

## Summary of economic conditions

- The latest South East Purchasing Managers Index (PMI) survey indicates that the **recovery in private sector output in the South East gained further momentum towards the end of 2010**, as expansion in business activity and new business accelerated to a five-month high in November. However, **heavy snow and the coldest December temperatures for over 100 years have hit businesses in December**.
- Across the country the **service sector suffered its first fall in activity in almost two years** in December, according to national PMI. Those **businesses most affected in the South East** were retailers, transport and hotels & caterers.
- Whilst overall activity dropped, **new business orders were less badly hit**, suggesting that weather was the overriding factor. However, **anecdotal evidence suggests that domestic demand has weakened** as households and businesses continued to rein in their spending.
- The latest official data from ONS shows that **employment in the South East in the three months to October increased by 15,000** to 4.17 million and the latest **PMI survey points to a modest expansion** in private sector employment in the region in November. According to the latest BCM survey for Q4, nationally, firms expect to hire around 1.2% more employees on average over the next 12 months.
- In the three months to October **unemployment in the region increased** by 3,000 to 276,000, but **claimant count unemployment in November fell** by 250 to 127,200 compared to October 2010 (some 27,500 lower than a year ago). The **unemployment rate in the South East remained unchanged** at 6.2% in the three months to October, which after the South West is the second lowest in the country. The **number of vacancies notified to Job Centre Plus dropped** by more than 13,500 between October and November.
- The latest report from ICAEW / Grant Thornton indicates that **business confidence in the South East has continued to fall in Q4 2010**. The latest fall in confidence makes the South East the least confident UK region. However, **manufacturers in the South East are more optimistic about the next three months than on average nationally**, according to the latest EEF Manufacturing outlook (December 2010).

## Key challenges and hotspots

- **Inflation remains above the long-run survey average**, according to the latest South East PMI. **Input price inflation accelerated for the fourth month running to reach a twenty-six month high**. However, according to the latest BCM survey, firms are only expecting to raise their selling prices by 0.8% over the next 12 months. Expected salary growth for the coming year remains well below pre-recession levels – **average salaries are expected to rise by 1.4%, well below the expected rate of inflation**.
- There is some evidence of **rising pressure on SMEs** as the relationship between companies and banks was “breaking down” amid increasing demands for guarantees from business owners before granting credit according to a report from ICAEW and Ipsos MORI.
- Activity in the **South East housing market continued to slow during November**, with house prices slipping further. According to the latest RICS UK Housing Market Survey. Lack of demand from buyers continues to suppress the market, and **new buyer enquiries fell for the ninth consecutive month**.
- The latest data from the Home Builders Federation shows that **planning permissions for new housing dropped** in the latter half of 2010 which **could threaten to exacerbate** existing significant shortfalls in levels of new house building in many parts of the country.

## Business specific intelligence / information on key questions

- According to Kent Economic Board, the **adverse weather conditions before Christmas have had significant impact on sales** ranging from -30% to -70%, depending on the nature of the business activity. In Surrey **on average 40% of staff were able to make it to their place of work** during the snow, according to Surrey Chambers of Commerce. Research from global insurer RSA showed that **business disruption caused by bad weather** in the run-up to Christmas **would equate to £139.8m lost per day in the South East**.
- There is also some evidence that the **VAT increase brought forward "big ticket" item sales in late December** – raising concerns that price rises and faltering consumer confidence regarding job security will result in a downturn in sales during the early part of 2011. **Confidence in the retail & wholesale sector** could reach negative territory by Q1 2011, according to the latest BCM survey.
- In the South East **7,104 new businesses started up in November 2010**, 115 less than the previous month, according to BankSearch. However, 14.7% more businesses started up in South East during the first eleven months of this year compared to the same period last year.

## Annex - Sectoral Overview

### Manufacturing

According to the latest EEF Manufacturing Outlook from December 2010, nationally a balance of 33% report total output to have grown in the past three months, but a much lower proportion, on balance 12% expect output to improve in the next three months. Companies in the South East and London are more positive about the outlook than in the rest of the country. On balance 42% reported growing output in the previous three months, 30% of respondents expect total orders to increase (11% nationally), whilst 20% expect their output to increase (12% nationally). Some 12% expect to increase employment, in line with the national average.

A further decline in business confidence in the region has also been recorded by the latest ICEAW / Grant Thornton BCM survey. According to this survey, confidence in the manufacturing & engineering sector dropped from 34 in Q3 to 16 in Q4 2010 (21 to 11 for all sectors on average).

According to Experian, output in the engineering sector in the South East has expanded at a robust rate of 7.4% in 2010. However, for 2011 the forecasting arm of Experian predicts relatively modest growth in the engineering sector (1.7%) and a slightly stronger growth in the manufacturing sector, at 2.2%.

The picture is still quite mixed across the South East manufacturing industries, as business specific intelligence suggests.

