enterprise M3
Delivering prosperity through innovation

Enterprise M3 Economy, Labour Market and Skills Dashboard

EM3 SAP and EM3 Board Meetings – September 2022

HEADLINES

- Rapidly rising energy costs pose an existential threat to a range of small businesses in Enterprise M3 despite government announcement.

- UK Inflation falls to 9.9% in August – forecast to peak at around 12% in October, with domestic drivers of inflation beginning to replace the global factors.

- The rise of business costs has slowed due to the easing of global commodity prices.

- UK wide recession looks inevitable but likely to be much milder than the 2008/9 recession.

- Relatively high disposable incomes in Enterprise M3 to ‘lessen’ the impact of the cost of living crisis but real wages to fall back to 2003 levels. Investment needed to offset the impact of household spending on economic growth.

- The labour market in Enterprise M3 continues to defy expectations - the weaker economy has not led to an increase in unemployment or a decrease in vacancies in Enterprise M3.

- Persistent demand for high and upper-intermediate skills in Enterprise M3 accompanied by strong growth in seasonal demand for low-skills in July.

MAJOR POLICY ANNOUNCEMENTS FROM THE NEW GOVERNMENT

- The ‘Energy Price Guarantee’, - freezes household energy bills at £2,500 for average household from 1 October for two years and business utility bills for six months.

- Support for specific sectors, beyond next March is to be announced in the coming three months.

- A significant cost to the Exchequer – much higher than the amount spent on furlough and SEISS BUT substantial benefits – much lower inflation, higher disposable incomes and milder downturn.

- Government has set up a new Energy Supply Taskforce – led by Madelaine McTernan to begin negotiations with domestic and international suppliers to agree long-term contracts that reduce the price they charge for energy and increase the security of its supply.

- A series of measures aimed at accelerating domestic energy supply - launching a new oil and gas licensing round; lifting the moratorium on UK shale gas production; launching a review to ensure the UK is meeting its Net Zero 2050 target in ‘an economically-efficient way’.

- Lifting the moratorium on UK shale gas production could affects several sites in Surrey and Hampshire.

MAJOR POLICY ANNOUNCEMENTS FROM THE NEW GOVERNMENT

- Growth Plan 2022' and 'mini-budget' delivered to Parliament on 23 September; 2.5% p.a. GDP growth target over the long-term; new legislation - the 'Planning and Infrastructure Bill' will be brought forward in the coming months to reduce barriers to investment and speed up delivery.

- 'Mini-budget' was anything but mini - £45bn of tax cuts. It represents the biggest package of tax cuts in 50 years and a range of other policy measures.

- Changes to Stamp Duty tax introduced; April's increases in NICs increase and a 1.25 percentage point increase in the rates of Income Tax on Dividends will be dropped from 6 November; Health & Social Care Levy due in August 2023 abolished; 1pp decrease in Income Tax to be brought forward to next April; Corporation tax rate to stay at 19% instead of going up to 25%; planned cut to the Annual Investment Allowance has been cancelled;

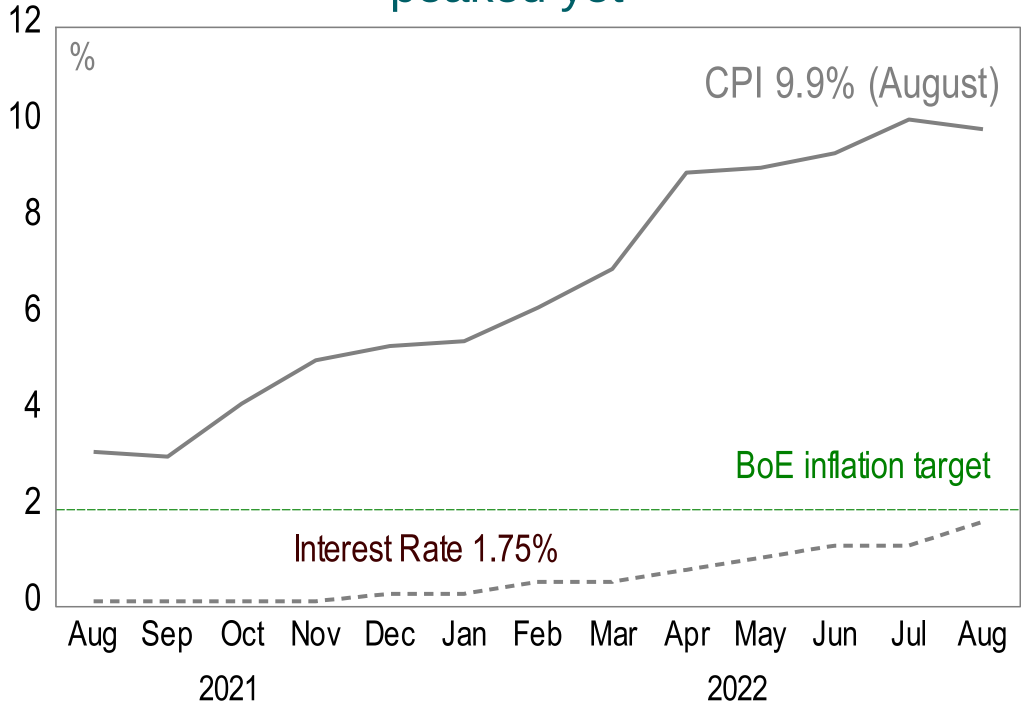
- New Investment Zones to benefit from special treatment for tax, regulation and local governance. Government is in early discussions with 38 Combined Authorities and Upper Tier Local Authorities just two are in the South East (Southampton and Kent).

