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Solent Local Enterprise Partnership

Welcome to the **first edition of the Quarterly Economic Bulletin** which is published on the same day as we hold our annual conference and launch the work on our new Local Industrial Strategy.

The Countdown to BREXIT is quite rightly at the forefront of economic thinking today, but the work we are doing to bring forward a new strategy for the area does allow us all to look to the horizon. The Solent is emerging as an economic powerhouse with the necessary ingredients to pioneer new approaches to growth. The area is ideally connected to the world's key trading routes, it is globally facing, and has immense knowledge assets throughout its academic, research and industrial base. We have talented people with a strong cultural identity, and a world leading natural environment that makes the Solent the place to do business and grow.

The Local Industrial Strategy is a major opportunity to set an uninhibited pathway for the area to realise its potential to be a world-renowned economic cluster by 2050. As an island nation the sea has, and will, always be a provider of prosperity, and with a new economic dawn arriving there has never been a more important time to unleash the potential of the area and transform the fortunes of our coastal communities. The Solent is ideally placed to play a leading role and we are using this first edition of the bulletin to invite all our partners to come together to help shape and develop the new Local Industrial Strategy for the area.

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### The Solent LEP - A Coastal Economic Area



The Solent LEP coastal economic area covers approximately 600 square miles of Hampshire's entire coastline and the Isle of Wight (IoW). The area is highly urbanised in the eastern half but mostly rural in the west including the New Forest National Park. The LEP is well served by transport infrastructure including the M3, M27, A3, A27 and A31, good national rail links, Southampton International Airport and two major ports. As at 2017 the Solent population based on the new Solent LEP boundary (see p7) was 1.24 million, with a working age population of 776,000. There are an estimated 588,000 residents in employment and a workplace population of over 500,000 employees in over 50,000 businesses.

## A slowdown in global growth is underway

Economic activity across most major advanced and developing economies slowed down in the fourth quarter of 2018 (Chart 1). While US growth was strong in the third quarter the forthcoming release for the fourth quarter is likely to be slower. Japan returned to sluggish growth following a contraction in the third quarter. The eurozone growth of 0.2% matched the third quarter rate which was the slowest since the second quarter of 2014. Furthermore, Germany's economy stalled in the fourth quarter thus narrowly missing a technical recession (two consecutive quarters of negative growth) but Italy fell into recession for the first time since early 2013. In 2018 China's economy grew at its slowest rate since 1990. Since China accounts for about one-third of global growth the slowdown in the world's second largest economy has stoked fears about its impact on the global economy. Survey evidence from purchasing managers continues to point to a slowdown in global growth and contraction in international trade. Survey evidence suggests that the rate of global economic expansion eased further in 2019 reaching a near two-and-a-half-year low in January. The risk of a global slowdown has increased, but the probability of a recession in 2019 is still low. In its latest economic outlook, the OECD expects a slower growth across most major developed markets in 2019 (Chart 2).

## UK growth slows down at the end of last year

UK growth was 0.2% in the final quarter of last year, comparable to the eurozone but markedly weaker than the 0.6% expansion seen in the third quarter. Economic growth was driven by services. Within this broad group output growth in business services & finance was faster than in the previous quarter but growth slowed in transport, storage & communication and distribution, hotels & catering. Production output decreased, and manufacturing saw the largest decline in output since 2012. Construction also fell following strong growth in the third quarter (Chart 3). Increased anxiety about global growth and Brexit have affected business investment which decreased throughout the last year. Investment was about 3% lower in 2018 than in the previous year. Overall economic growth in 2018 was 1.4%, the joint weakest expansion of the economy since 2012.

The labour market goes from strength to strength (Chart 4). The employment rate in the three months to December reached 75.8%, the highest rate on record and unemployment stands at just 4%. The tight labour market continues to support average pay growth which increased at the fastest pace since the middle of 2008. Productivity growth remains the Achilles' heel of the UK economy with labour productivity falling by 0.4% in the third quarter.