The renewable energy sector has witnessed marked activity with the announcement of plans by **Kronos Solar** for a 5MW solar energy farm at Wellow on the Isle of Wight. **Eco Environments** is also expanding nationwide with the opening of a new office in Oxfordshire. With £2 million investment, **Engensa** is funding the installation of solar panels in Windsor and Maidenhead.

In response to the government's defence review up to 1,350 jobs are to be shed by **BAe Systems**. This includes 214 at Farnborough in Hampshire due to the early withdrawal from service of the Harrier fleet of aircraft.

A number of manufacturing firms went in administration at the end of 2010 including **EP Finishing (Eurogloss Print Finishers)** in Dartford and **Mailcom (UK)** with the transfer of 30 staff from Milton Keynes to Leicester. The acquisition of **Nampak Cartons** and **Nampak Healthcare** by US based **Platinum Equity** has affected up to 600 staff at packaging sites in Leeds and Gillingham and 464 staff at healthcare sites in sites including Portsmouth.

### Construction

The coldest December temperatures for over 100 years have hit businesses activity in this sector December. The latest ICEAW / Grant Thornton UK BCM reports that confidence in the construction sector remains low, the index dropped slightly from 7.6% in Q3 to 6.3% in Q4. Despite the good performance of this sector in Q2 and Q3 (as suggested by the UK GDP figures for 2010) confidence in the construction sector lagged behind the UK average for 5 consecutive quarters, according to the BCM survey. Property sector confidence fell from 25.0 to 8.3, reflecting continuing weakness in the UK housing market.

The latest report from Bank of England shows that demand for mortgages amongst potential homebuyers has suffered a "marked" slide to its lowest level since the depths of the banking crisis. The report also shows that lenders expect demand for mortgages to fall farther in the first three months of 2011.

The latest estimates from Experian show that construction sector in the region has grown by a very robust 12.2% and it (still) remains optimistic about the outlook for 2011 (7.8%).

**Galliford Try** is seeking a suitable location in Oxford for a new regional headquarters for 100 staff at its Linden Homes business. Up to 100 jobs could also be transferred to Reading and Southampton with new offices for **Raglan Housing Association**.

Investment in new serviced offices continues with the opening of sites across the UK including Reading and Slough by **Prospect Business Centres** with an investment of £18 million. The development of a maritime and marine innovation park by the **South East England Development Agency** at a former Vosper Thorneycroft site in Southampton could create up to 700 jobs.

### Retail, motor trade & wholesale

Among those sectors likely to be worst affected by the heavy snow are retailers, because of the snow's impact on supply chains and its disruption to Christmas shopping. According to the latest ICEAW / Grant Thornton UK BCM survey, confidence in the Retail & Wholesale sector fell by 9.1 points to 1.7 in Q4. This probably reflects concern among retailers about whether household demand will remain robust in an era of benefit cuts, relatively slow income growth and rising VAT. Confidence in the Retail & Wholesale sector could reach negative territory by Q1 2011, according to the BCM survey.

The latest CBI Distributive Trends Survey (November 2010) Retailers anticipate less rapid sales and orders growth in January. Meanwhile, wholesalers have faced more challenging conditions, and sales fell in the year to December. Motor traders' fortunes continue to be rather volatile, and they posted a return to moderate growth this month while expecting a fall in sales in the year to January.

The latest independent forecast by Experian show total output growth in the South East in this sector of around 3.5% in 2010. Experian now expects growth of 2.3% in 2011.

A number of retail companies are planning to expand their operations across the South East. **Lidl** is planning to build a large distribution centre along the M271 on the edge of Southampton with the creation of up to 300 jobs and a new supermarket near Maidenhead. **Waitrose** also plan to open new outlets across the UK in 2011. The creation of 39 new stores, some of which are likely to be in the South East, will create up to 3,000 jobs. For example, 40 jobs will be created with the opening of a new Waitrose store in Chippenham in early 2011. Other supermarket planning expansions include **Asda** who are looking to build a 45,000 sq ft superstore at Newport on the Isle of Wight with the creation of up to 450 jobs.

Contrary to the relative volatile nature of the motor retail sector, **Chrysler UK** is planning to expand their sales network to 70 sites by the end of 2012. Whilst **BMW** saw UK sales rise in November of the Cowley built Mini.

Retailers consolidating and transfer work include **Macmillan Distribution** which, as result of transferring work to Swansea, is closing its book warehouse in Basingstoke in June with the loss of up to 35 jobs.

### Business services & finance

As indicated in the latest national PMI there was a slump in activity in this sector in December, for the first time in 20 months. However, whilst overall activity dropped, **new business orders were less badly hit**, suggesting that weather was the overriding factor. However, financial services (less likely to be affected by bad weather) have now seen two months of falling activity. Given that financial services tend to be a leading indicator of other sectors this may suggest a broader slowdown ahead.

The latest BCM survey shows that business confidence in the banking, finance and insurance sector has held up well in the latest quarter of 2010 (the index increased from 21 to 26). Business confidence in the business service sector has held up well too, though the index dropped slightly, from 21 to 20.