- Tax cuts are similar in style to the Thatcher government but supply-side reforms are much smaller than in the 1980's; Market reaction - government gilts and sterling down, cost of borrowing up; NIESR forecast – growth to hit 2% next year and interest rates to peak at 5%.

ECONOMY

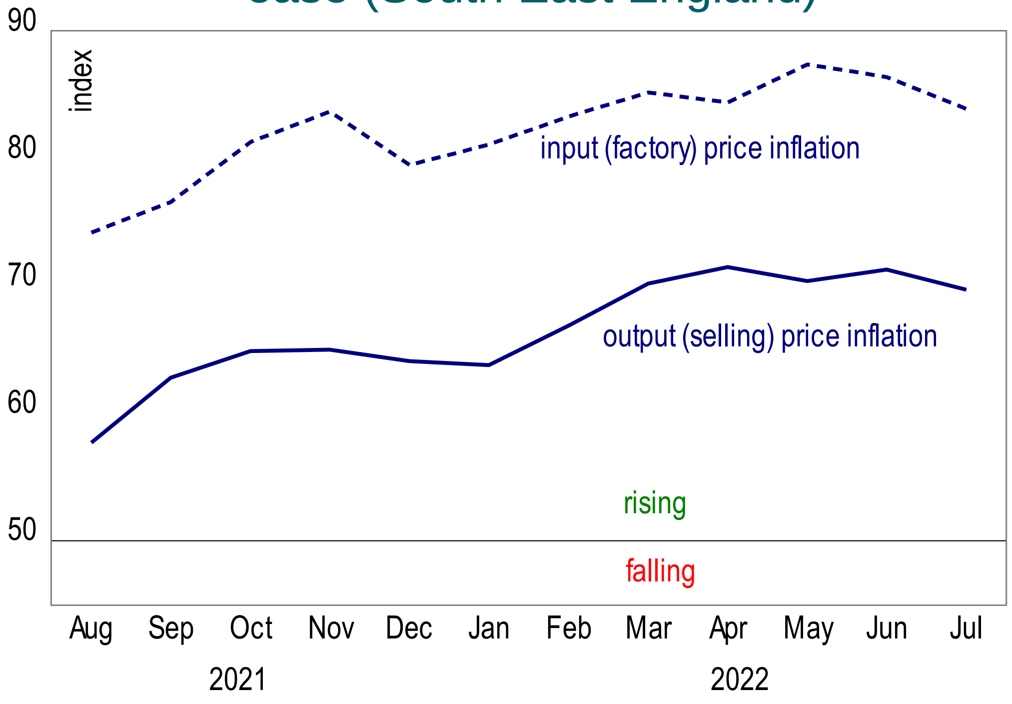
DOMESTIC DRIVERS OF INFLATION BEGIN TO REPLACE THE GLOBAL FACTORS

UK inflation falls in August but it has not peaked yet



Source: ONS (2022)

Business costs pressures beginning to ease (South East England)



Source: Markit (2022)

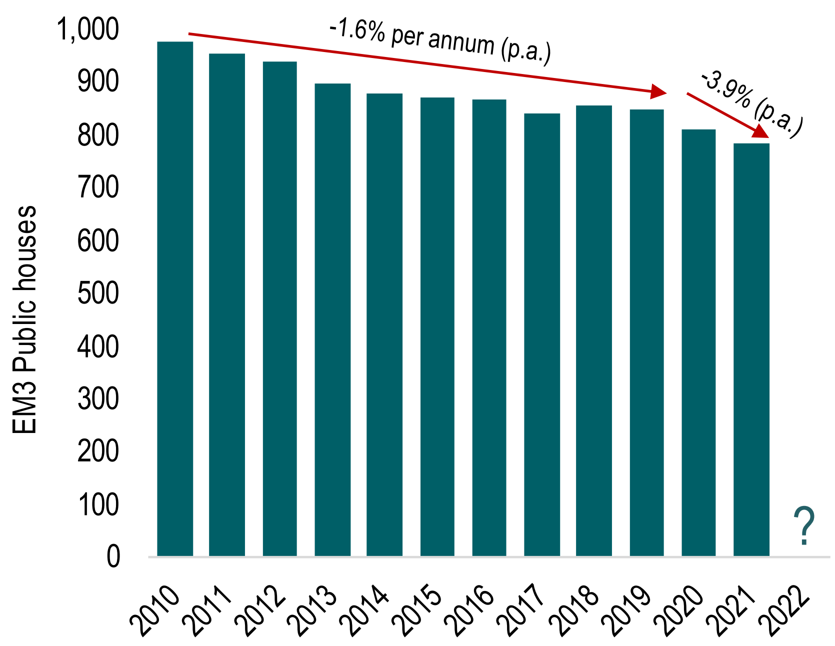
- CPI inflation eases to 9.9% in August from 10.1% in July.
- Strong growth in food inflation and service inflation.

- Drop in oil prices to continue to have a downward impact on inflation.
- Slower rise in business costs.
- Inflation to likely peak at about 12% in Oct.

ENERGY COSTS POSE AN EXISTENTIAL THREAT TO A RANGE OF SMALL BUSINESSES IN ENTERPRISE M3

- Small businesses exposed to high energy costs according to FSB[1] estimates.
- EM3 has over 79,300[2] small businesses.
- Pubs, coffee places, small shops with low turnover.
- Downward trend in pubs pre-pandemic accelerated during pandemic > likely closures from significant increases in energy costs.
- EM3 has 780 pubs[3] with sector employing estimated 13,000 people[4]. Nearly 200 fewer pubs in 2021 than in 2010.

