Regional Intelligence Snapshot for the South East

June 2010

Summary of economic conditions

- The latest Purchasing Managers Index survey indicates that **business activity and levels of incoming new business increased in May for the eleventh consecutive month**, while **employment increased for the second month in a row**. Anecdotally, growth was often linked to strong export performance and manufacturing-led domestic demand.
- The EEF Business Trends survey for Q2 2010 also points towards **significantly improved performance for manufacturers** in the South East, with the vast majority of firms reporting improvements in business conditions. **Expectations for the next quarter are generally for a 'slower acceleration'** in output, orders and employment, with cashflow remaining stable.
- Labour market figures indicated continued improvement in May, with **claimant count unemployment falling** month-on-month by 10,000 and the **number of vacancies rising** by just over 10,000, a 25% increase. While some of this improvement will be due to seasonal factors, it led to the claimant to vacancy rate falling to 2.9 in May, from 4.0 in April. Redundancy notifications were 2,736 in June.
- According to the latest RICS Housing Market Survey from May, **house prices rose in the South East for the eleventh consecutive month**. The seasonally adjusted net balance of surveyors reporting price rises increased to its highest level since January 2010. Only London saw a higher balance of surveyors reporting increases, as has been the general trend over the past year.
- Data from BankSearch suggest that the number of business start-ups in the South East fell slightly in May, though levels are still higher than at any time since well before the recession began. On average, the number of business start-ups in 2010 so far has been 14% higher than the same period last year (January to May), and 10% higher than the same period in 2008.

Key challenges and hotspots

- While there has been some sustained improvement in labour market conditions in the South East, Experian forecasts suggest that **we may not see a return to pre-recession levels of employment until at least 2013**. Similarly, we may not see a full recovery in unemployment figures until 2014 – even then, we are unlikely to see a complete return to pre-recession lows.
- Results from the latest FSB survey (conducted in late May) show that as many firms in the South East reported being unsuccessful in their applications for credit as reported being successful, and around a quarter of firms with existing borrowing (e.g. loans and overdrafts) reported that the cost of this credit has increased over the past two months. Similarly, just under half of firms applying for new credit reported rises in the cost. While some increases might be expected, this remains an area of concern.
- Anecdotal evidence from Business Link suggests that finance can be particularly difficult to obtain for firms in sectors where banks have lost money during the recession and in sectors reliant on increases in disposable income for their recovery – notably hotels, restaurants and the property and retail sectors.
- However, the picture is somewhat mixed with regards to accessing finance, with Surrey Economic Partnership reporting that some SMEs are now finding it easier to raise credit.

Business specific intelligence / information on key questions

- The EEF Business Trends survey indicates that many manufacturing firms in the South East are expecting to increase output over the next few months, to cope with an expected further increase in new orders (though the level of increase is expected to be lower than in the past few months). Evidence from the most recent UK CBI Industrial Trends Survey suggests that nationally **over a third of manufacturers feel they have insufficient stocks of finished products**, which may also drive expected output and investment increases.
- Business Link South East reports that retail SMEs can be especially anxious at the moment as the next quarter's rent payment is now due.
- While it is still too early to know the full effects of the 2010 Emergency Budget on the South East economy, anecdotal evidence suggests it has generally been well-received by business representatives, particularly regarding the decreases in Corporation Tax.
- However, there are concerns the cut to **investment allowances may disproportionately affect smaller businesses** and those with **high capital expenditure and low profitability**, such as businesses in the hotels and catering sector. The FSB also warns that **the National Insurance break** for staff hired in new businesses outside London, the South East and the East may **displace economic activity from the South**.

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Sectoral Overview

Manufacturing

In line with other UK regions, the South East reported increased manufacturing output and orders in the last three months; a positive story given that the last time all regions experienced positive growth in total orders was in the second quarter of 2008. According to the latest EEF Business Trend Survey, the balance of responses for output in the SE & London was 52%, only behind the South West (61%) and East Midlands (53%), for the past 3 months. Likewise, the balance for total orders in the SE & London was 52%, only behind the South West (58%) and Yorkshire & Humber (56%). Looking forward, 41% of manufacturing firms in the SE & London expect an increase in total orders in the next three months, more than any other UK region.

The most recent EEF survey also shows that output balances have now turned positive for all UK manufacturing sectors compared with a more mixed picture in the first quarter of 2010. Strong output has been buoyed by strong order books: both domestic and export orders balances were positive for most sectors, suggesting that the recovery is fairly broad based. Particularly strong results were notable for electronics with a balance of 61% of companies reporting increased orders. This is mirrored in the South East, where business specific intelligence indicates that Siemens, headquartered in Surrey, and the London Development Agency have unveiled plans for a £30m development at the Royal Docks in Newham by early 2012, including a technology exhibition centre and base for 230 Siemens staff.

