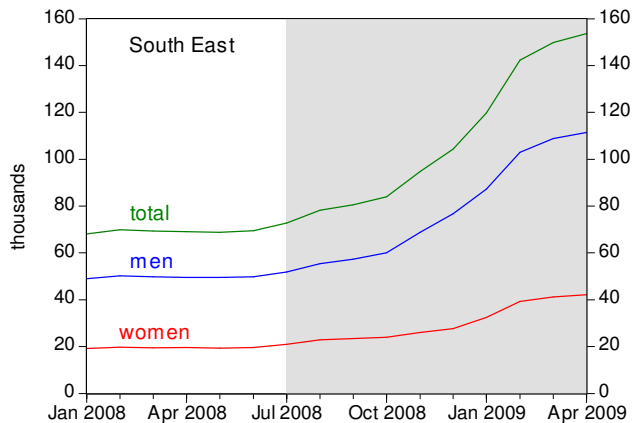
As Figure 23 shows, the claimant count in the South East began to rise gradually from the start of the 'official' recession (July of 2008) but did not start to rise steeply until October 2008. Significantly more men than women claim JSA (partly because women are often less eligible if their partner's earnings mean that their household income is above the threshold for JSA eligibility). In April 2009 there were 111,500 men claiming JSA in the South East and 42,100 women. The increase in the claimant count since October of last year has been sharper for men than for women.

Figure 22: Trends in unemployment January 2008 to April 2009



Source: National Statistics 2009

Figure 23: Claimant count by gender January 2008 to April 2009



Source: National Statistics 2009

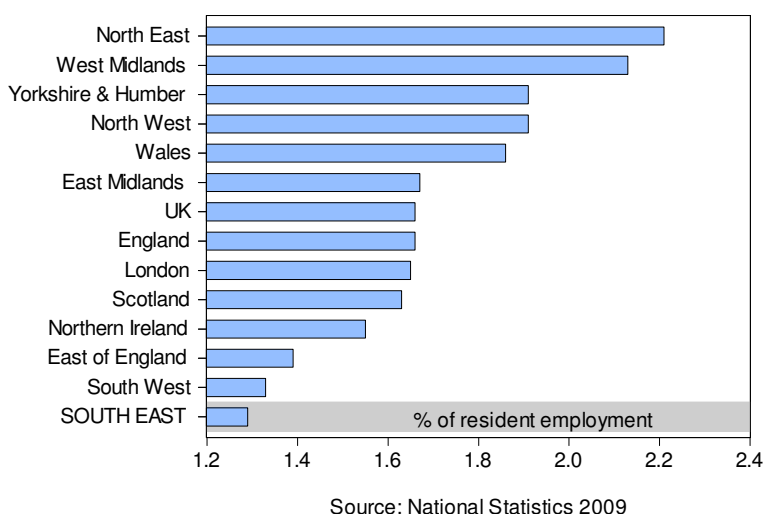
In recent months there has been a slight slowing in the rate of increase in the South East claimant count. Between March and April 2009 the number of people claiming JSA in the region increased by just 3,700, compared to an increase of 8,000 between February and March and 18,000 between January and February. The claimant count rate increased by 0.1 percentage points in the South East between March and April, which is in line with the UK. Looking at change over the quarter from January to April 2009, the South East performs well compared to other regions. While the claimant count itself increased by 33,800, the rate increased by 0.6 percentage points, which was one of the smallest increases of any region.

Although the South East has seen a large percentage increase in the claimant count, new JSA claims as a percentage of employment in the South East is the lowest of any region. Over the year from April 2008 to April 2009, the claimant count in the South East more than doubled, from 69,000 to 154,000 – an increase of 122%. This was one of the largest percentage increases of any region. However, considering the percentage increase alone can be misleading if the initial figure is low. Those areas which had relatively low unemployment prior to the recession – mainly the southern and eastern regions – have seen the most marked percentage increases. The South East, South West, East of England and East Midlands have all seen their claimant count unemployment at least double in the past year. By contrast, the claimant count in the North East increased by 70%, in the North West by 74% and in Scotland by 72%.

Although the more prosperous southern and eastern regions have seen sharp rises in the claimant count in percentage terms, those regions where unemployment was higher before the recession started have fared worse when we look at a different measure: new JSA claims as a percentage of residents in work. This enables us to compare the performance of different regions in a more consistent way. As Figure 24 shows, the figure for new JSA claims as a proportion of employment in February 2009 was smallest in the South East (1.3%), with the South West and East of England also recording low figures, below the UK average of 1.7%. New JSA claims as a proportion of employment were highest in northern and Midlands regions. This provides further evidence that it is these regions which have been hit hardest by recent job losses.²⁰

²⁰ A similar picture was evidence in December 2008. See P. Bivand, 'The impact of recession on vacancies', in *Working Brief* (January 2009).

Figure 24: New Jobseeker's Allowance claims as a percentage of total residence-based employment, by region - February 2009



In the early months of 2008, the number of people leaving JSA (off-flows) exceeded the number of new JSA claimants (on-flows), which is consistent with a reasonably healthy labour market. However, since the beginning of the recession - from June 2008 - JSA on-flows have exceeded off-flows, by an increasing margin (Figure 25). The number of people claiming JSA in the South East is now at its highest level since March 1997. However, this is still a long way short of the peak in the claimant count reached after the last recession (Figure 26). The number of people in the region claiming unemployment benefit reached 339,800 in January 1993, or 7.3% of the resident working age population.²¹

Figure 25: Difference between JSA on-flows and off-flows, 2008-2009

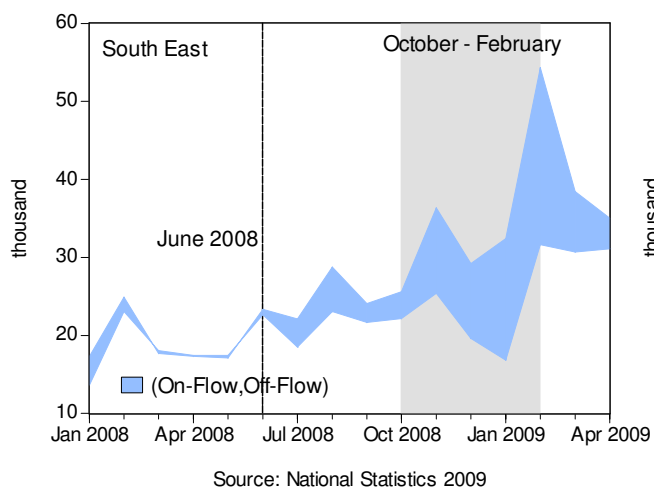
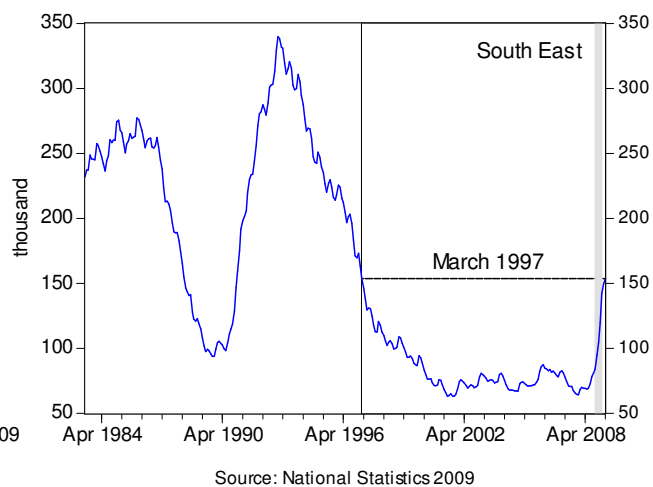