Chart 1: Quarterly economic growth

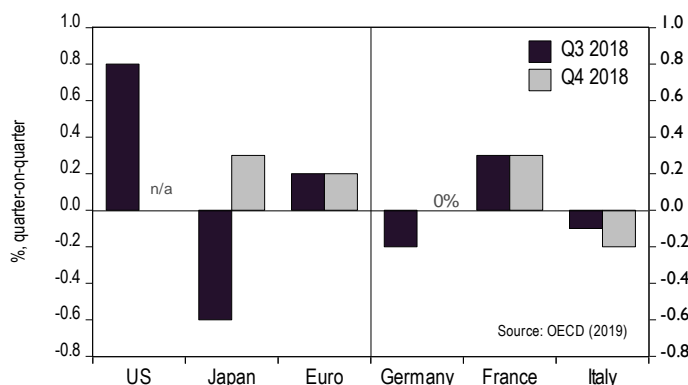


Chart 2: Economic growth forecasts - 2019

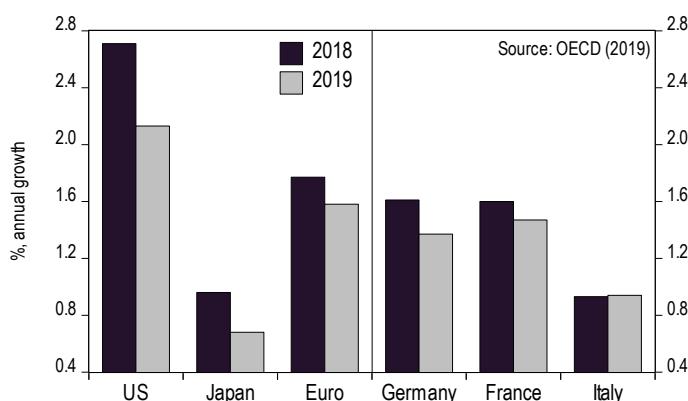


Chart 3: Quarterly economic growth - United Kingdom

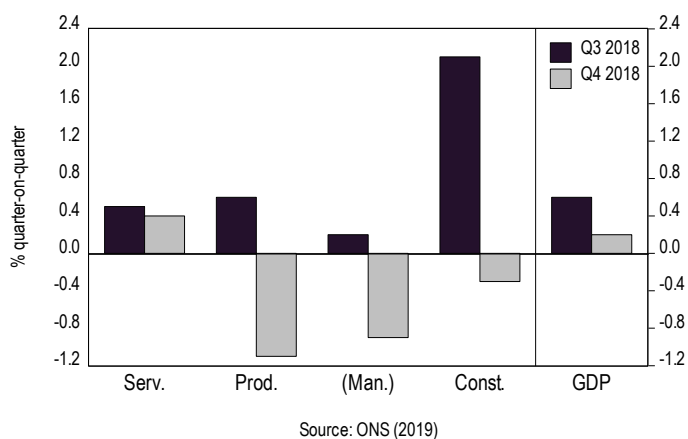
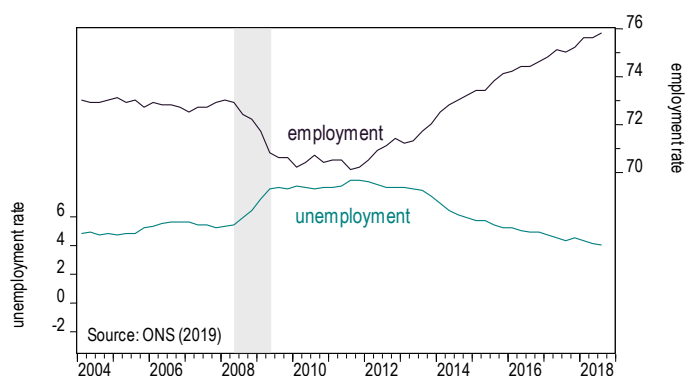