A similar picture is being seen in the UK chemicals sector where a net balance of 83% of companies reported increased orders in Q2 2010, as indicated in the latest EEF Survey. Besides, 36% of manufacturing firms reported in early June that their present stock of finished goods is less than adequate, as stated in the most recent UK CBI Industrial Trends Survey. This situation has led some South East companies to pick up their investment intentions. For example, business specific intelligence reported that Proteome Sciences of Cobham has raised £4.8m in a share placing to fund an investment in new equipment for its Biomarker Services division.

However, there are still some concerns around inflation in the South East, although to a lesser extent than the UK as a whole. According to the latest Purchasing Manager's Index (PMI), input prices still remains well above the long run trend in May, signalling further strong inflation, particularly from metals (i.e. steel), oil, paper and fuel. Whereas the rate of output prices inflation sharpened slightly in May but remained below the input prices trend due to ongoing price competition, as PMI's anecdotal evidence suggests.

Business and consumer services (including hospitality)

According to the latest information from BankSearch (May 2010), the legal, accountancy, consultancy and other business sector recorded the largest proportion of business starts ups in the South East, as indicated by businesses opening their first current account from bank's small business product range. This was followed by the recreational, personal & community services sector which accounted for 15% of business start ups in May 2010.

Business specific intelligence corroborates those results by indicating that, for instance, Brasserie Blanc is expanding into the pub market with the acquisition of two former Massive Group pubs in Teddington and Weybridge. However, a mixed picture is seen in the healthcare sector. On one hand, Priory Group of Leatherhead is to create up to 60 jobs at the new Charles Court nursing home due to open in Hereford this summer. On the other hand, Heatherwood & Wexham Park Hospitals NHS Foundation Trust is planning to shed 470 jobs at Heatherwood in Ascot and Wexham Park in Slough.

Retail & motor trade

According to the latest CBI – Distributive Trends Survey (June 2010), UK retail sales volumes decreased in the year to June although the fall was slower than had been expected along with orders placed upon suppliers, which fell at a similar rate. Yet both are expected to grow next month.

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However, this trend has not been mirrored in the South East where some companies are carrying out expansion plans. Business specific intelligence reports that John Lewis announced in late May that it plans to open a 'John Lewis at home' shop in Tunbridge Wells. Similarly, Hot Pickle Trading of Leatherhead is planning to open four pop-up shops selling Marmite-branded products between October and January. Besides, Waitrose, headquartered in Berkshire, is to create more than 100 new jobs at the former Somerfield store in Nailsea this August, as part of a multi-million pound refurbishment.

Motor sales volumes in the UK motor trades sector also fell strongly in June, despite expectations of being broadly flat, as reported by the latest CBI survey. Looking forward, sales are set to fall at a broadly similar rate next month. The picture in the South East seems to be quite the opposite as BMW, headquartered in Bracknell, is said to be considering a number of potential locations in the M1 corridor for a new 450,000 sq ft distribution centre.

Construction / property

According to the latest RICS UK Construction Market Survey (Q1 2010) the industry has showed the first increase in total workloads since Q1 2008. Surveyors in the South East (and London) reported a sharp turnaround in workloads, with the net balance swinging from -15 to +21. These results are corroborated by anecdotal evidence from the Kent County Council (Research & Intelligence) which suggests that the gloom is lifting from Kent's construction industry as more building projects get under way. The same picture is also seen in some other counties where business specific intelligence indicates that, for instance, Morgan Sindall, a construction and infrastructure firm, has been created from a merger of its separate divisions: Morgan Ashurst; Morgan Est and Morgan Professional Services. The company, based at Theale Lakes Business Park, now employs 4,800 people across the UK. In Hampshire, however, the building firm Laishley has gone into administration owing £11.8m.

In the property market, the latest results from the RICS UK Housing Market Survey (May 2010) show that London and the South East continued to see the fastest-rising prices, though the pace of increase has slowed. The proportion of surveyors reporting a rise over the past three months was, on balance, 35% compared to 45% the previous month.

Transport

Air, sea and inland transport industries seem to be performing relatively well in the South East in this month.