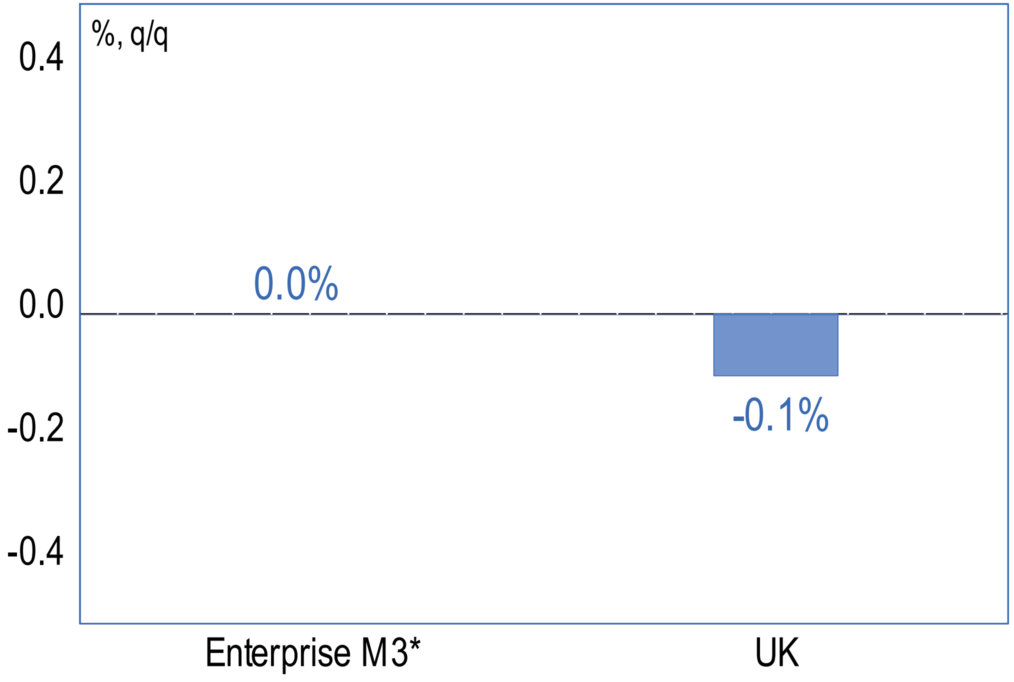
EM3 Public Houses 2010-2021



1 Federation of Small Businesses (2022). Bills risen on average by 349% (£4,700 to just over £21,200) for electricity, and by 424% (£1,350 to just under £7,050) for gas between February 2021 and August 2022 – based on Average energy assumption of a 30,000 kWh annual consumption in London.
2 ONS UK Business Counts (2021) – enterprises (number rises to 91,200 for local units. Small business defined as employing fewer than 50 workers.
3 ONS UK Business Counts (2021) – local units. Pubs account for 1% of all EM3 businesses
4 ONS BRES (2020). Employment concentration in EM3 16% above national average. EM3 pub workforce accounts for around 2% of jobs.

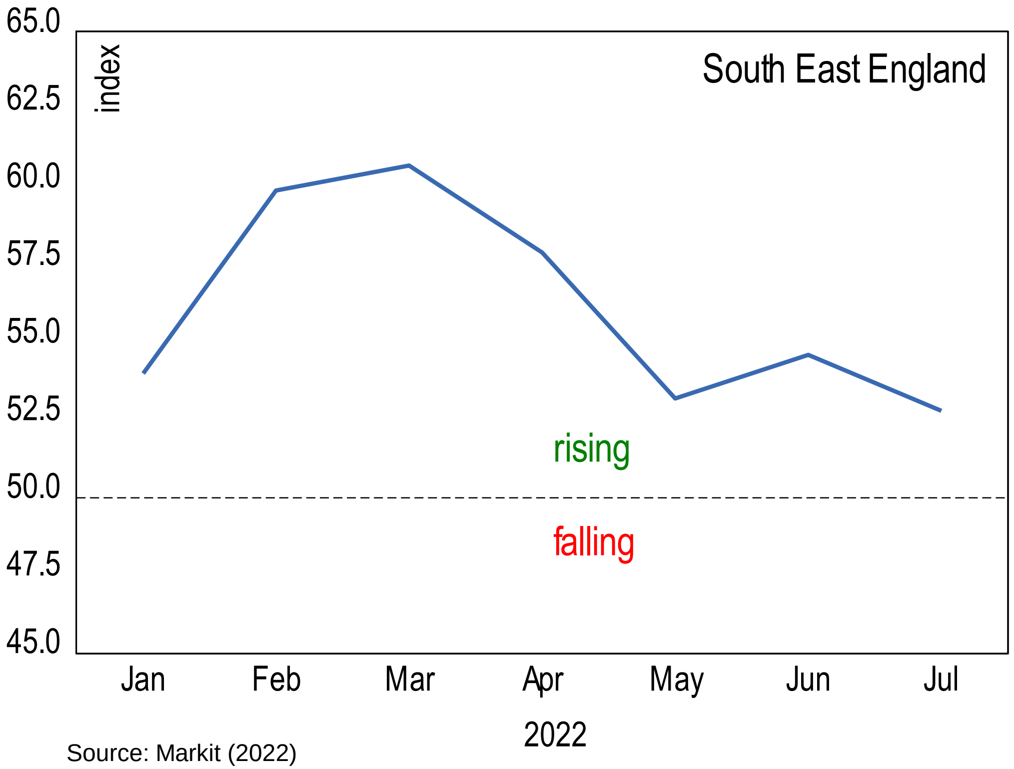
FLAT GROWTH IN ENTERPRISE M3 IN THE SECOND QUARTER BUT ACTIVITY EXPANDS IN JULY

Economic growth in Q2 (Apr-Jun 2022)



Source: ONS (2022) and EBIS (2022)*

Business activity expands in July



Source: Markit (2022)

- Enterprise M3 economy more resilient than UK economy in Q2 (Apr-Jun 2022).
- Fall in GVA in June comparable to UK average (-0.6%).