Figure 26: Trends in claimant count unemployment, South East, 1984 to 2009



²¹ ONS claimant count statistics, via Nomis, April 2009.

Unemployment trends by occupation and age group

In recent months people from higher-skilled occupations have accounted for a growing proportion of new JSA claimants in the South East. Over the past year there has been a shift in the occupational composition of JSA claimants, with an increasing proportion of new claims being made by people from more highly skilled professional and managerial occupations, and a corresponding fall in the proportion of claimants from low-skilled, elementary and process occupations (Figure 27).²² This partly reflects the fact that the economy has now been in recession for more than 9 months. Whereas in the early stages of the recession lower skilled, lower paid and temporary workers were more likely to be laid off, as the recession has progressed and firms have seen their cashflow and profit margins squeezed further and further, many have been forced to make redundancies from amongst the more senior, highly skilled members of their workforce in order to achieve substantial cost savings.

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

Unemployment amongst young people has been on the increase since before the recession. The extent to which the recession has had a disproportionate impact on young people is a subject of considerable interest and concern. It is important to note that long before the recession unemployment amongst young people was on the increase. The most significant influence on this has been the reduction in demand for young people's labour due to industrial restructuring and changes in the nature of employment. The long-term decline of the manufacturing sector, for example, has meant that there are fewer apprenticeship opportunities for young people in this sector (particularly young men). In the mid-1990s, 19% of 18-24 year olds were employed in manufacturing in the UK, but by 2008 the figure was just 9%.²³

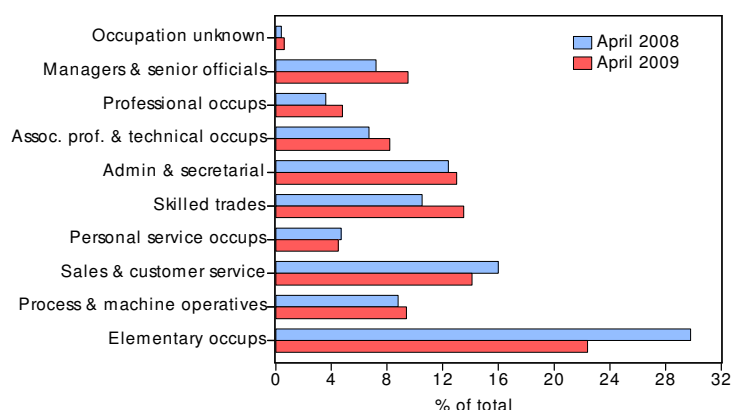
The type of work that young people do makes them particularly vulnerable in the labour market. Younger workers now tend to be concentrated in low-wage, low skill and less secure employment in a narrow range of service industries. In 2008, 12% of 18-24 year olds in the UK were employed in temporary jobs,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

²² Note that the data used here is on-flows (new claimants) for the months of April 2008 and April 2009, and refers to people's usual occupation rather than their sought occupation.

²³ TUC, *Recession Report Number 7* (May 2009).

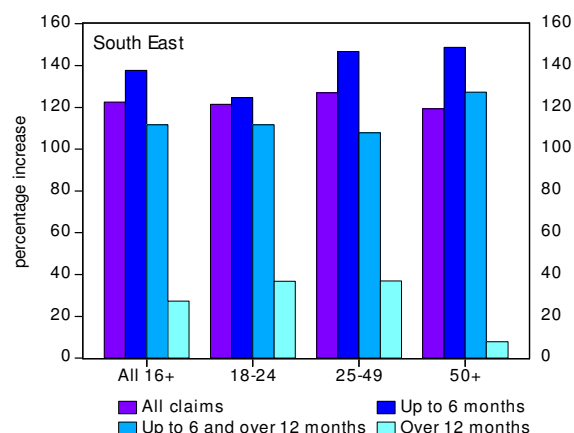
²⁴ ONS, 'Young people and the labour market' in *Economic and Labour Market Review*, Vol. 3 No. 4 (April 2009).

Figure 27: New JSA claimants (on-flow) by occupation April 2008 and April 2009



Source: National Statistics 2009

Figure 28: Annual percentage increase in JSA claimants by age and duration, April 2008 to April 2009



Source: National Statistics 2009

Young people aged 18-24 in the South East do not appear to have seen a faster rise in unemployment than other age groups, although long-term unemployment amongst young people is increasing more rapidly. In the South East, the age group that has seen the fastest percentage increase in claimant count unemployment in the past year has been those aged 25-49, while the increase for young people aged 18-24 has been broadly in line with the average for all age groups (Figure 28). The number of 18-24 year olds who have been claiming JSA for a relatively short time (up to 6 months) has increased at a slower rate than for other age groups, which suggests that young people have not been joining the JSA register at a faster rate than any other age group. However, it is very likely that there will be a sharp increase in the number of young people registering for JSA this summer once term finishes for schools, colleges and universities. With fewer vacancies available, and some employers still reporting that graduates and young people often do not have the skills and attitude required for the workplace,²⁵ there are likely to be more young people on the unemployment register.