However, the latest CBI Service sector survey (29<sup>th</sup> November 2010) reports that service sector optimism was lower than three months ago. This was particularly evident in consumer services, where optimism fell for the first time since February last year, and where business volumes fell unexpectedly.

Experian expect the finance and business service sector in the South East to expand by around 2.7% in 2011 (above the regional average of 2.4%).

The opening of the **International Space Innovation Centre (ISIC)** on the Harwell campus is positive news for the region, as it is expected to create up to 700 jobs with overall investment of £40 million. Alongside ISIC, the **European Space Agency** will set up a business incubator centre, offering technical expertise and business support for up to 10 start-up businesses a year.

The announcement by **Royal Mail** of the development of a new sorting centre Rochester in Kent & Medway will result in the loss of 400 jobs from sorting offices in Canterbury, Dartford, Tonbridge and Maidstone. The closure of 93 magistrates' courts and 49 county courts across England and Wales by the Ministry of Justice will also affect the South East.

## Regional Intelligence Snapshot for the South East (cont'd)

### Redundancy notifications<sup>1</sup>

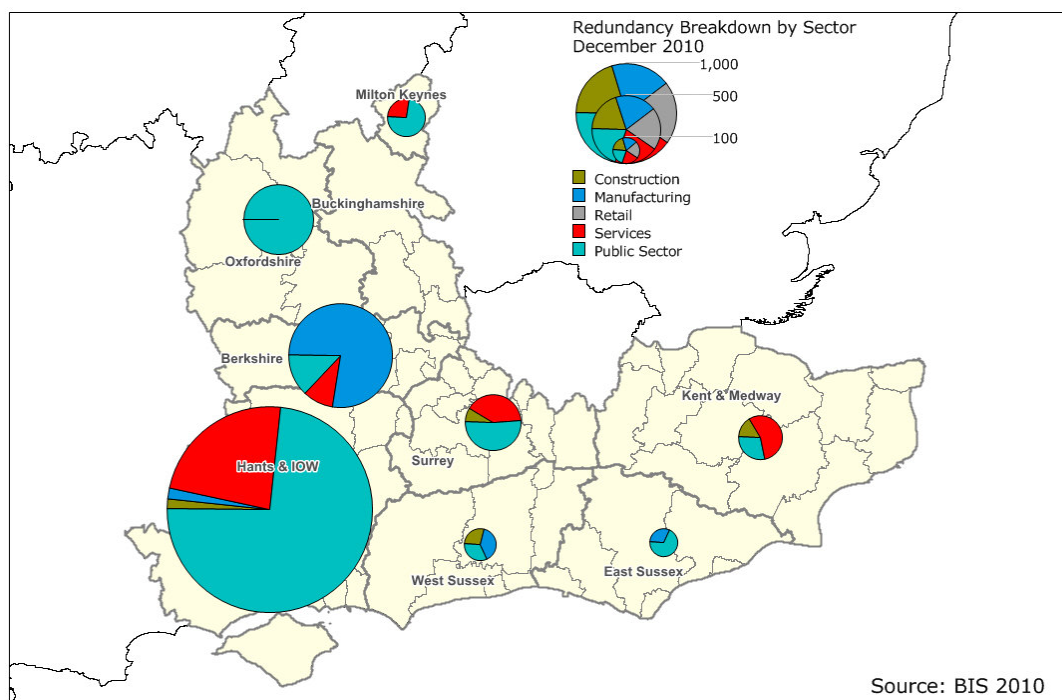
The number of redundancy notifications in December 2010 was 4,472 compared to the 4,084 reported in November.

The public sector continues to be hardest hit, with over 48% of all notifications in December. The service sector as a whole (including the public sector) accounted for over 75% of all potential redundancies. The share of redundancy notifications attributed to manufacturing was 22%; and construction 2%. There were no reported potential redundancies affecting at least 20 employees in retail.

For the third month in a row, Hampshire and the Isle of Wight had the greater proportion of staff at risk of redundancy (42% of all notifications) and the actual number of notifications in this area doubled in December. The number of potential redundancies also increased significantly in Berkshire, which accounted for 24% of all notifications. The areas that saw a decrease were Surrey, East Sussex, Buckinghamshire and West Sussex. Buckinghamshire reported no redundancy notifications in December.

All areas, with the exception of Buckinghamshire were affected by potential redundancies in the public sector. Over half of the potential redundancies in East Sussex, Hampshire and Isle of Wight, Milton Keynes, Oxfordshire and Surrey were in the public sector. However, over two-thirds of the notifications in Berkshire were in the manufacturing sector.

**Redundancy notifications by sub-region, volume and sector  
December 2010<sup>2</sup> (Source: HR1 data via BIS)**



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<sup>1</sup> Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2010/2011; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters. Please note: the HR1 data received from BIS is no longer verified by the Continuing Employment Support Service (CESS). Brokers from CESS excluded any notifications which related to redundancies outside the South East or were simply renewals of contract rather than job losses. Therefore the data may now include national figures and those notified as a result of contract changes.

<sup>2</sup> Please note: 'December' data refers to a one-month period from 20/11/2010 to 19/12/2010.