

## Summary of the Economic State of the Regions

### EAST OF ENGLAND

#### Summary

- Recent survey evidence suggests that fewer businesses reported declines in output and orders in January and February 2009 than at the end of 2008. However, the percentage of businesses reporting a decline in output and orders continued to exceed the percentage reporting an increase.
- While the downturn was initially concentrated in financial, retail/consumer services, construction and related sectors, most sectors are now experiencing adverse conditions.
- Current levels of unemployment are the highest since mid-1997. Much of the rise in unemployment has come from an increased number of people entering the labour market but being unable to find work.
- Housing starts fell considerably in the second half of 2008 to the lowest levels since records began in 1990, though there are signs that the decline in the region's housing market might be slowing.
- Despite the tough trading environment, the East of England's economy is generally faring better than other regions as it is not as reliant on heavy industry, automotive and consumer goods manufacturing. Recent survey evidence suggests that businesses in the East of England are the least pessimistic of all UK regions and less pessimistic than three months ago.

#### Impact of National Economic Council initiatives

- **118 Business Link health checks were delivered last week**, bringing the total delivered since 23 October 2008 to **4,279** in the East of England. The breakdown of health checks remains consistent, with the largest numbers having taken place among businesses in the real estate/renting/business activities sector (22 per cent among those where the sector was known), the retail & wholesale sector (15 per cent) and the manufacturing sector (13 per cent).
- **Inbound enquiry rates to Business Link may have peaked**. Demand continues to be high but the number of calls received fell slightly again last week. By the end of March year on year growth in total inbound enquiries was around 70 per cent, a slight decline on the earlier peak of 73 per cent.
- **The nature of caller enquiries remains consistent with previous weeks**. Customers enquiring about redundancy and/or business closure continue to be relatively few in number. Customers continue to contact Business Link after failing to secure bank funding, raising similar concerns to previously about the reasons why they have been rejected.
- **Concerns continue to be raised about the implementation of the Enterprise Finance Guarantee Scheme (EFGS)**. Business Link East has reported that banks are not raising awareness of the scheme to their customers. Banks requiring customers to contribute their own funding is still a substantial cause of complaint. A great many businesses failing to secure funding either through the EFGS scheme or the European Investment Bank scheme or other initiatives are failing to meet their bank's minimum lending criteria. This is causing a great deal of cynicism and dissatisfaction with the banks and the concept of publically funded business support.

#### Preparations in place for economic shocks

- **EEDA is flexing its 'Beyond 2010' skills development funding to support struggling businesses**. This includes a new 'leading through the recession' programme, linked to the LSC leadership and management programme. EEDA is also being notified of many smaller-scale redundancies which would otherwise fall below the threshold of notification to other partners in the region. This is important given the significance of small businesses to the region's economy and the consequent cumulative effect of smaller-scale redundancies.

#### Housing

- **There are signs of a possible slowing in the decline in the region's housing market**. While house prices in the region continue to fall (by 1.8 per cent on a monthly basis in February and by 16.1 per cent on an annual basis), evidence points to a slight increase in housing market activity (i.e. an increase in new buyer enquiries), possibly boosted by falling interest rates and improved affordability. Data from one estate agency in Norfolk shows that house sales are up by 38.2 per cent in the last five months. This supports recent information from the Bank of England, which showed that mortgage approvals nationally rose by 19 per cent in February and were the highest since May 2008 – although mortgage approvals were 44 per cent lower than in February 2008. Evidence also

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suggests that the recent increase in enquiries and viewings has been limited to households and investors with large deposits, with first-time buyers held back by difficulty in obtaining mortgages.

- **The stock of unsold properties has also fallen**, because vendors have turned to the rental market, opting to let their properties during the current climate.
- **With housing demand remaining comparatively low, there has been little change in construction activity.** Housing starts in the region in the second half of 2008 were the lowest since records began in 1990. The latest Royal Institute of Chartered Surveyors survey also showed that the balance of firms in the region reporting increased workloads remained negative and was the lowest in the survey's 15-year history: 49 per cent more chartered surveyors in the region reported a fall rather than a rise in construction workloads in 2008 Q4, compared with 40 per cent more surveyors reporting a fall in 2008 Q3.
- **Local councils have reported a drop in planning permission requests – and subsequently revenue – from households and businesses.** Developers are also putting pressure on councils to lower the contributions they had agreed to pay to support new infrastructure, such as schools and libraries.
- **The availability of commercial property is increasing region-wide** as tenants leave expensive units and as businesses close. A number of retailers are turning to online sales as an alternative to expensive shop-fronts.