Moreover, what is of concern is that the rate of increase in the number of 18-24 year olds who have been claiming JSA for more than a year has been steeper than the average for all ages. This is consistent with the picture at UK level, where long-term unemployment amongst young people had started to increase faster than the overall working age long-term unemployment rate shortly before the recession, and this trend has accelerated since the recession began.²⁶

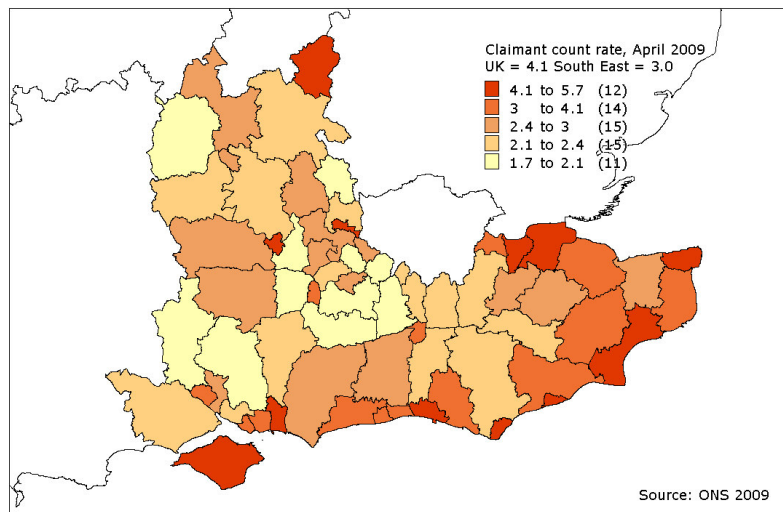
Sub-regional unemployment patterns

Unemployment rates are highest in coastal areas and some urban centres in the Inner South East. A useful way to compare the performance of different local authorities within the South East is to consider the claimant count rate and how it has changed in recent months. According to the latest figures for April 2009 (Figure 29), unemployment rates are highest in coastal parts of the region and in Kent, with several urban areas in the Inner South East, such as Milton Keynes and Reading, also exhibiting high rates (between 4% and 6%). In the case of coastal areas, high rates of unemployment can be explained in large part by industrial structure. A number of coastal districts have an above average concentration of manufacturing, construction and distribution and transport related activities which have been significantly affected by the recession. The high unemployment rates in urban areas within the Inner South East are likely to relate to the relatively high concentration of recent redundancies in these areas.

²⁵ Evidence from Economic Partnerships submitted to SEEDA for Monthly Intelligence Snapshot (May 2009).

²⁶ TUC, *Recession Report Number 7* (May 2009).

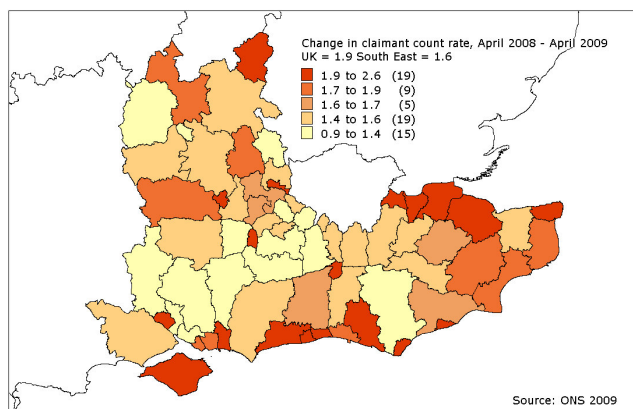
**Figure 29: Claimant count unemployment rate
South East local authorities, April 2009**



© Crown Copyright Ordnance Survey, 'Boundary Line' 2008. License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

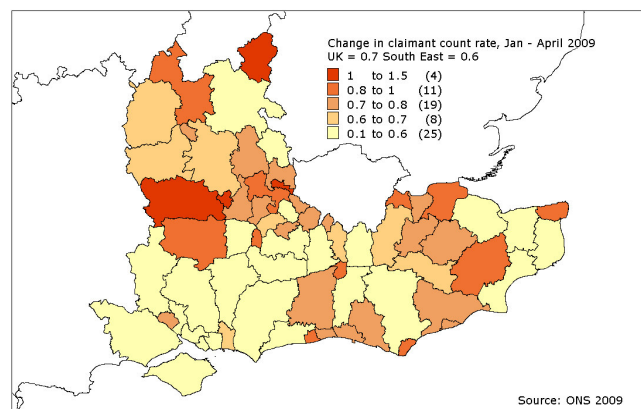
The fastest increase in unemployment in the last quarter has been in northern and western parts of the region. Looking at change over the past 12 months, a reasonably similar geographical pattern can be observed, with more deprived areas of the region along the coasts of Hampshire, Sussex and north Kent seeing the fastest increase in the unemployment rate (Figure 30). In Thanet, for example, the claimant count rate increased by 2.5 percentage points, while in Worthing the increase was 2.3 percentage points. However, a different pattern emerges if we look only at change over the past quarter (January to April 2009) – Figure 31. In this case, the fastest increase in the unemployment rate has been seen in parts of the Inner and Rural South East and in northern and western parts of the region, rather than coastal areas in the south and east. In the Isle of Wight for example, the claimant count rate increased by 2.1 percentage points over the year to April 2009 (one of the fastest rates of increase of any local authority in the South East), but by just 0.1 percentage points in the three months from January to April (the lowest rate of increase of any local authority). This could suggest that the peak of job losses has passed in some coastal areas of the South East. It could also be related to seasonal factors, in that the arrival of Spring and the beginning of the tourist season has helped to boost local employment opportunities in some coastal areas.

**Figure 30: Change in claimant
count rate, April 2008 – April 2009**



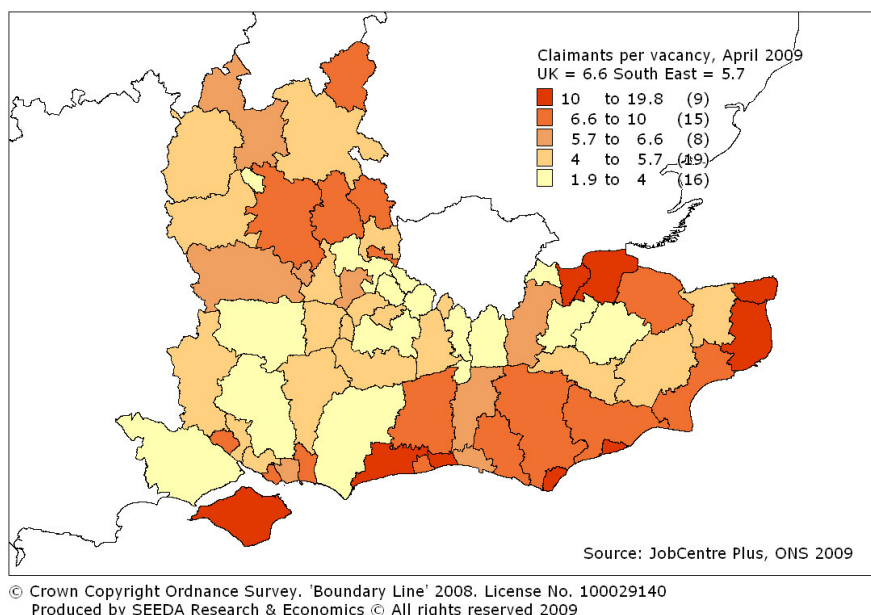
© Crown Copyright Ordnance Survey, 'Boundary Line' 2008. License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

