

Summary of economic conditions

- **After six consecutive quarters of falling GDP, the UK came out of recession in the final quarter of 2009.** The latest survey evidence from the South East PMI suggests that recovery is also underway in the South East: business activity in the South East rose for the sixth consecutive month, and increased strongly in December.
- **Companies in the South East are cautiously optimistic that early signs of economic recovery will consolidate in the first half of 2010,** according to a Lloyds Survey of Business Opinions and Trends from December 2009. The survey's overall UK business confidence index, which tracks firms' expectations for sales, orders and profits over the coming six months, rose strongly in the second half of 2009, from -3% to 16%, with South East businesses being slightly ahead of the national average (17%). However, although companies are much more positive about economic prospects, more than half said that the **greatest threat to their business was weaker domestic demand.**
- **Strong growth in production and new orders in the manufacturing sector** was recorded in the January UK PMI survey, driven by a surge in new export orders. However, there is uncertainty about the strength of the recovery, with fears of a 'double-dip' downturn as two of the largest exporters, Germany and Japan, are expected to have recorded flat growth in quarter 4 2009.
- **The labour market in the South East continues to stabilise.** Employment increased by 1,000 in the 3 months to November, although unemployment was up by 10,000 (partly due to an increase in people moving out of inactivity). The claimant count fell again, by more than 2,000 between November and December, to 152,600.

Key challenges and hotspots

- There is evidence of an **increase in the number of people working part-time or shorter hours** as companies adopt more flexible staffing policies in order to avoid redundancies. The number of full-time employees in the South East was 3% lower in Q3 2009 compared to the same quarter in 2008, while there were over 22,000 more people working part-time (a 2% increase on the year). The number of people employed on permanent contracts in the region fell by more than 93,000 in the same period.
- **Pressures on cash flow and access to finance continue to be challenging, but are more an issue for construction and manufacturing companies:** according to the South East Business Monitor, **cash flow** is still a concern for 39% of companies, whilst construction companies appear more affected than the average (56%). **Access to finance** continues to be an issue for 26% of SMEs, and manufacturers are significantly more likely to face barriers in accessing finance (35%). This is corroborated by the latest Lloyds Survey of Business Opinions and Trends, reporting that cash flow problems, mainly due to late payments by customers and a fall in demand, remain an issue for about 29% of companies in the South East.
- Not surprisingly then, when asked to name their single most pressing challenge, **ensuring prompt payment is the highest priority for firms** in the South East, second to finding new customers, according to the South East Business Monitor.

Business specific intelligence / information on key questions

- Anecdotal evidence suggests that **Christmas and New Year trading was strong for many high street retailers in the South East.** In Reading, footfall was down only 2% on the previous year in December, despite the heavy snow. Footwear and catering outlets performed particularly strongly, according to Berkshire Economic Strategy Board.
- The latest Business Link South East Business Monitor reports that two thirds of SMEs in the South East are confident that they are well placed to take advantage of economic recovery, which rises to three quarters of manufacturers. **Actions to prepare for recovery are focussed on changing marketing strategies and suppliers, offering discounts/sales and revising business plans.**
- **Manufacturing employment appears to have stabilised,** according to the November Business Link South East Business Monitor: 81% of the surveyed manufacturers think their staffing levels will remain steady in the next 12 months, compared to 75% in all other sectors.

Sectoral Overview

Manufacturing

The latest figures from the Office for National Statistics show that the UK officially came out of recession in the last quarter of 2009, although at a marginal growth rate. The UK GDP recorded a positive growth rate of 0.1% in Q4 2009, after 6 consecutive quarters of negative growth. Manufacturing output also increased by 0.4% for the same period and was essentially driven by two main factors of particular relevance in the South East. On the one hand, the current depreciation of sterling has further benefited exporters of manufacturing goods, of which the South East is the largest exporting region in the UK. On the other hand, the car scrappage scheme that has been implemented by the government over the past few months gave an additional boost to the automotive industry, which has a strong presence in the South East through the BMW Mini factory in Oxford, BAe Systems in Farnborough, Unipart in Oxford and Rolls Royce in Chichester, amongst others.