### Employment

- **The region's labour market has weakened significantly since the end of 2008.** Unemployment in the East of England was 5.5. per cent (or 165,000) in November 2008 to January 2009, up from 4.6 per cent in the previous three months and 4.4 per cent during the same period a year ago. Current levels of unemployment are the highest since mid-1997. However, the region's employment rate improved marginally on the previous three months and was only slightly lower than the same period last year. This continues to suggest that much of the recent rise in unemployment has resulted from an increase in the number of people entering the labour market but being unable to find work.
- **The number of new redundancy notifications appears to have stabilised.** Jobcentre Plus reported 2,170 jobs at risk in the region in March – slightly up on February's total of 1,900 but down from 6,200 in December and 4,200 in January. Redundancy notifications in March were fairly widespread across sectors, including 17 per cent in manufacturing, 14 per cent in financial services, 13 per cent in wholesale and retail trade, 12 per cent in construction, 9 per cent in scientific and technical activities, and 9 per cent in transport and storage.
- **Recent major redundancy announcements** include 1,700 job losses at **Norwich Union**, including up to 500 in Norwich itself as part of its three-year streamlining plan, and 560 job losses with the closure of car parts manufacturer, **Visteon**, including 173 in Basildon.
- **Competition for jobs remains extremely high.** In February 2009, the number of vacancies advertised by Jobcentre Plus in the region totalled 26,900 – three times January's level but 26 per cent lower than the same time last year. February's increase in vacancies can be explained largely by seasonal factors, with approximately one vacancy for every six people claiming unemployment-related benefit.
- **The number of manufacturing companies making redundancies has increased**, with 43 per cent of respondents to the latest Engineering Employers Federation (EEF) survey reporting a reduction in staffing levels in 2009 Q1. Around two-thirds of recent enquiries to EEF's helpline have been related to advice on handling redundancies. The EEF noted that manufacturing companies have explored all options to retain their skilled workers due to skills shortages in the region.
- The latest data from the Royal Bank of Scotland's Purchasing Managers' Index (RBS PMI) showed that the net balance of companies reporting increased workforce levels fell for the tenth successive month due to reductions in new business and reduced business confidence.

### Business

- **Survey evidence shows a clear deterioration in business conditions since the middle of 2008.** The latest RBS PMI shows that more businesses continue to report falls in output and orders than those reported an increase. However, fewer businesses reported a decline in output and orders in January and February than in the final three months of 2008.
- **While input prices – such as energy and raw materials prices – have recently fallen, a number of companies are cutting their tariffs in response to market competition and to stimulate demand.** While the value of Sterling has fallen, a number of companies have also reported a fall in export orders and sales due to falling global demand. The latest EEF survey showed that only 14 per cent of respondents in the region reported an increase in new export orders.

- **Insolvencies in the region grew by two thirds at the end of 2008.** Statistics released on 5 February showed that there were 196 insolvencies in the region in 2008 Q4, compared to 118 in 2007 Q4. The total number of insolvencies for 2008 was up 30 per cent on 2007.
- **However, some businesses are continuing to trade well in the current environment.** The latest RBS PMI showed that over 60 per cent of businesses experienced stable or increased levels of activity in February 2009. Business Link has also had contact with businesses that are experiencing increases in enquiries and output. These businesses tend to have a strong grasp of the financial dynamics of their businesses and are undertaking marketing activity to prevent a slowdown.
- **Businesses in the East of England are the least pessimistic about their business conditions over the next year than any other UK region.** The latest ICAEW Business Confidence Monitor also showed that businesses in the region were less pessimistic than three months ago while businesses expect turnover and profits to grow marginally, compared to projected contractions across the UK as a whole. However, 60 per cent of respondents reported that customer demand posed a greater challenge to business performance than a year ago. The latest EEF survey also showed that respondents in the East of England were less pessimistic than the UK average and than in Q4 2008.
- **Most evidence points to weaker conditions in the region's manufacturing sector.** The EEF survey for 2009 Q1 showed historically weak results: 46 per cent of respondents reported a reduction in total output, 63 per cent reported a reduction in new orders, and 49 per cent reported reduced capital investment. However, while businesses remained pessimistic about their outlook for the next three months, they were less pessimistic than in 2008 Q4.
- **Survey evidence suggests that demand in the region's service sector remained fairly stable in 2008 Q4,** although new domestic and exports orders fell, as did investment intentions, suggesting weaker demand going forward (BCC Q4 survey). Demand is particularly weak for retailers – although there was some increase in activity in January as a result of heavy discounting by retailers – and consumer services, particularly pubs with an average of three per week closing in the region in the second half of 2008. However, the tourism sector anticipates healthy revenues in 2009 due to stronger demand for domestic holidays.
- **Farm and agricultural production has been less affected by the downturn than other sectors but bank lending policies are affecting farm diversification.** In line with retail demand generally, demand for low-cost meat and fruit and vegetable products has increased while sales of top end products such as organic meat have reduced. Business Link reports that farmers seeking to borrow money from banks are experiencing difficulties unless they can demonstrate a robust cashflow in current business activity. Farm diversifications, particularly where conversion of redundant farm buildings is involved, have all but halted.
- **Reduced cashflow is a key concern of businesses during the downturn and is causing an increased number of business closures.** Lengthening trade debtor periods and increasing bad debts are compounding cashflow problems in SMEs. The latest EEF survey showed that two-thirds of companies reported difficulties obtaining trade credit insurance or a withdrawal of trade credit facilities.
- **The economic downturn has prompted many people to consider starting their own business.** Bookings for Business Link start up workshops are at an all time high. Workshop bookings for the new schedule beginning in April have already reached 2,700, with plans being developed for additional workshops to meet this demand. Demand for Business Start Up vouchers continues to rise. Marketing/internet marketing issues remain the most common while general business planning and financial advice are also very prominent. Business Link has expressed concerns that if access to 1:1 advice is restricted under the Business Support Simplification Project, many customers will not be eligible for this service. Business Link is continuing to try to encourage participation where take up has been lower than anticipated.
- Business Link has noticed an increase in enquiries from people wanting to set up their own business consultancy (financial advice in particular) and also wanting to register with the supplier brokerage service.
- Local authority economic development officers in Bedfordshire have reported that they are still dealing with major problems from the independent retail sector in addition to SMEs involved in engineering and the construction industry.

#### **Other key issues**

- Norwich City Council has to make £7m worth of savings over the next financial year because of a shortfall in income from interest on investments, commercial rents and planning fees.

**East of England Development Agency, 7 April 2009**

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