**Figure 31: Change in claimant
count rate, January – April 2009**



© Crown Copyright Ordnance Survey, 'Boundary Line' 2008. License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

Figure 32: Number of Jobseeker's Allowance claimants per vacancy, South East local authorities, April 2009



The number of JSA claimants per vacancy is highest in coastal areas of the South East. At the same time as unemployment has been rising, lower demand in the economy has meant that the number of vacancies has been falling. Between April 2008 and April 2009 the total number of vacancies notified to Job Centre Plus in the South East fell by 26%, from 36,600 to 27,000.²⁷ As a result, competition for jobs has been increasing. One way of measuring this is to consider the number of JSA claimants per vacancy (Figure 32). Southern and eastern parts of the region, including the coasts of Kent, Sussex and Hampshire currently have the largest number of JSA claimants per vacancy. In Gravesham, for example, there were 20 JSA claimants per vacancy in April 2009, and in Thanet 14. By contrast, in Surrey, parts of Berkshire and Oxfordshire and the majority of Hampshire the claimant to vacancy ratio is lower (generally less than 5 claimants per vacancy).

On the road to recovery - have we reached the bottom in the current cycle?

There are some indications that consumer confidence is improving. Over the past nine months a number of backward looking indicators such as the estimates of GDP growth and the labour market data have been pointing to a worsening economic outlook in the UK and South East. However, over the past two months a number of forward looking indicators have started to point to an improvement in sentiment.

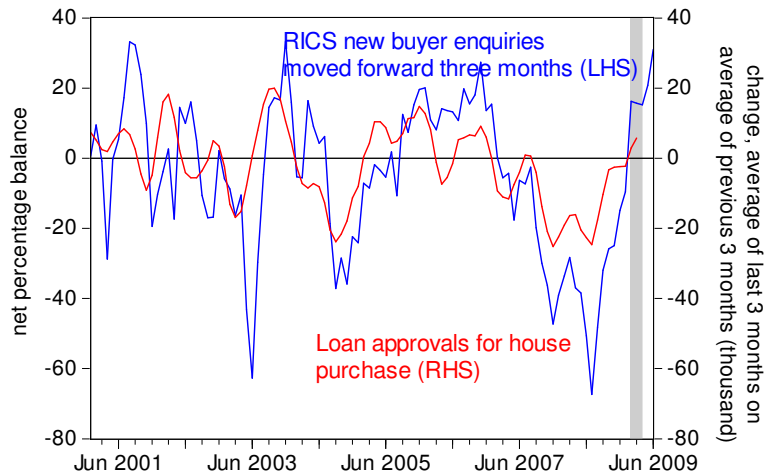
According to the latest consumer survey by GfK NOP things are starting to look up. Overall, the GfK NOP index is up 12 points from its low point but it is still heavily in negative territory. The component of the index measuring people's expectations for the coming 12 months has improved significantly. People are more optimistic about the outlook for the economy than at any time since August 2007.

According to the CBI more retailers reported a rise in sales in April than experienced a fall. The positive balance of +3% was the first for 13 months. The latest official data confirmed that the volume of retail sales in April was some 2.6% higher than in April 2008. It is possible that this was to an extent influenced by the timing of Easter and warm weather and it remains to be seen whether this trend will continue over the coming months.

Is the house price correction bottoming out? The downturn in the labour market, stagnant wage growth, general insecurity about the (personal) economic future 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.

²⁷ Note that the number of vacancies notified to Jobcentre Plus only captures about 40% of total vacancies in the labour market, and also tends to under-represent vacancies for higher-skilled jobs.

Figure 33: UK housing market activity

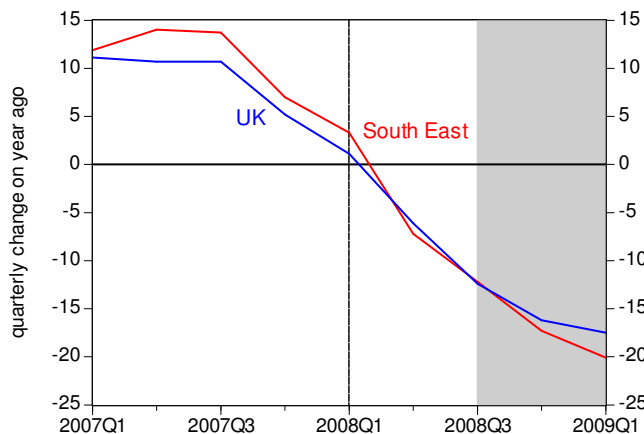


Source: Bank of England and RICS 2009

Just a couple of years ago the OECD had argued that house prices in the UK were overvalued by as much as 30%. It was furthermore argued that a fall in house prices of around 22% would be needed to bring prices back to 'sustainable' levels. If we look at the latest data from Halifax, the house price index has fallen since the beginning of 2008, but the rate of decline has increased over the last three quarters of 2008. In the first quarter of 2009, however, the index had declined to a record low of -20%, compared to the same quarter a year ago (Figure 34). The number of first time house buyers in the South East was down 21% on a year ago. However, the latest survey evidence from RICS shows that UK house price falls are getting smaller and that the number of enquiries is on the increase (Figure 33).

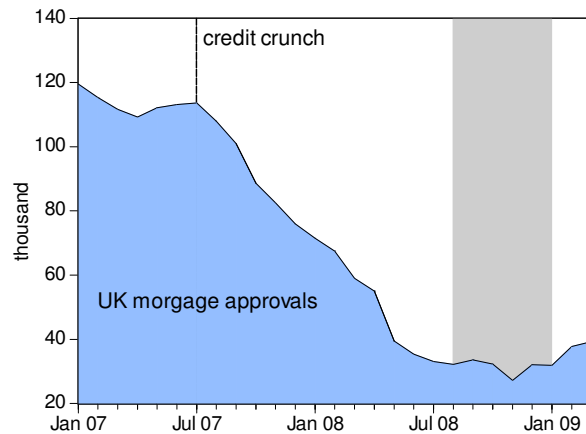
Mortgage approvals in the UK have fallen sharply over the past two years. In March 2009 there were just 39,320 mortgage approvals, compared to 58,995 the same month just a year ago. However, since the end of last year, there has actually been a small increase in mortgage approvals (Figure 35).