- Business activity expands but at the slowest pace in 17 months.
- July saw the first monthly growth in retail sales since April.

RELATIVELY HIGH DISPOSABLE INCOMES IN ENTERPRISE M3 BUT REAL WAGES TO FALL BACK TO 2003 LEVELS

- Inflation projected to batter living standards in Enterprise M3 and across the country.

- Inflation now projected to peak at around 13% (Bank of England) instead of 20%+ (Goldman Sachs).

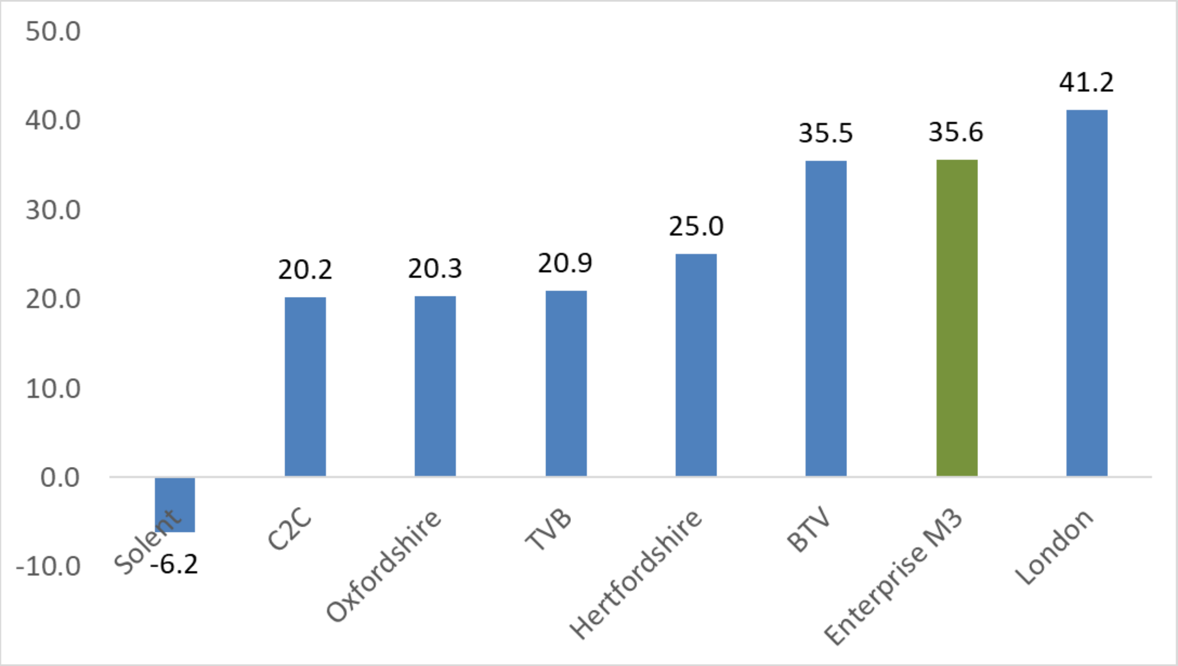
- Relatively high disposable incomes in Enterprise M3 cc. 36% above average.

- High household incomes to support spending and growth, BUT

- Real wages projected to fall back to 2003 levels.

- Investment needed to offset the impact of household spending on economic growth.

Gross disposable household incomes per head relative to UK average, % (2019)

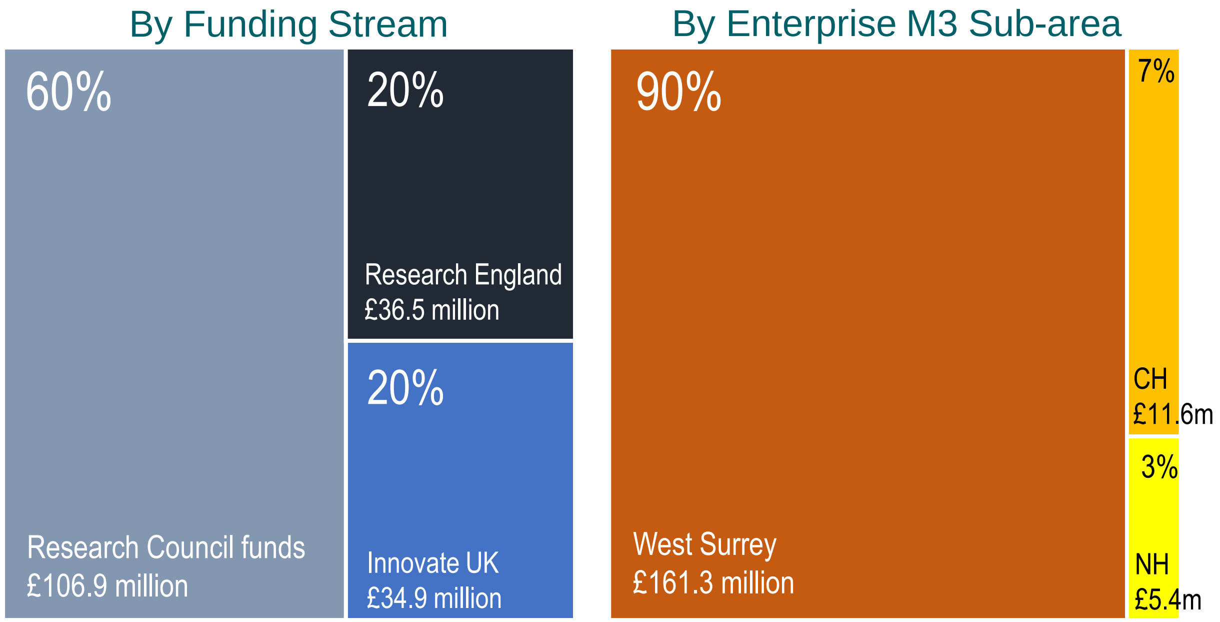


Source: ONS (2022)