The most recent UK Purchasing Managers Index (PMI) figures for January show strong growth in production and new orders in the manufacturing sector, with employment rising for the first time since April 2008. The main driver of growth was a surge in export orders, as improving global market conditions and the ongoing weakness of sterling led to a sharp rise in demand in key overseas markets, including the eurozone and the US. This is corroborated by a recent report from Thomas Eggar, which focuses on the 100 largest manufacturers in the South East, and found that sales have grown by 12% on average across a range of industries (from traditional manufacturing – pharmaceutical and automotive - to defence and nanotechnology suppliers). This is of particular relevance for Surrey as the county is home to over a quarter of the top 100 manufacturers in the South East. However, the January/March 2010 Surrey Business Barometer's preliminary estimates indicate that for many of Surrey's businesses, there are still many challenges ahead and no sign yet of the universal 'green shoots of recovery' as the UK comes out of recession.

Business specific intelligence indicates that the space industry in the South East continues to be a strategic priority for the UK government as demonstrated with the establishment of a new UK Space Agency by the end of 2009. In addition to the £456m TV satellite contract won by **Astrium** in December 2009, **Surrey Satellite Technology (SSTL)** has been awarded part of a £500m contract to build a new global satellite navigation system. The company, based in Guildford, will now begin the process of putting together 14 satellites to orbit the Earth after a successful joint bid with the German firm OHB.

In more negative news, **Edwards** is to shed a further 220 of the 1,000 jobs at its vacuum technology plant in West Sussex, in order to transfer some production to South Korea and the Czech Republic.

Construction / property

The latest figures from the Office for National Statistics showed flat output growth for the construction sector in the last quarter of 2009. Furthermore, construction output in the South East is expected to grow by less than 1% in 2010, according to Experian's Autumn 2009 forecasts. In any case, the prospects for the construction sector in the South East are more encouraging than the forecasts for the UK as a whole, which is expected to record a negative growth rate in the coming year.

Anecdotal evidence from Surrey Economic Partnership suggests that firms reliant on public sector contracts, particularly in the manufacturing and construction sectors, are concerned about anticipated further cuts in government spending. Business specific intelligence shows that **PJ Brown** has gone into administration through Vantis Business Recovery Services, with the loss of 150 jobs at its Crawley-based civil engineering and haulage business.

The latest Halifax house price index from quarter 4 2009 shows that house prices have risen for 3 consecutive quarters (growth on previous quarter). In quarter 4 2009 house prices in the region

were around 5% higher than in the same quarter a year ago. However, to some extent this was fuelled by a shortage of stock in the property market, which is partly a result of reduced construction activity.

Retail

The UK economy's recovery in the last quarter of 2009, although marginal (0.1%), is said to have been mostly driven by the impact of increased motor and retail trade within the broader Distribution sector, which grew by 0.4% between Q3 2009 and Q4 2009.

Christmas and New Year trading appears to have been strong for many high street retailers across the South East. Anecdotal evidence indicates that in Reading, for instance, some retailers fared better than others – in particular footwear and catering performed very strongly over the entire Christmas and New Year period. Indeed, Berkshire Economic Strategy Board reports that Reading saw, on average, only a 2% annual fall in footfall in December 2009 in spite of the snowfall. The same county also recorded an average vacancy rate of 2.3% in December 2009, far lower than one year earlier, when the average vacancy rate was 10.5%.

In recent positive news for the retail sector in the South East, **Domino's Pizza** has created more than 25 jobs with the opening of their new branch at Liberty Quays, Medway. **Sportsdirect.com** opened a store in Maidenhead High Street during January and 30 employees have been recruited to work at various levels in the new shop. **Wilkinson**, the household goods company, has opened a new store also in Maidenhead by taking over the former Woolworths site last year and has now employed 90 local residents to work there.

Transport

There is a mixed picture in the transport sector across the South East. On the one hand, **National Rail** has been given the go-ahead to build a new national centre in Milton Keynes which will create 3,000 jobs, according to Network Rail. The building, scheduled to open in 2012, will be constructed on the site of the former National Hockey stadium, which is currently being demolished. Additionally, **Chiltern Railways** is planning to set up a new rail route between London and Oxford by 2013, as part of a £250m investment in its services. On the other hand, **Southampton Cargo Handling** is to shed an unspecified number of the 80 jobs in its stevedoring business, following the transfer of a contract to handle Carnival cruises to Solent Stevedores. Following the same trend, **P&O Ferries** is to withdraw a ferry service from Portsmouth to Spain in September, casting doubt on the future of 252 jobs.