Figure 34: Halifax house price index



Source: HBOS 2009

Figure 35: Mortgage approvals



Source: Bank of England 2009

The latest data from CLG shows that mean house prices in the last quarter (compared to the same quarter a year ago) have declined more in Berkshire, Medway (Kent), Portsmouth (Hampshire) and the Isle of Wight than in other parts of the region.

Nationally, typical mortgage payments for a new borrower have fallen from a peak of 48% of average disposable earnings in quarter three of 2007 to 31% in the first quarter of 2009. The South East has four local authorities in the top ten of all local authorities nationally to have seen the biggest improvement in the affordability ratio (East Hampshire, Chiltern, Chichester, and South Oxfordshire), which is perhaps

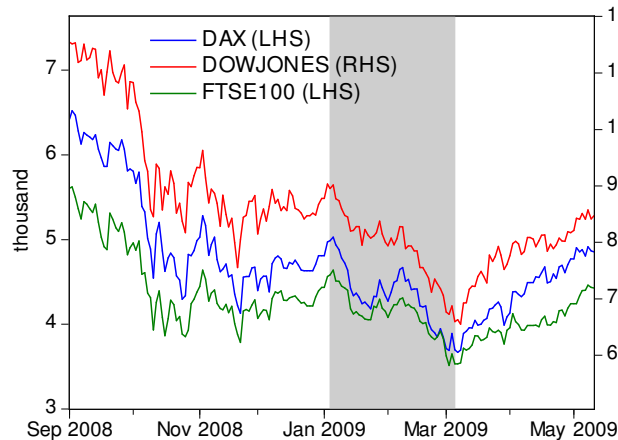
less surprising since house prices in the region have declined faster than the UK average. The decline in house prices has been uneven across the South East.

An indication of improving sentiment in the housing market is an encouraging sign, but since the credit crunch is still lurking in the background it is too early to talk about the end of the correction in the housing market. It is more likely that bottoming out of the housing market is going to be one of the main factors that will boost consumer confidence, which is the main factor required for economic recovery to take place.

There are some indications that confidence is slowly returning in the financial markets – is it going to last? The latest evidence shows that banks in the UK and abroad have started to lend to other banks. The stock markets, which appeared to have reached the bottom in early March, have risen to almost 30% over since early March 2009, and even the banking stocks have risen sharply over the past two months (Figures 36 and 37).

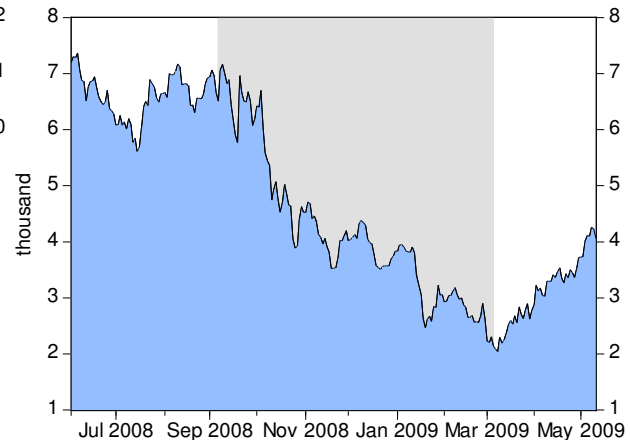
Whilst this is an encouraging sign there are still some concerns about the resolution of troubled assets and sufficient recapitalisation of the banking system in a number of countries that could potentially undermine confidence within the financial markets. The UK and US authorities have run stress tests within their banking sectors but this is still outstanding in a number of countries.

Figure 36: Major stock markets



Source: FTSE 2009

Figure 37: Banking stock

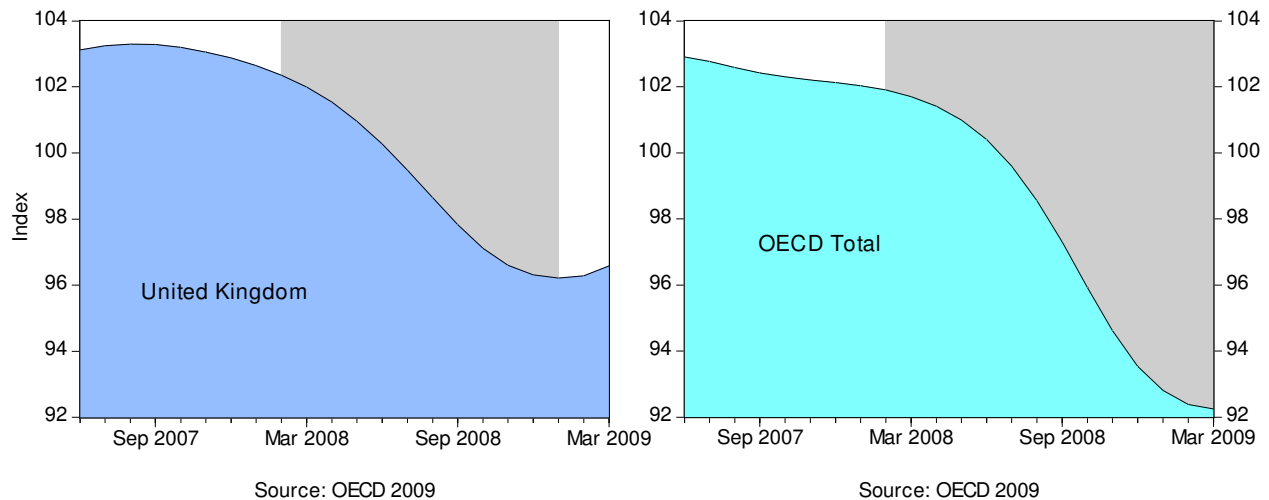


Source: FTSE 2009

The pace of decline in the UK appears to be bottoming out. Although we have to read any indication of recovery in economic performance at this stage very carefully, most of the recent forward looking indicators in the South East and the UK tend to indicate that we have either reached the bottom of the current cycle or that we are not far off the bottom.

The latest Composite Leading Indicator for the UK economy compiled by the OECD points to a possible trough in the United Kingdom in March 2009 and a possible trough in China, Italy and France. The total for the OECD continued to decline (Figure 38). Furthermore, the latest estimate by the National Institute of Economic Research (NIESR), which has a strong record in forecasting output growth, shows the rate of decline in UK GDP in April was flat.

Figure 38: OECD Composite leading indicator



Business activity in the South East falling less rapidly. Anecdotal and survey evidence point towards a slower rate of decline in business activity (output) in the South East since February/March of this year. Although still deteriorating, the rate of decline appears at its weakest since the beginning of the recession last summer.