INVESTMENT NEEDED TO RAISE PRODUCTIVITY AND GROWTH TO OFFSET FALLS IN WAGES AND HOUSEHOLD SPENDING – E.G. UKRI INNOVATION FUNDING

- Enterprise M3 saw £178[1] million of UKRI funding in 2020-2021 financial year – Southampton received £196m.
- Research Councils primary funding stream.
- £90% of funding went to West Surrey area[2].
- University of Surrey in top 10% of HEIs for Innovate UK funding (£16.7m) and projects (112).[3] – University of Southampton also in top 10% (219 projects, £53m).
- 34 tracked businesses in EM3 received at least £10,000 in Innovate UK grants in 2021-2022 financial year[4] - eight businesses to date for 2022-2023 financial year.

Enterprise M3 UKRI Funding (financial year 2020-2021)



CH – Central Hampshire NH – North Hampshire

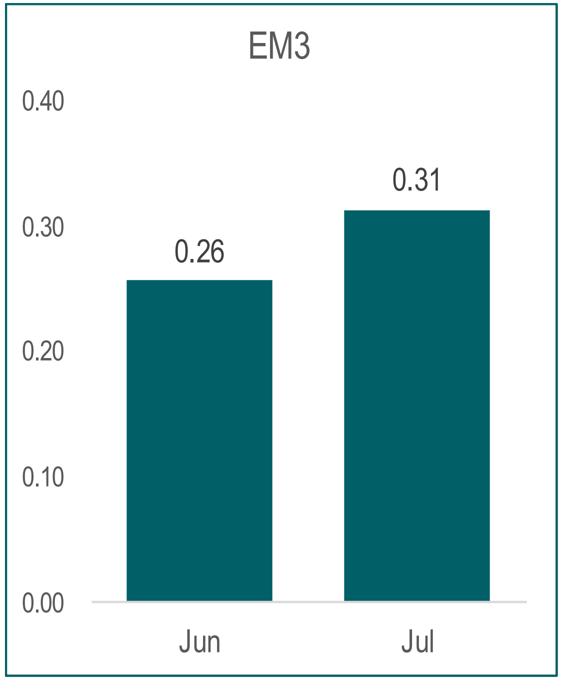
Sources:
1 UKRI (2022)
2 Location University of Surrey at Guildford and spin-outs.
3 Beauhurst 2022-2025.
4 Beauhurst. Business search criteria: head office address Em3 area, tracked by Beauhurst, Innovate UK grant minimum £10,000 for 2021-2022 financial year.

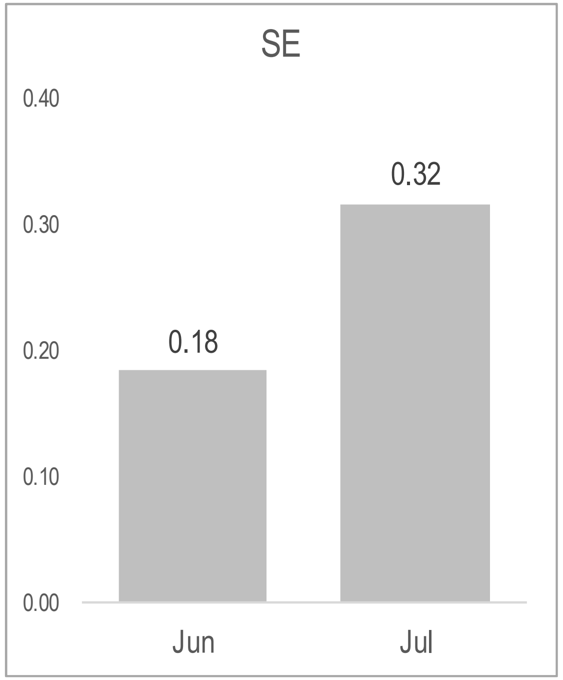
LABOUR MARKET & SKILLS

THE LABOUR MARKET IN ENTERPRISE M3 EXPECTED TO WEAKEN BUT IT CONTINUES TO DEFY EXPECTATIONS

- Exceptionally low unemployment and the labour market getting tighter.
- July continues to see growth in PAYE employee numbers, +2,500 on June.
- Some 11,000 additional employees in the first 7 months of this year.
- Employment and unemployment are lagging indicator of economic activity.

PAYE employee growth (monthly % change)





Source: HMRC (2022)* Based on NUTS 3 so includes New Forest. LAD update Sep 13 2022.