Energy

In the midst of the UK economic recovery, by the end of 2009, the energy sector showed the worst performance compared to any other industry. Output in the electricity, gas and water supply sector fell by -3.3% in Q4 2009 compared to the same period in the previous year, when it is usually expected to grow given the colder weather conditions. Rising oil and gas prices and falling output in the energy sector over recent quarters have encouraged the search for alternative sources of energy, particularly in the South East. For instance, **E.ON** has been awarded the licence for the offshore wind farm on Hastings bank, between Brighton and Newhaven. The Hastings wind farm will be made up of 100 turbines which together could provide up to 500 MW of electricity – enough power for 250,000 households.

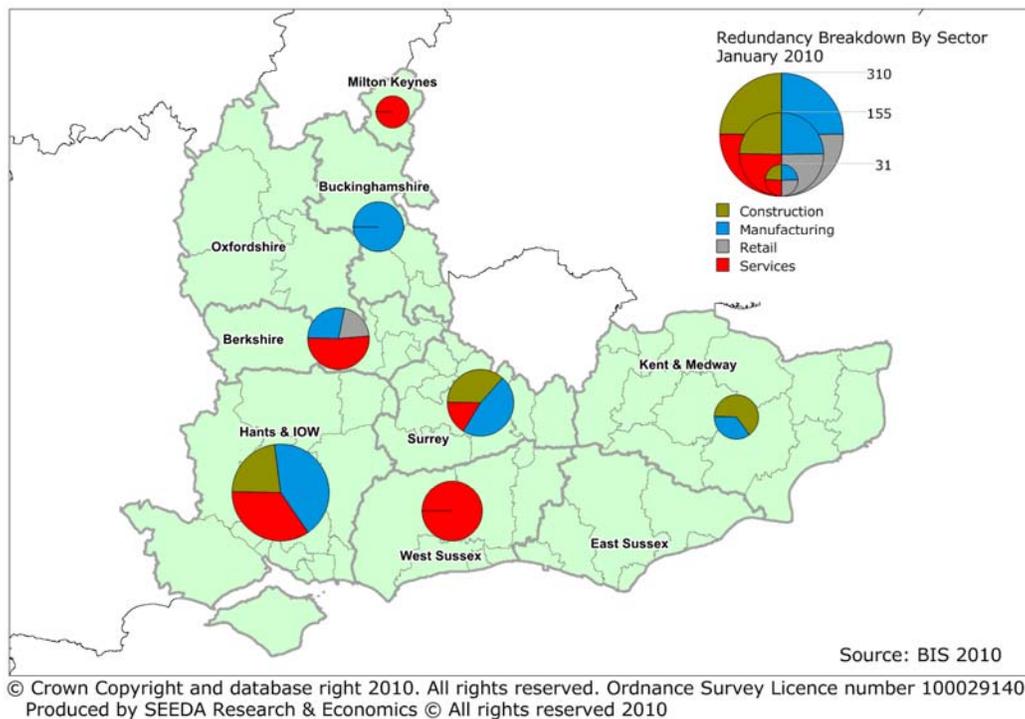
Tourism

The tourism industry in the South East has benefited from a growth in holidaying at home. Many attractions saw visitor numbers increase by as much as 50% over the summer. The latest figures from the UK Tourism Survey show that in the first nine months of 2009, the number of overnight trips made by UK residents to the South East increased by 13%, while spend increased by 9%.

Nationally, overnight domestic trips during the first nine months of 2009 increased by 7% and spend increased by 5%.

Redundancy Notifications: According to HR1 data there was another fall in the number of redundancy notifications between December 2009 and January 2010. Total notifications fell from approximately 1,300 in December to 980 in January. This is the lowest number of notifications for more than a year, and represents a drop of 84% compared to the 6,100 redundancies recorded a year earlier, in January 2009¹.

**Redundancy notifications by sub-region, volume and sector
January 2010 (Source: HR1 data via BERR / Job Centre Plus)**



The manufacturing and service sectors (other than retail) each accounted for more than one third of all redundancy notifications in January. In the case of services, this represents a smaller share of total notifications than in recent months, while redundancies in the manufacturing sector are now accounting for a larger share of the total than they have done for more than a year. Very few large redundancy notifications were announced in the retail sector this month (less than 3% of all notifications).

The largest number of redundancy notifications (more than 300) was recorded in Hampshire and the Isle of Wight in January. Significant numbers of notifications were also made in Surrey, West Sussex and Berkshire. For the second month in a row, there were no large redundancy notifications in East Sussex. The construction sector continues to account for the majority of notifications in Kent and Medway, while in Milton Keynes and West Sussex all large redundancies in January were in the service sector.

¹ Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2009; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters.