

Summary of economic conditions

- The latest evidence from businesses and business representative organisations shows that the **rate of deterioration in business conditions** in the South East **continues to slow**, with output, new orders and numbers employed being broadly flat compared to last month. However, according to the FSB April snap poll **almost half the small companies** surveyed in the South East **reported a decrease in trade in the last two months**, against 20% reporting an increase and 30% reporting no change.
- With continued uncertainty in the economy, Economic Partnerships report that **businesses are thinking creatively about how to survive the downturn**. They are adopting leaner working practices, exploring new areas of work (such as bidding for public sector contracts) and increasing online visibility. Business Link providers and largely anecdotal evidence from businesses suggests that **businesses continue to be more optimistic about the outlook**, but realistic about the timing of the recovery.
- The **labour market continues to weaken**, albeit at a slower pace than in the first quarter of 2009. The **number of people claiming JSA increased by 8,000 in March 2009** against 18,000 in February 2009. Over the past quarter for which data is available the **number of people in employment fell by 19,000**, which is a smaller fall than was reported last month.
- The marked **growth in redundancy notifications appears to be slowing down** with 2,100 redundancy notifications in the South East in April against 5,900 in March 2009. However Business Link reports that where large companies have experienced redundancies this is now following through the supply chains.

Key challenges and hotspots

- Regional manufacturers are facing **difficulties in retaining and recruiting skilled young people**. EEF reports that this is becoming a pressing issue.
- **Problems with cashflow persist** but there are **some small signs of improvement in bank lending** (including renewals and extensions of overdraft facilities) although **new borrowing remains difficult**.

Business specific intelligence / information on key questions

- EEF is not aware of any large manufacturing companies at risk in the South East, but concerns of larger companies include the health of their supply chains, supply chain diversification and credit insurance withdrawal.
- Business Link reports that it is slightly **too early to identify medium term structural impacts**. Furthermore **firms are beginning to make plans to react when the de-stocking process comes to an end** and remain cautious. Business specific intelligence shows that an **increasing number of businesses are looking at investment opportunities** (See Annex for sectoral and business specific intelligence).

Sectoral Overview

The downturn continues to impact across a broad range of production and service activities. The number of notified redundancies is significantly lower when compared to March 2009. In a number of areas business specific intelligence shows that business are increasingly looking at investment opportunities. Inward investment enquiries in Milton Keynes are higher than at the same time last year, with six new investments confirmed in March.

Manufacturing: The sector continues to face difficult trading conditions in both domestic and export markets. In the engineering sector, order volumes are reportedly varying significantly on a week-by-week and month-by-month basis. Second tier suppliers in aerospace are nervously waiting for the government to sign contracts with their primary suppliers.

Business specific intelligence shows that manufacturing has seen a mixed picture this month. Several hundred redundancy notifications were announced in the South East in April. Defence giant **BAE Systems** will close three factories in the UK with about 100 job losses by the end of the year from the sites at Telford, Leeds and Guildford. **Alexander Dennis Ltd**, a coach manufacturing firm, has announced that it is to shed 56 jobs at plants in Guildford and Sheffield. There are also some positive reports coming out of the manufacturing sector, however. An unexpected **increase in Mini orders for May** means that the **BMW** manufacturing plant in Cowley, Oxford, will be open for an extra three hours per week from May. BMW is also in discussions over the production of a new generation of environmentally friendly electric Minis. **Chiltern Invadex**, the Oxfordshire based engineering firm has been bought out of administration by the owner of Aidapt Bathrooms, securing 43 jobs at its Bicester-based mobility equipment business.

After a recent low point in redundancy enquiries (compared to December and January), EEF is seeing a small number of its members reporting that short-time working has not been effective and are looking at redundancies again. There are continuing problems with delayed and cancelled orders, late payments from customers and requests for extended credit. Firms are also having problems with financing large projects, as customers are less willing to negotiate stage payments due to a continuing lack of bank finance.