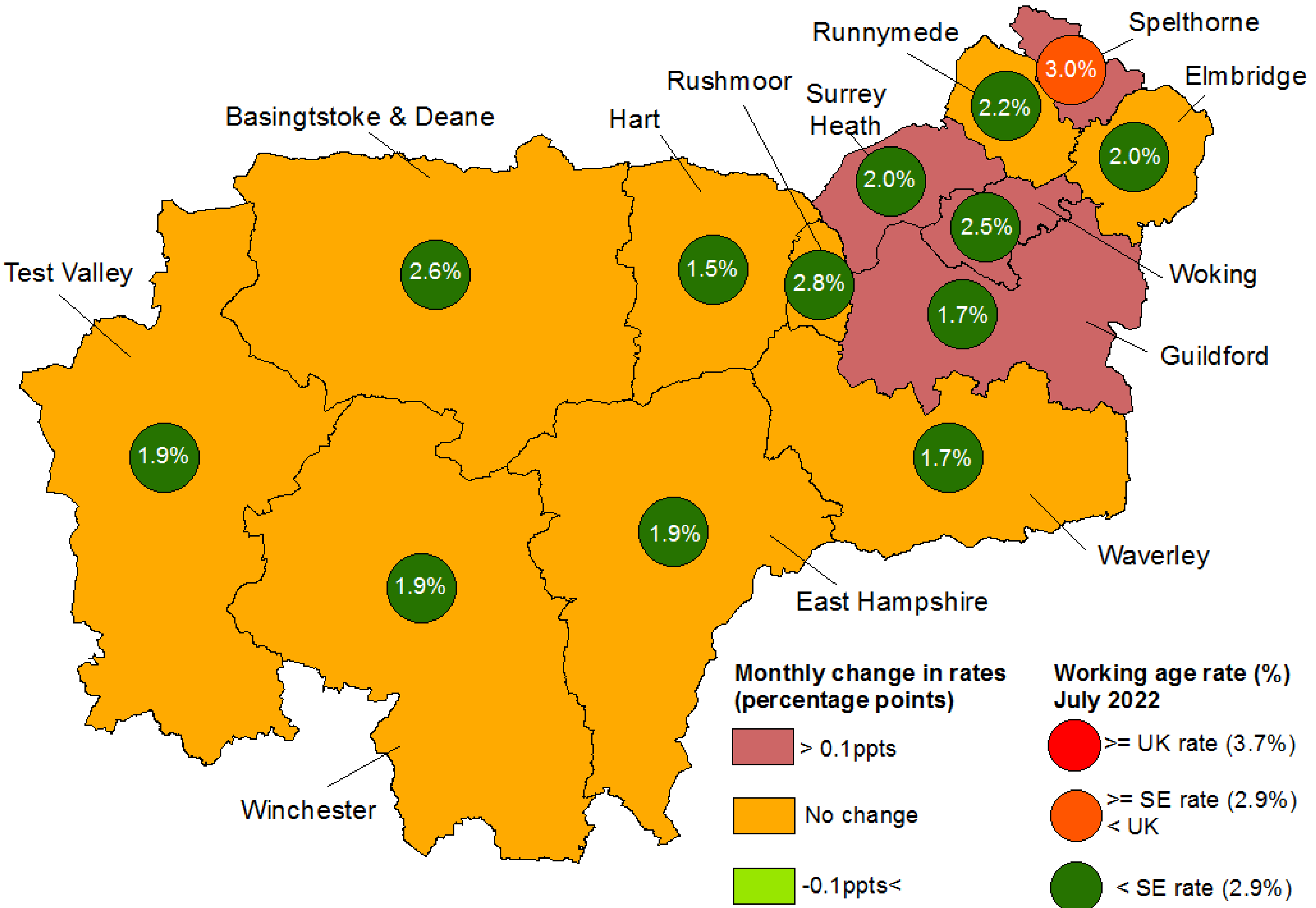
ENTERPRISE M3'S UNEMPLOYED CLAIMANT RATE UNCHANGED JULY 2022

Shaded Districts areas:

- Green = decrease in working age rates between June-July
- Orange = no change in working age rates between June-July.
- Pink = increase in working age rates between June-July.

Coloured Circles:

- Green = July rate below UK and South East rates.
- Orange = July rate above South East rate but below UK rate.
- Red – July rate above UK rate (no red circles in EM3 area)



THE TIGHT LABOUR MARKET IN ENTERPRISE M3 CONTINUES DESPITE WEAKER ECONOMY

- Timely data suggests that July saw exceptionally sharp uptick in online vacancies.

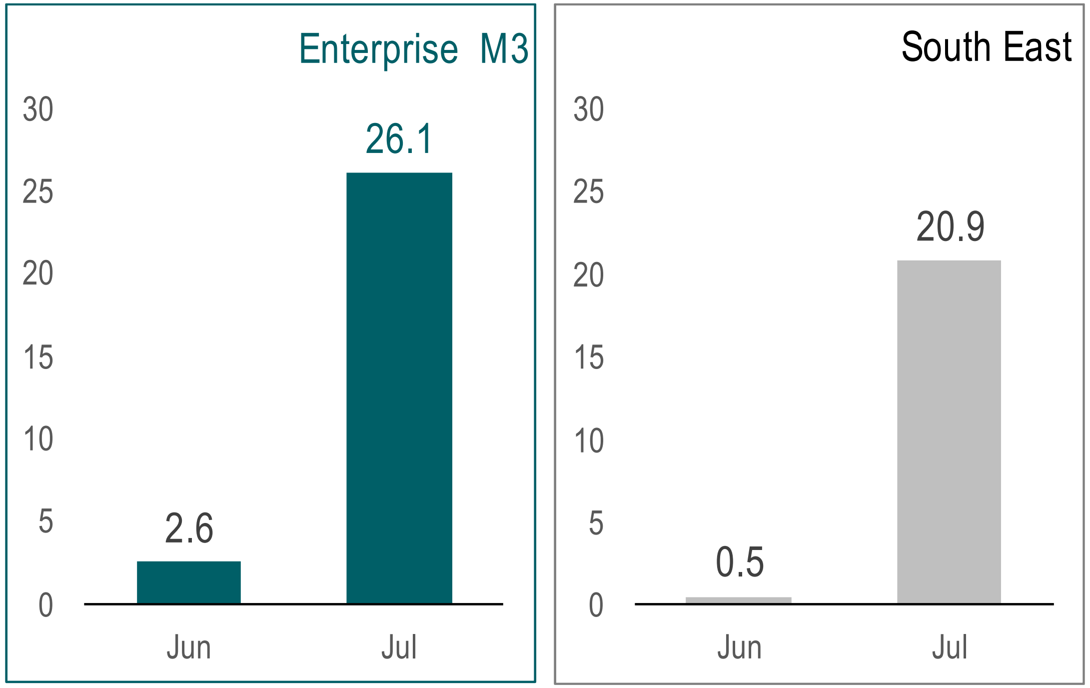
- Labour demand in Enterprise M3 in July stronger than in the South East.

