

Summary of economic conditions

- The latest evidence from businesses and business representative organisations points to a **further weakening of economic conditions** in the South East.
- The **volume of output and volume of new orders has continued to deteriorate**. EEF reports further significant weakening in volume of output and new orders (domestic orders in particular) in manufacturing.
- December has seen a large **increase in the number of redundancies** in the South East. **Employment levels are lower** than in November, and the **weakening labour market is subduing labour costs**. Anecdotal evidence shows that in those areas with tight labour markets **businesses in some sectors are increasingly trying to retain skilled employees by seeking to reduce the working week** rather than make redundancies.
- **Severe competition** for new business has led to an increasing **use of heavy discounting**, which is pushing down **consumer prices and reducing profit margins**.
- **Cashflow positions have worsened** almost across the board, with **investment (including R&D investment) remaining mostly flat**. However, the Berkshire Economic Strategy Board reports that R&D spending in the county has increased, particularly amongst IT companies.

Key challenges and hotspots

- **Scarcity of credit and cost of credit remain primary concerns** for most businesses and in particular SMEs. The problem has been exacerbated by some credit insurers now refusing to insure some businesses.
- Falling profit margins and further worsening of cashflow positions are pushing businesses to increasingly **conserve costs** by cutting staff, reducing or cancelling capital expenditure or deferring expansion plans.
- **Companies** that are still doing well, and would normally expect to weather the recession, **are increasingly concerned about the ability of companies in their supply chain to withstand the current economic pressures**.
- There is **increasing evidence of destocking**, whilst **ordering on a just-in-time basis is on the increase**.

Business specific intelligence / information on key questions

- Manufacturing, construction and financial services were the sectors most affected in the early phase of the downturn. The **overall picture is still mixed but now generally deteriorating across a broad range of sectors**. The prospects have worsened for transport, telecommunications and retail trade. The **voluntary sector** is faced with the dual pressure of increasing demand for their services and a fall in funding (see the Sectoral Overview for details).

Sectoral Overview

Although businesses across all sectors are increasingly being affected by the downturn in economic activity, manufacturing, telecommunications, transport and construction were facing the toughest trading conditions last month.

Manufacturing: faced with falling domestic and export demand the sector is facing tough trading conditions. Falling volume of output in manufacturing was largely driven by weakness in the electronics sector. Civil engineering is a sector that is performing better - orders are holding up and there is a fair degree of optimism that companies will weather the storm ahead.

EEF's latest business trends survey showed manufacturing activity had deteriorated significantly over the last three months. Both overall output and orders balances turned negative, with the former the lowest in more than five years. Furthermore, given the marked deterioration in activity in the past three months, and the fact that the economy is set to contract further next year, firms are pessimistic about the next quarter.

Business specific intelligence shows that **Rolls-Royce Motors** is to shed 40 of the 200 temporary jobs at its luxury car factory in West Sussex. **Honda** is planning to close or sell its Brackley-based Formula One motor racing team by the end of the year, with the loss of up to 800 jobs. Engineering firm **Doncasters Trucast** shed 50 of the 250 jobs at its site at Ryde on the Isle of Wight. On the positive side, however, the contact lens manufacturer **CooperVision** has opened a new distribution warehouse in Fareham, which will employ 500 people from the local area.

Retail: although footfall in some shopping centres in December (eg. Reading and Southampton) kept pace with the levels in December 2007, much of the sector is still struggling with falling sales – particularly stores selling household goods and smaller shops which haven't been able to compete with the heavy discounts offered by larger stores. There have been significant redundancies in this sector (most notably Woolworths and Zavvi), with more expected to follow early in 2009. Anecdotal evidence suggests that increasingly temporary contracts are being used instead of permanent.

Business specific intelligence shows that **Allied Carpets**, the chain of 220 flooring stores with 1,600 staff in the South East, has appointed Lazard to find a buyer. In Southampton, 69 staff from builders' merchants **Trade Depot** is to be axed after bosses decided to close the store down because of £5 million losses. However, **Aldi**, the discount supermarket, is to create about 500 jobs in Kent over the next few years, including the opening of a £40m depot on the Isle of Sheppey and new stores in Strood and Maidstone. Also, **Hammerson** has submitted plans for the £100m third phase of the West Quay shopping centre scheme in Southampton, including 200,000 sq ft of retail space.

Construction: remains depressed with continuing evidence of slowing order books. No open market values exist making valuations virtually impossible. While in some areas small maintenance work has declined significantly, some work is continuing on large projects which were approved before the downturn. Many large infrastructure projects are on hold. The long term strategy for many is to obtain planning permissions and then to wait. The number of new projects has dropped significantly, however. In Milton Keynes, there has been a significant reduction in housing starts on site against target (720 versus a target of 1,700), and land acquisitions have all but dried up. In the South East, **MJ Gleeson** is to cut the workforce in its housebuilding and property development business from 224 to 50.

Business services: Accountants are faring relatively well, as businesses seek advice during tough economic times. Depending on their client base, other business services firms are struggling. Any

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

company dealing with clients in estate agency, advertising, or retail of non-essential goods is more likely to be facing difficulties. Legal firms continue to see a drop in conveyancing business, while a number of financial advisors dealing mainly with mortgages have gone out of business in Portsmouth.

Financial services: Significant redundancies have taken place already, and more are expected in the New Year. Surrey Economic Partnership predicts a surge of job losses, not just amongst London commuters but in Surrey-based firms. As many as 3,800 Berkshire residents currently employed in the City could lose their jobs early in 2009.

Tourism: Bookings are up at campsites, holiday camps and budget B&Bs, but elsewhere potential customers are asking for substantial discounts. **Butlins** is investing £23 million in a new hotel on its Bognor Regis site, with the creation of 200 jobs. The boost from the lower value of the pound that could lead to increased interest from overseas visitors and keep British tourists at home has not yet become reality in all areas. According to the latest intelligence received, **British Airways** is to shed more than 100 ground operations jobs at Gatwick Airport next year and reduce the number of summer flights by 15%.

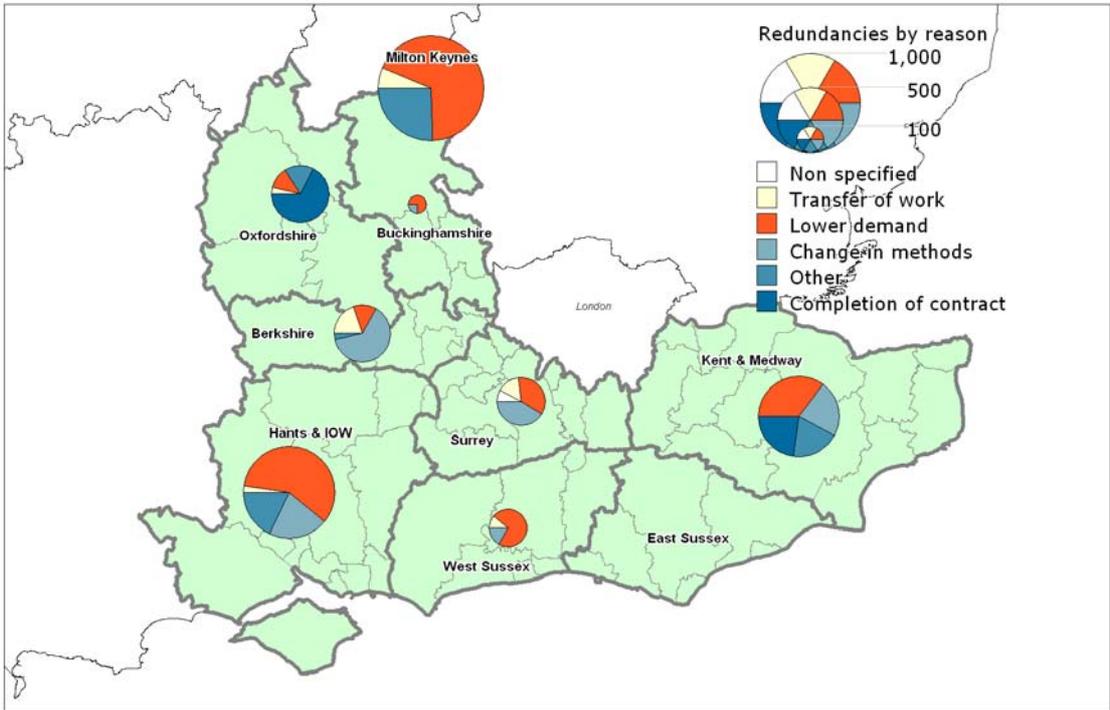
Agriculture: sales continue to grow, but margins are being squeezed by falling grain prices coupled with high input costs (fuel and fertilizer) as well as tightening credit terms. On the positive side, some producers saw record sales in December, and those who supply large supermarkets are being paid promptly. However, there is continuing pressure to lower prices.

Voluntary sector: VCS organizations are facing the dual pressure of increasing public demand for their services, but a fall in funding from both public and private sources. Falling interest rates mean that the level of income charities can gain from savings is dropping, while declining investment returns are affecting the amount of money charities have available to give in grants. Corporate founders are reducing or withdrawing funding and donations from individuals are down on last year. Charities are seeing no increase in their budgets for 2009, yet they are still experiencing rising costs and are expected to increase their provision of services. Volunteers are now less willing to work for free, and increasing numbers are starting to claim expenses or are being forced to take up paid employment. Some VCS organizations are reducing working hours or consulting on redundancies (eg. **Oxfam**). Citizens Advice Bureaux are continuing to see increased demand for advice on employment, repossession and debt, with the typical size of debts double what they were a year ago. Many small VCS organizations work from subsidized premises, in local authority-owned buildings. These organizations could be at risk if local authorities decide to sell buildings to raise capital.

Redundancies

According to HR1 data, more than 6,200 redundancies were announced in the South East in the past month, which is 60% greater than in the same period in 2007. Relative to their share of regional employment, the manufacturing, telecommunications, transport and construction sectors have seen the greatest increase in redundancies over the past month. Those four sectors accounted for over half of all notified redundancies in the South East over the past month. Relative to their shares of regional employment, Milton Keynes, Oxfordshire and Kent and Medway were affected by redundancies disproportionately more than other sub-regions. For example, more than a quarter of all redundancies notified via HR1s in the past month were recorded in Milton Keynes, yet the city accounts for less than 4% of employment in the South East. Around half of all redundancies in the South East over the past month were caused by lower demand. There was an increase in the proportion of redundancies due to lower demand in Milton Keynes, West Sussex, Buckinghamshire and Surrey.

Redundancies by sub-region, volume and reason over the period 17 November – 17 December 2008 (Source: HR1 data via BERR / Job Centre Plus)



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