Energy/Renewables: The sector did better than most in the current downturn, but a sharp fall in global demand is starting to have a greater impact on the fortunes of this sector. **Vesta**, the world's biggest manufacturer of wind turbines, is to close its wind turbines factory at Newport on the Isle of Wight in June, with the possible loss of up to 600 jobs. The R&D facility is still planned to go ahead with the recruitment of up to 150 highly skilled staff. Meanwhile the Oxfordshire based **UK Atomic Energy Authority** is expanding its fusion research programme. There are plans to recruit approximately 100 engineers, scientists and technical staff and around 70 contractors.

Retail: There is a mixed picture across this sector, with larger retailers generally doing better than smaller outlets. High-end clothing and homeware retailers continue to struggle with falling sales, while budget retailers are still doing well. Sales and footfall are down slightly in several areas, but generally not by as much as the national figures. In many cases leases are ending and not being renewed and/or shops are closing because they can't find buyers. Many shops are managing with the minimum number of staff as leavers are not being replaced.

A number of retailers have got into difficulties. Clothing retailer **Bay Trading** has gone into administration, with potentially 1,000 job losses across 268 branches, including in Crawley and Worthing. Retail spending is still holding well in a number of larger urban areas with a number of retailers expanding or planning to expand in 2009. **Robert Dyas**, a Surrey based retailer, believes there is potential to expand its chain of 99 hardware stores to 200, following a recent management buy-out. **Cargo**, an Oxfordshire based retailer, is looking to expand its chain of 45 furniture and homewares stores with new high street outlets and concessions in Wyevale garden centres. High

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

Wycombe based retailer **Dreams** is planning to open a further 30 bed stores in 2009, taking its total to 232.

Financial services: The sector continues to face adverse trading conditions, but the sentiment has been improving over the past couple of weeks. Business specific intelligence shows that financial services firms have seen a mixed picture this month. **Swiss Re** is to shed about 10% of the 11,500 jobs in its global reinsurance business, which is likely to affect offices in London and Folkestone, Kent. **RAM Financial Service**, a Horsham based financial services firm, has closed down. On the other hand, **HSBC** is to create 200 jobs at its Investment Service and Wealth Management Centre in Southampton over the next 12 months, in order to transfer work from Leamington Spa.

Construction and property: Uncertainty about the outlook for the sector over the medium term continues to have an impact on employment in the construction sector. Fewer people are seeking to rent commercial property, and those who are doing so are looking for discounts or extended rent free periods. Some firms in the commercial property sector are now increasing their investment in marketing and web development in a bid to attract more custom.

The HR1 data shows that there were over 530 redundancy notifications in the South East in April in the construction sector. All of these were in Kent, which has a concentration of construction sector HQ's. Furthermore, **Pierse of Ireland** is to close its building and civil engineering contracting offices in Cheshire and Surrey, with the loss of almost 60 jobs. However, **Mansell**, a construction firm, has set up a new office on the 20/20 business park in Maidstone.

Built Environment: There has been a 35% reduction in new project starts in the year to March 2009. A sharp reduction in new projects was largely due to a continued slide in non-residential projects and a halving in the number of housing schemes. Civil engineering project starts is one area that continued to improve.

Whilst all parts of the UK are suffering, the South East is experiencing some of the largest declines. Housing sector remains grim, especially the private sector which is being affected by falling house prices, still limited mortgage availability and uncertainty about the outlook in 2009. Non-residential markets saw a 39% reduction since last year. There is a large degree of uncertainty about the short term outlook, with further decline expected in Q2. Most house builders and commercial developers are focused on securing sales on existing sites to improve cash flow and reduce liabilities, many deferring expense in starting new projects. Most analysts expect that Q3 & Q4 will see more new projects starting if current tenders are implemented to schedule, but underlying values are likely to remain subdued until 2011. Access to finance continues to be an issue, where the perceived risk of business failure does not match reality. With house builders in particular suffering from significant land value write-downs, their weakened balance sheets do not give lenders confidence. Almost every firm contacted by SECBE reports 25-50% reductions in staff (either at risk or implemented).

Leisure and tourism: Hotels are seeing a drop in conference bookings with fewer enquiries and smaller requests from large corporate clients. With the number of international visitors on the increase and strong domestic demand the hotels' leisure market is still performing reasonably well and expanding. **Travelodge**, the Oxfordshire based leisure company is seeking suitable locations for the development of up to 120 new budget hotels in London by 2020. **EasyHotel** is looking to open budget hotels in Bristol, Cardiff, Edinburgh, Glasgow, Reading and London Waterloo. There have been relatively few redundancies in this sector, as many businesses are making cutbacks in other areas or asking staff to take on new duties outside their usual areas of responsibility.

Agriculture / rural: Some agricultural businesses are faring relatively well in the downturn, but arable farmers are facing more difficult conditions as crop prices continue to fall. A number of farmers are putting capital investment projects on hold until the economy improves. The key challenges remain maintaining sales volumes in the face of reduced demand, and keeping costs

down. Rural towns are reportedly seeing relatively few shop closures, and the number of vacant retail units has been falling in some towns.

South East Media Network: The economic environment, specifically across television production and associated revenue-generating advertising production to commercial terrestrial, satellite and cable channels has generally weakened since March. The volume of output has remained broadly flat but the volume of new orders and domestic orders were lower in April. Exports orders in April were slightly higher than in March. There is general significant concern at an anticipated major drop in new commissions across ITV and Channel 4 for the remainder of the year. Investment in domestic drama production is a priority for employment of all grades and investment across the supply chain in the region. The television area is flat with a major decline in drama production and overall commissioning budgets 15% or more down compared to a year ago. Income for film and TV production crew was also down by around 15%. The budgets for new drama commissions have seen a sharp reduction and where commissioning went ahead the budgets have been reduced between 15-25%. Feature film trends are up, with increases in production predicted to start to peak in July 2009 and continue into 2010 should a range of US major projects materialise.

Significantly lower cashflow and capital investment are of particular concern to businesses in SEMN sector. Some television production companies (those that specialise in drama production) could face increased difficulties in surviving in the current climate. There is a concern about the supply chains, in particular facilities companies and agents. Some members of the network argue that some of the recently announced schemes are perceived as expensive, which could have an impact on the uptake. Local Radio Company, **High Wycombe media** firm is to sell its Jazz FM brand to Jazz Investments

Marine: The outlook for the marine sector has further tightened in April, with slightly lower volume of new orders and employment compared to previous months. Cash-flow and capital investment were also lower when compared to March 2009. **The Port of Dover** landside services have now been outsourced, with 88 job transfers to other companies and a further 34 voluntary redundancies. The weak pound had some positive effects on exports in the brokerage market and the smaller niche sailing boat sector. Nonetheless, the industry feels that there is still business to be won, taking advantage of the weak currency. Government support to unlock these marine market opportunities, in order to maintain or expand production levels are eagerly awaited. **The Port of Dover** is seeking a private investor to help fund the development of a new GBP 400m ferry terminal at Dover Western Docks.

The leisure marine industry continues to suffer from low consumer confidence. However, more engine parts and other equipment are being sold as boat owners choose to refurbish rather than making a new investment. The market for very large motor yachts and super yachts also appears to be softening. It is still early days for the commercial marine sector as ships ordered two or more years ago are being finished off. Worse news is expected at the end of the year as there are few new builds in the pipeline for 2010. In respect of naval work, this is still quite solid and long term. With the review of UK defence spending, post carriers companies are seeking contracts with overseas navies.

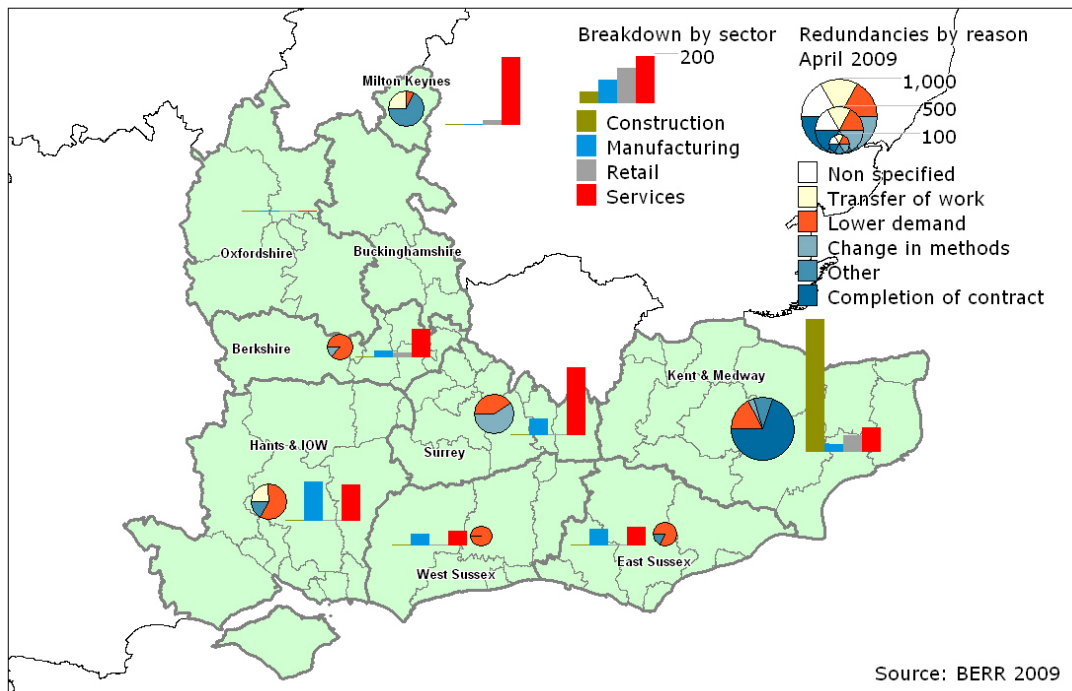
Third sector: Charities in Hampshire have seen a 200% increase in redundancy related enquiries, a 60% increase in employment enquiries and a significant increase in debt related enquiries. Lack of resources is putting pressure on already overworked staff, and could pose a threat to service delivery.

Redundancy Notifications: According to HR1 data, the level of redundancy notifications in the South East in April was lower than in March. There were some 2,100 redundancy notifications in the South East in April against 5,900 in March 2009.¹

The manufacturing and construction sectors accounted for more than 45% of all redundancy notifications in the South East in the past month. The majority of sectors saw a drop in the number of notified redundancies in April with the exception of mining and utilities. The finance and telecommunications sector had the greater drop in redundancies in April, accounting for more than 40% of notifications in March and 10% in April.

Kent recorded disproportionately more redundancy notifications than other sub-regions, over 35%. In the Dartford area, all the redundancy notifications were in the construction sector. However it is unclear whether the redundancies are registered to the company's headquarters in the area and occurring elsewhere or whether Dartford will be affected directly by the number of redundancies notified.

**Redundancy notifications by sub-region, volume, reason and sector
April 2009 (Source: HR1 data via BERR / Job Centre Plus)**



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Oxfordshire and Buckinghamshire had no reported redundancies via HR1s in the past month. Approximately 3% of all notifications in March were in Oxfordshire and Buckinghamshire.

In April 2009, some 40% of redundancy notifications were entirely or partially caused by lower demand which is comparable to 44% in March and lower than almost two thirds in February. In April, completion of contract was the reason given for all the notifications in the construction sector which accounted for over 25% of all notified redundancies.

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.