- The overall picture confounded by seasonal factors > demand to ease sharply in Aug/Sep.

- A UK-wide recession is probably just round the corner.

- Recession may not be accompanied by a sharp increase in unemployment or a sharp decrease in vacancies.

% change in online job postings (June to July 2022)

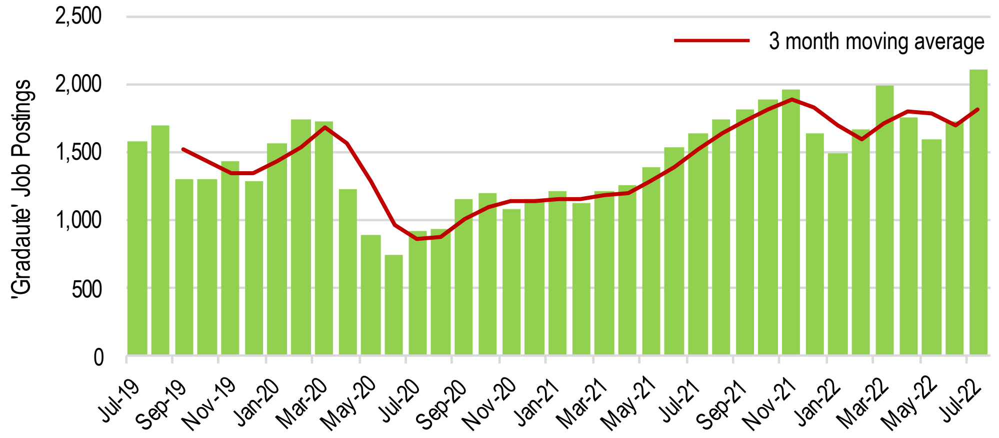


Source: Emsi (2022), all job postings

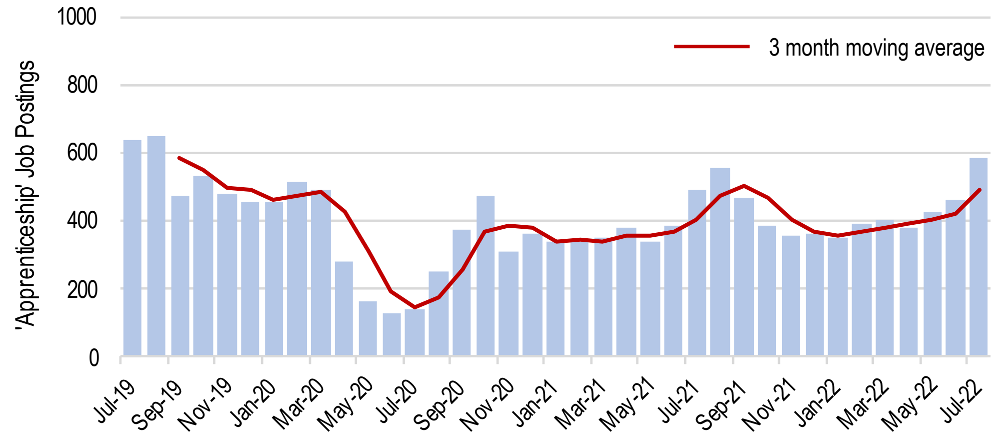
GRADUATE JOBS BOUNCE BACK BUT SLOWER RECOVERY FOR APPRENTICESHIPS IN ENTERPRISE M3

- Following pandemic slump EM3 graduate job postings[1] remain elevated and well above pre-pandemic levels.
- Top graduate job postings in health, IT, education, and engineering.
- Apprenticeship[2] job postings in EM3 slower recovery than graduates, possibly as hybrid working patterns present challenges for in-work placements.
- Top apprenticeship job postings in hospitality, engineering, and business services (HR/marketing).