According to the RBS PMI the decline in business activity in the South East in April was only modest and the least marked for eight months (Figure 39). Last November four in ten businesses reported a decline in output compared to the previous month. In April 2009 more than a quarter said that their output declined compared to a month ago. More importantly a slightly higher proportion of companies reported higher business activity in April than they did in August 2008.

Figure 39: Business activity (output)

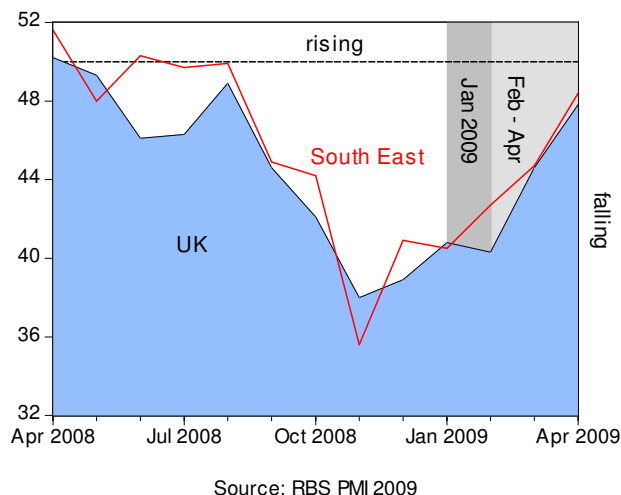
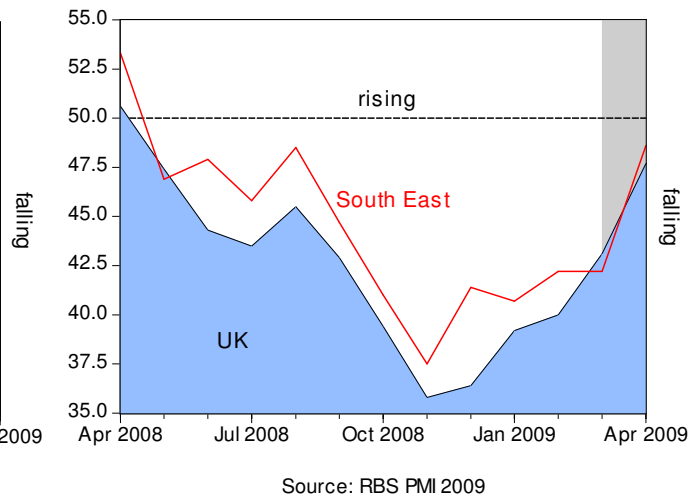


Figure 40: Volume of new orders



Are we about to see an upturn in the volume of new orders in the South East? The volume of new orders (incoming new business) in the South East has been falling for twelve consecutive months. However, in April 2009 the decline was only marginal, almost signalling no change compared to a month ago (Figure 40). Furthermore a higher proportion of businesses reported an increase in their order books in April than in August last year. The latest survey evidence from the Federation of Small Businesses also points to a recent improvement in trading conditions.²⁸ Some 20% of companies surveyed saw an

²⁸ Federation of Small Businesses Snap Poll 5, April 2009

increase in trade during the two months to April. Although relatively low, this figure has actually doubled from just 10% at the end of last year. Nonetheless, almost half of the surveyed businesses said that their trade had decreased over the last two months. Again, this was in fact an improvement of 15 percentage points compared to the depressing trading conditions at the end of last year.

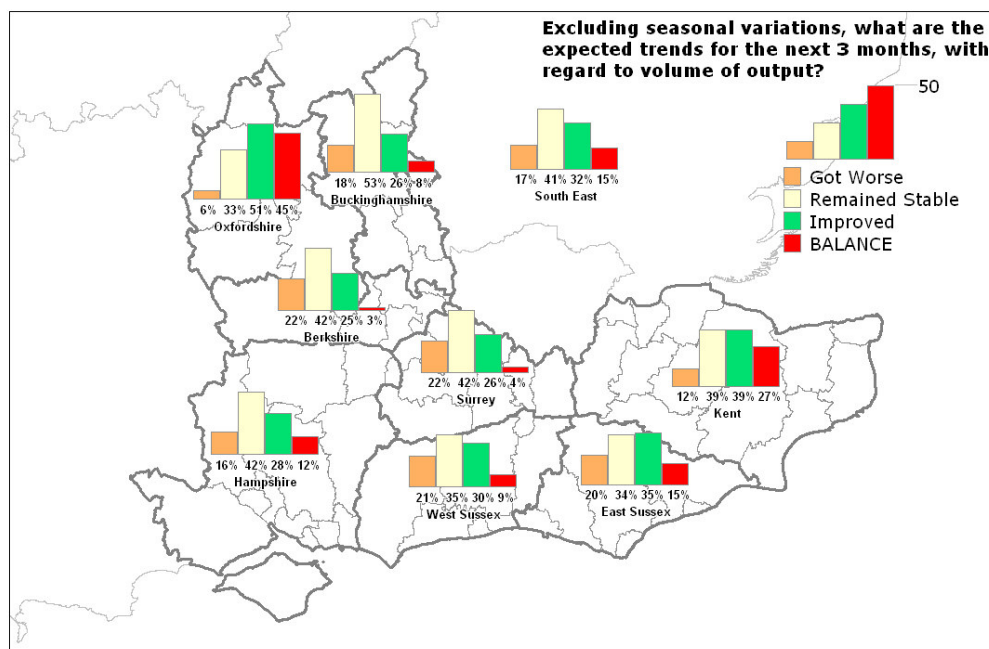
Whilst encouraging, at this stage any improvement in the volume of new orders has to be treated with a degree of caution, since it could simply reflect the 'temporary' end of the destocking process.

Businesses in the South East appear to be more optimistic about the outlook for the economy. First timid signals pointing towards improving business sentiment in the South East were recorded in the *Business Survey Quarterly Snapshot* (March 2009) and the February Regional Intelligence Snapshot. Of the surveyed companies, two thirds expected the business climate to either remain stable or to improve over the next three months.

Businesses were also much more positive about the volume of output for the next three months, with some 73% of all businesses expecting their volume of output to either remain stable or improve. Furthermore, almost a third of all businesses surveyed now expected their volume of output to improve (net balance of +15%).

However, there are some differences across the South East counties (Figure 41). Companies based in Oxfordshire, Kent and East Sussex appeared generally more optimistic about their volume of output than companies based in the Thames Valley (Berkshire and Surrey). The net balance in Oxfordshire was +45%, +27% in Kent and +15% in East Sussex (the same as the South East average) and just +3% in Berkshire and +4% in Surrey. The likely reason for the lower level of optimism in the Thames Valley can be found in the structure of the economy and the fact that a large number of businesses in Berkshire and Surrey are exposed to global markets. With the prospect of global recession intensifying in the first quarter of 2009 it is perhaps less surprising that those businesses were less optimistic about the outlook.

Figure 41: Expected trends for volume of output



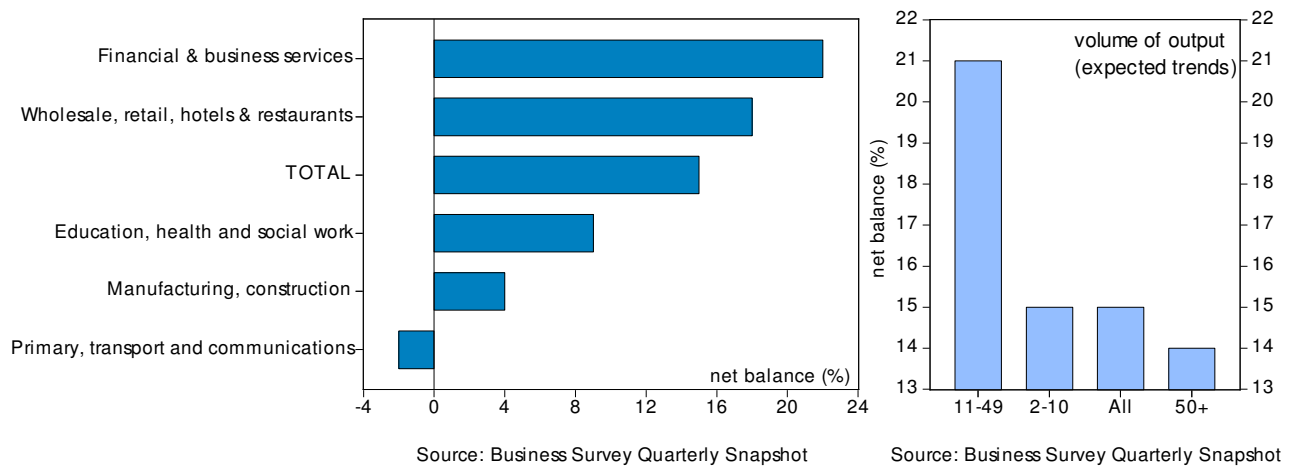
© Crown Copyright Ordnance Survey, 'Boundary Line' 2008, License No. 100029140
Produced by SEEDA Research & Economics © All rights reserved 2009

The latest survey from *EEF* showed that in quarter one of 2009 there was an increase in the rate of decline in the manufacturing sector in the South East.²⁹ However, the latest Quarterly Business Snapshot showed that the net balance for the expected volume of output has turned positive for all sectors in the South East except primary activities and transport and communications. Even in manufacturing and construction the net balance is now positive (+4%), but still well below the average (Figure 42).

²⁹ Engineering Employers Federation Business Trends, Quarter 1 2009

Businesses in the financial and business services sector are by far the most optimistic about the outlook (net balance of +22%), which is an encouraging sign given their contribution to South East GVA and employment. Companies in the wholesale, retail and hotels and catering sectors also expect their volume of output to improve.

Figure 42: Volume of output expected for the next three months



Those companies employing between 11 and 50 employees (a large majority of all businesses in the South East) were far more optimistic about the outlook (net balance of +21%). Larger companies (those employing 50+ people) were less optimistic. One of the factors behind the lower level of optimism for larger companies can probably be found in the emergence of the global recession and difficulties in accessing new finance for larger businesses that materialized in the first quarter of this year.

Largely anecdotal business intelligence reported through our *Regional Intelligence Snapshots for the South East* corroborates the trends reported in the latest *Business Survey Quarterly Snapshot*. Businesses across the region do now report a slowdown in the rate of decline and are more optimistic about the outlook, but equally realistic about the timing of the recovery. However, with continued uncertainty in the economy, businesses are thinking more creatively about how to survive the downturn. This includes adopting leaner working practices, exploring new areas of work and increasing online visibility. More recently anecdotal evidence shows that an increasing number of firms are now looking at investment opportunities.³⁰

Forecasters Confused?

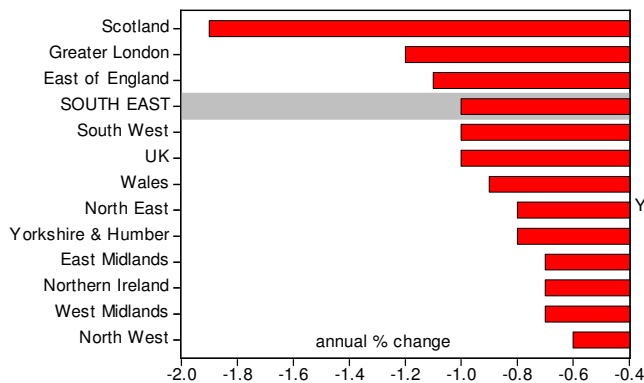
Have the fortunes of UK regions changed over the past six months? Last autumn the majority of independent forecasts expected the downturn to affect the service sector to a greater extent than other parts of the economy and the overall impact of the downturn to be relatively modest. In its autumn forecast Experian expected the South East economy to contract at a similar rate to the national average (-1%), and less than London and the East of England. The regions in the north were expected to perform much better with only a modest decline in output in the North West and Midlands (Figure 43).

However, the speed of global contraction and its impact on production activities (manufacturing in particular) have resulted in sharp revisions to forecasts for this year and beyond. In its latest spring forecast round (April 2009) Experian now expect the South East economy to contract by -3.2% this year (Figure 44). In its latest report Experian claims that recent survey evidence suggests that the South East economy has suffered less from the current recession than other regions and that "the worst of the downturn may now be behind it".³¹

³⁰ See SEEDA's Regional Intelligence snapshots available at: http://www.seeda.co.uk/Publications/Research_&_Economics/

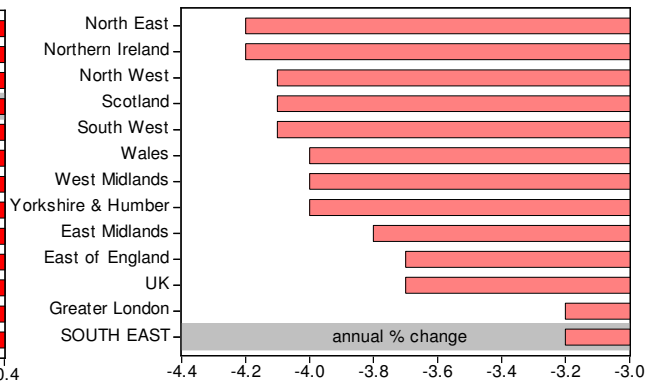
³¹ Experian (2009) South East: Milder recession than the UK, Regional Forecast Report, May 2009.

**Figure 43: GVA growth in 2009
UK regions (autumn forecasts)**



Source: Experian, Autumn 2008

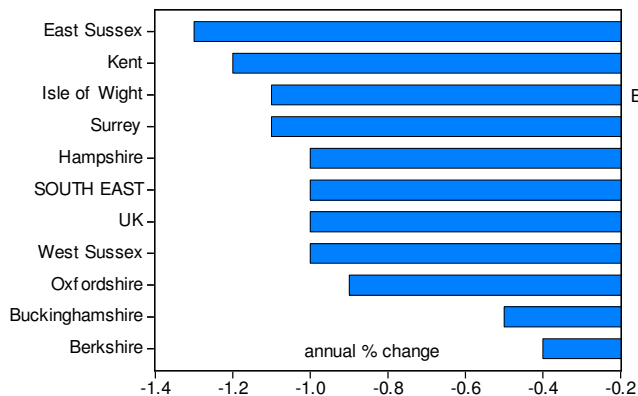
**Figure 44: GVA growth in 2009
UK regions (spring forecasts)**



Source: Experian, Autumn 2008

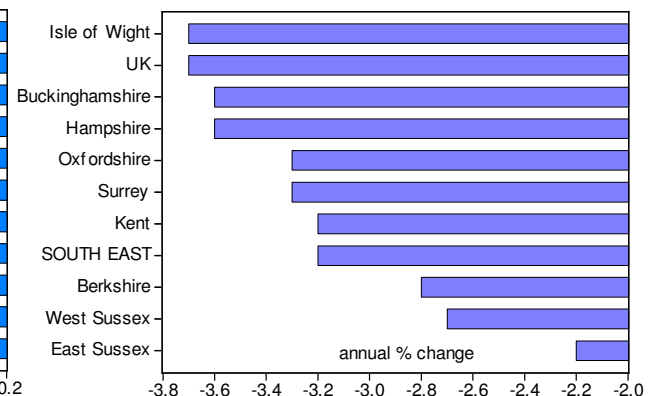
The South East's favourable industrial mix and the strength of its labour market relative to other regions are the factors behind the latest outlook for the region and are the factors that should aid the recovery. The South East and London are the only two regions expected to outperform the UK average (-3.8%) this year.

**Figure 45: GVA growth in 2009
Autumn forecasts**



Source: Experian, Autumn 2008

**Figure 46: GVA growth in 2009
Spring (April) forecasts**



Source: Experian, Spring 2009

Significant disparities in economic performance at the sub-regional level are projected this year and beyond. The disparities in economic performance within the South East are greater than the disparities in economic performance within any other UK region. The latest projections from Experian highlight the depth of the downturn within the South East, with some stark differences in the expected rates of growth between the South East counties this year. However, despite a sharp contraction in GVA almost all sub-regions in the South East are now expected to outperform the UK average this year (Figure 46). Furthermore, the latest estimates show that the fortunes of some counties have changed significantly over the past six months? In the autumn forecast round the East Sussex economy was expected to contract faster than any other county in the South East (Figure 45). The latest estimates show that the East Sussex economy is now expected to contract faster than last autumn but it is now expected to outperform the other counties in the South East.

Labour market prospects

The South East appears to be weathering the recession better than most other regions so far.

Overall, the South East labour market is faring better than that of most other regions. Unemployment rates have been consistently lower and employment rates consistently higher in the South East compared to the situation nationally, and the fall in employment and rise in unemployment have generally been slower than in the majority of other regions. This can largely be explained by the concentration of relatively high growth, high value industries in the region. There are early signs that the growth in both redundancy notifications and the number of JSA claimants may be starting to slow in the South East. Businesses recently surveyed in the South East are more optimistic about their employment levels for the next few months than they have been previously. In February's Snapshot survey, more than 8 out of 10 businesses in the South East said that they expect their employment levels to remain stable over the following three months, with less than one in ten expecting staff numbers to fall. This contrasts with the situation over the previous three months, where two out of ten businesses reported that their employment levels had dropped.³²

However, there are likely to be further rises in unemployment, even after the economy returns to growth. The labour market is a lagging indicator of the economic activity, and based on the experience of previous recessions, employment growth may not occur again until output growth is relatively strong. Following the recessions of the early 1980s and early 1990s, unemployment in the UK continued to rise even after the economy had returned to positive output growth. In the 1990s, it took until the third quarter of 1997 for the unemployment rate to fall below the level it had been in the quarter before the recession. After the recession of the 1980s, unemployment levels and rates did not return to their pre-recession levels before the start of the next recession.³³

The most vulnerable groups in the labour market are likely to be worst affected by the recession. The pool of unemployed people will become disproportionately concentrated on people with low skill levels or those with skills that have become obsolete as employers prioritise the retention of higher skilled or more valuable workers whom it is more costly to fire and replace. In addition, with fewer jobs available, more qualified people start to take jobs below their qualification level and those who would normally have taken these jobs are squeezed out.

The long-term prospects for the labour market in the South East are reasonably good, as long as the region can retain its strong skills base. Regardless of the depth of recession economies recover eventually and tend to return to their long-term growth path quite quickly. The recession may hasten structural change in the economy, but it does not in itself bring about that change. Although the impact of the current recession on employment levels is likely to be severe, its impact on the sectoral and occupational structure of employment is likely to be less dramatic once the recovery begins. If job losses within firms result in core skills being lost there is no guarantee that these can be replaced once the recovery starts (and it is costly to do so). Research suggests that skill shortage during the recovery phase can slow growth and contribute to future economic downturns.³⁴ Even during the current recession, with the size of the potential labour pool increasing due to redundancies, some employers have been reporting that they are still affected by labour and skills shortages, particularly in the manufacturing sector.³⁵ It is therefore important, where possible, for employers to safeguard their skills base during the current recession. This will ensure that the South East is in a strong position to take advantage of the recovery when it begins.

³² BMG Research on behalf of SEEDA, *RDA Business Survey Snapshot* (February 2009).

³³ ONS, *The impact of the recession on the labour market* (May 2009).

³⁴ Institute for Employment Studies and Institute for Employment Research, on behalf of SEEDA and the South East Learning and Skills Council, *The effect of the recession on South East sectors: Phase 1 report* (forthcoming, June 2009).

³⁵ Engineering Employers Federation (EEF South), May 2009.