Business specific intelligence for the air transport sector indicates that the new Flybe daily passenger service from Manston (near Ramsgate) to Edinburgh has helped to create 20 new jobs at Kent International Airport with all the new recruits living locally. Sales are also improving in the sector. For instance, Hovertravel, the firm that runs the cross-Solent hovercraft, said it saw an increase of eight per cent in the number of passengers using its hovercraft services earlier this month, as a result of the Isle of Wight Festival. Some companies have already started to plan ahead for future sales. Cranleigh Freight Services, in Surrey, has embarked on a substantial expansion programme after purchasing nine new containment trailers. The firm, which currently operates more then 40 vehicles of varying sizes, made the investment in its fleet to cope with an increase in demand for air cargo.

Similarly, business specific intelligence for the sea transport sector indicates that, Moss Marine, a marine outfitter from Southampton, has landed a £750,000 deal to refurbish an offshore supply ship in Hull. In term of employment, up to 100 jobs will be created by the addition of a second ship on the Dover to Boulogne route this weekend, as indicated by Research & Intelligence from the Kent County Council.

Redundancy notifications

According to HR1 data, verified and checked using intelligence from SEEDA's Continuing Employment Support Service[1] the number of genuine redundancies relating to employees in the South East in the three months to June was 8,729.[2] This is higher than the trend seen in the latter part of 2009, when redundancies averaged around 6,000 per quarter.[3]

Slightly over two thirds (68%) of redundancies in this 3-month period were in the service sector (excluding retail). This is greater than the sector's share of total employment in the South East (60%). Similarly, manufacturing accounted for 14% of redundancies, while accounting for just 8% of employment. Construction accounted for a similar share of redundancies (10%) to its share of employment (9%). Finally, retail redundancies accounted for 8% of redundancies. However, it is important to note that this data only includes redundancies where 20 or more people were laid off – this may distort the figures as most businesses employ fewer staff than this. In particular, the retail sector may be underrepresented.

Public sector job losses make up a substantial proportion of redundancies, accounting for just over a third (34%) of total redundancies over the three months. Of these redundancies, 42% were in the health sector, with the remainder split equally between public administration and education. Well over a third (37%) of public sector redundancies occurred in Kent & Medway, with much of the rest split between Berkshire (21%), Hampshire and the Isle of Wight (17%) and East Sussex (11%).

The largest numbers of redundancies in the three months to June were recorded in Kent & Medway (23% of the South East total), over half of which were public sector redundancies (52%). Hampshire and the Isle of Wight accounted for 16% of redundancies in the South East – around half in the service sector and slightly under a third in construction. Despite accounting for less than 3% of the population of the South East, Milton Keynes was responsible for 13% of redundancies over this period. These were predominantly in retail (52%) and services (42%).

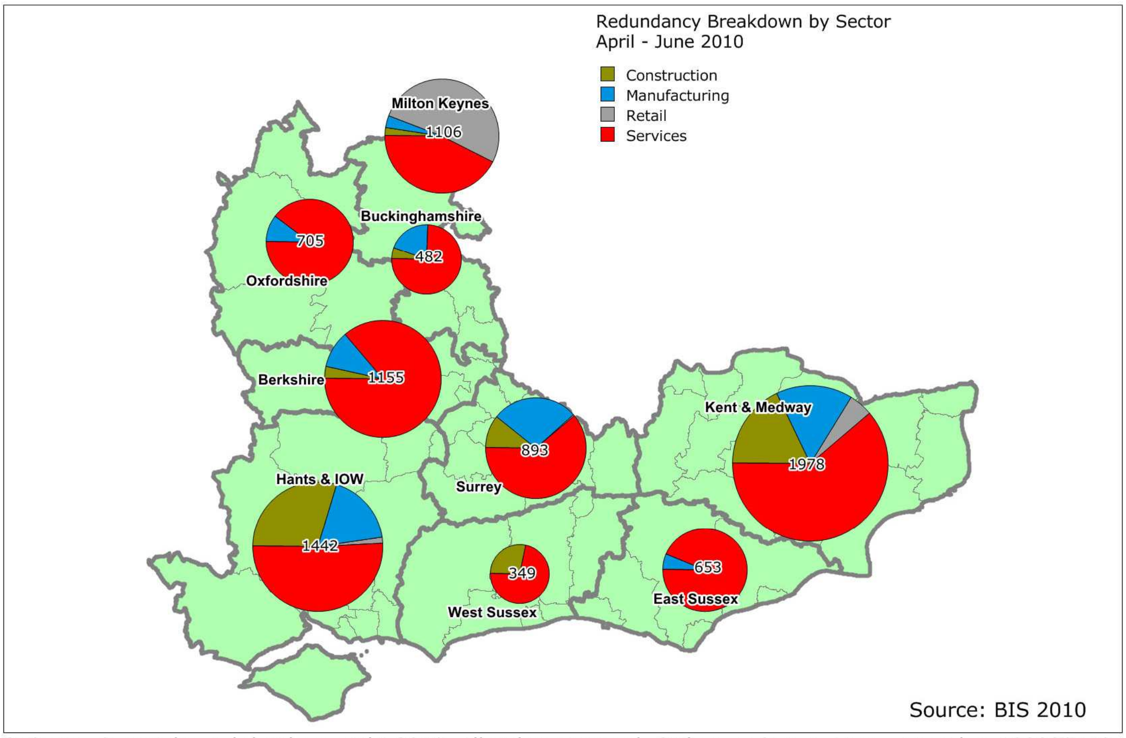
[1] Brokers from SEEDA's Continuing Employment Support Service exclude any notifications which relate to redundancies outside the South East or are simply renewals of contract rather than job losses. This helps to provide a more accurate picture of total large redundancies. The data also includes some smaller redundancies, picked up by the brokers, which fall below the threshold of 20 job losses required for a company to submit an HR1 form.