Enterprise M3 Graduate job postings



Enterprise M3 Apprenticeship job postings

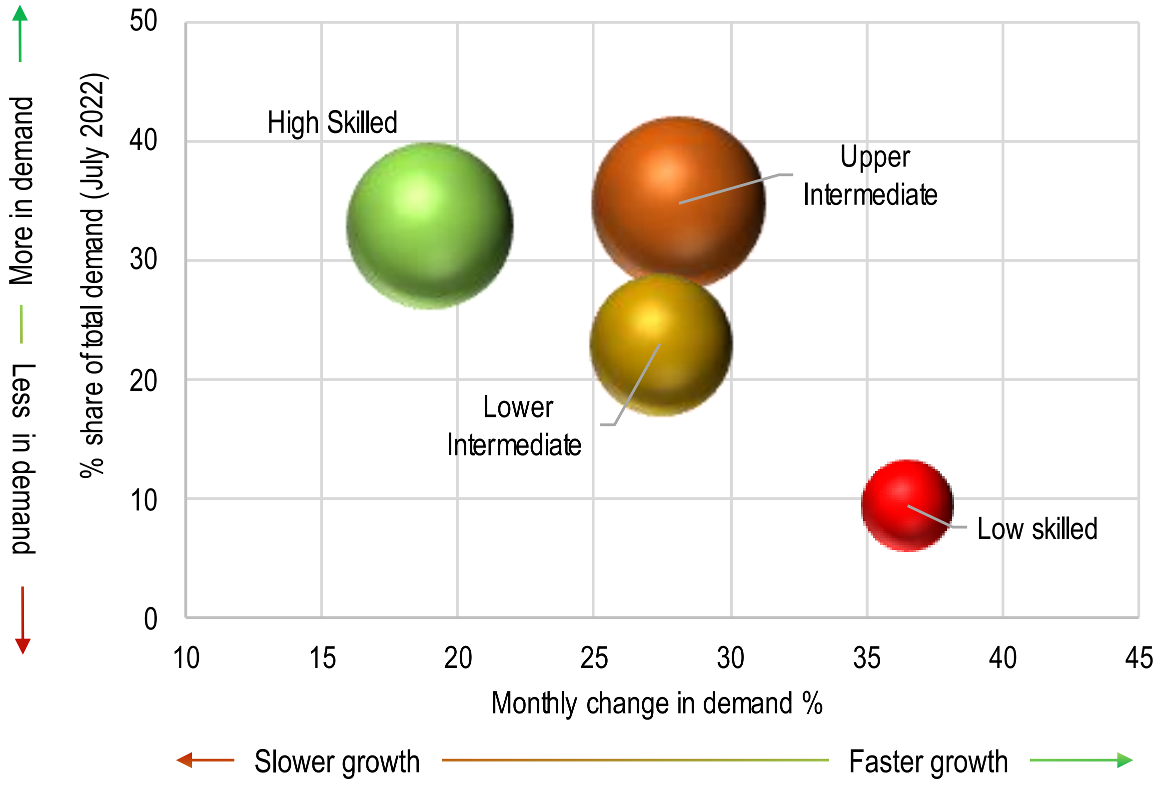


Source: Lightcast.
1 Graduate job postings — postings in which the word “graduate” appears in the job title.
2 Apprenticeship – postings with ‘apprenticeship only’ appears in the job title.

PERSISTENT DEMAND FOR HIGH AND UPPER-INTERMEDIATE SKILLS

- Over two thirds (68%) of July's labour demand in Enterprise M3 in high-skilled and upper intermediate-skilled – equating to 40,700 vacancies. Of which:
    - One third in high-skilled occupations (19,700 vacancies), and…
    - just over one third (35%) in upper-intermediate occupations (21,000 vacancies)
- Low-skilled jobs have less overall demand (nearly one in 10 vacancies) but fastest monthly growth rate (+37%), in part driven by seasonal factors.
- Top job postings in July: care worker & home care workers (4%).
- Top specialisation mentioned is finance (5%).

Labour Demand by Broad Skills Group
(share in July and monthly growth, Jun-Jul)



Source: Lightcast (2022)

Circle sizes are relative to the number of job postings (vacancies)

BUSINESS UPDATES IN ENTERPRISE M3

BUSINESS NEWS HEADLINES

EXPANSION & JOB CREATION

LDC made an £18m minority investment in Hampshire-headquartered TMC Pharma Services, a pharmaceutical development organisation that specialises in innovative treatments for rare diseases and oncology.

TRICIS received a £275,000 Enterprise M3 trade finance loan. TRICIS is a provider of secure, integrated IT and communications equipment for government and military use. The loan from EM3 (via FSE) will enable the business to take on new contract opportunities and promote further growth. (5 July)

Ordnance Survey (OS) has reported record revenue during a strong year with a 5 per cent growth in revenue to £182.3 for 2021/22, compared to £173.3m in 2020/21. and continued investment in people and technology, with more than 280 new employees joining in the last 12 months.

Basemap, Guildford announced that it had signed a £3.2 Million contract with Ordnance Survey (OS) to provide data for The Public Sector Geospatial Agreement, which has over 5000 organisations using the agreement to access geospatial data.

ACQUISITIONS AND MERGERS

Vision Engineering of Woking has bought Milturn Precision Engineering, based in Hinckley, Leicestershire, for an undisclosed sum. Vision Engineering, sought the acquisition to fulfil a strategic objective of improving its global position as a leading designer and manufacturer by adding scale and capability to the company’s existing UK and USA manufacturing base.

Nursery giant, Busy Bees, has acquired Egg Day Nurseries which provide care for children across all age groups and have a trio of sites in Andover and Winchester.

BUSINESS NEWS HEADLINES

CLOSURES-ADMINISTRATION

Cineworld is preparing to file for bankruptcy with 128 UK cinemas at risk of closure. Its share value fell by more than 81% with the company expected to file for insolvency in the UK with thousands of jobs at risk. This reflects a downward trend in cinema attendance since the pandemic and also a growing reliance on streaming sites like Netflix, Amazon Prime and Disney+. Cineworld has two cinema complexes in EM3 area: Aldershot (Westgate) and Whiteley in Winchester district.

OTHER NEWS

LoCASE (Low Carbon Across the South East) is a grant funding programme, offering SMEs in Surrey and Hampshire grants between £1,000 and £10,000, to help green their businesses and cut energy costs. Eligible SMEs are those with under 250 employees, Annual turnover under £44 million and a balance sheet under £39 million.

Businesses in the Guildford (GU) postcode can now register for the Gatwick Airport Supplier Registration Scheme. The scheme will allow more small and medium-sized businesses located in the qualifying postcode to benefit from airport spending that totalled £113.7 million across the region pre-pandemic (2019) and £48.9 million last year (2021).

The University of Surrey is advertising for TikTok creators to shape the future of its content on the social media site.

Spelthorne BC has seen more than £100m wiped off the value of its commercial property portfolio over a three year period, with its out of borough investments hit hardest.

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