[2] Please note that this figure refers to the three-month period up to 23/06/2010.

[3] Please note that HR1 data collected before 2010 has not been verified by SEEDA – as such, the given figure for 2009 may include redundancies from outside the South East due to head offices (where redundancies are often recorded) being located in the South East.

Total redundancy notifications by sub-region, volume and sector, April - June 2010

(Source: HR1 data via BIS / Job Centre Plus – verified by South East Continuing Employment Support Service)



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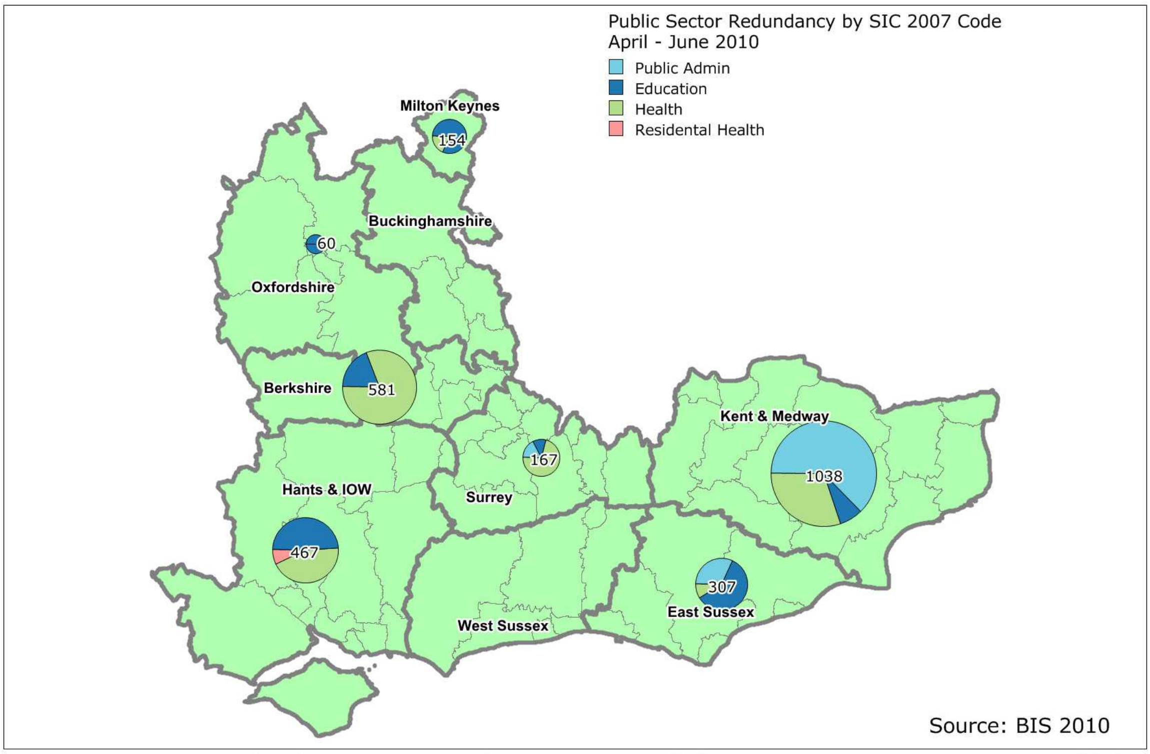
Public sector redundancy notifications by sub-region, volume and sector, April - June 2010

(Source: HR1 data via BIS / Job Centre Plus – verified by South East Continuing Employment Support Service)



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