Chart 4: Labour market - United Kingdom



### The near-term growth outlook has weakened

UK growth was weak in the fourth quarter but nevertheless comparable to the eurozone economy and faster than in Germany or Italy. Experimental estimates from the Office for National Statistics (ONS) suggest the UK economy contracted in the final month of the year (Chart 5). The economy contracted across the board in December, but monthly data is volatile and subject to revisions in later periods. Survey evidence from purchasing managers suggests that business activity in December was the second weakest since the referendum to leave the EU. The more recent survey evidence for January suggests that construction saw modest growth in output. Manufacturing, driven by a record high stockpiling of manufacturing components, also expanded. The increase in inventories, associated with contingency planning for a 'no-deal' Brexit is likely to provide a temporary boost to the economy. Services account for about 80% of economic activity in the UK and survey evidence suggests that business activity in this sector stagnated in January. Also, January saw a modest decrease in new orders (a leading indicator of economic activity).

The outlook for 2019 remains subdued, similar to last year. The UK economy is expected to expand at about the same pace this year as in 2018 (1.4%) but a range of independent private forecasts collected by the Treasury suggests that growth could be as low as 0.8% or as high as 1.9% (Chart 6).

### Sluggish growth in the South East weighs down on the labour market

With total economic output of around £267.1 billion in 2017 the South East was the largest subnational economy in the UK after London. In terms of real (inflation adjusted) growth the South East economy expanded by 1.4% in 2017. Economic growth in the South East was one of the slowest in the country and well behind London, the best performing UK economy. Timelier evidence from a regional survey suggests that in the final quarter of last year the South East saw the weakest growth in business activity since the third quarter of 2016. Growth in business activity in the South East in December slipped from fourth to sixth fastest according to Markit. The outlook for 2019 therefore remains subdued with business sentiment at the lowest level since the EU referendum in 2016.

The headline measure of unemployment increased, and employment decreased for much of the last year, but the latest quarterly data is more promising (Chart 8). Employment increased by 71,000 and unemployment fell by 27,000 in the final quarter of last year.

Chart 5: Monthly estimates of economic growth - UK

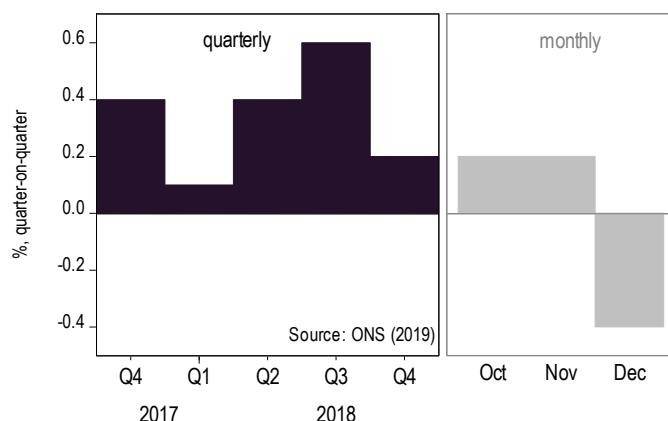
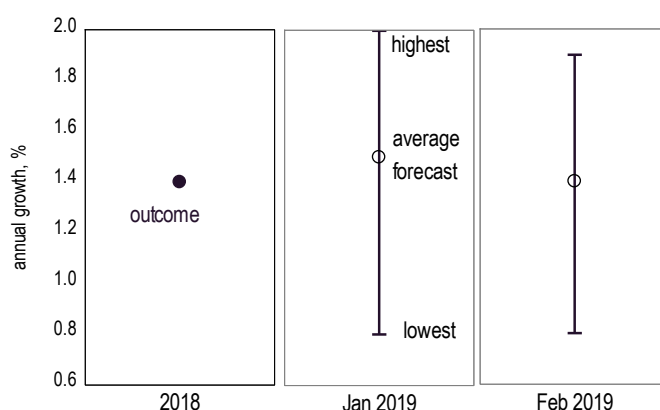


Chart 6: UK growth forecasts - 2019



Source: ONS (2019) and HMT (2019)

Chart 7: Economic output - South East England

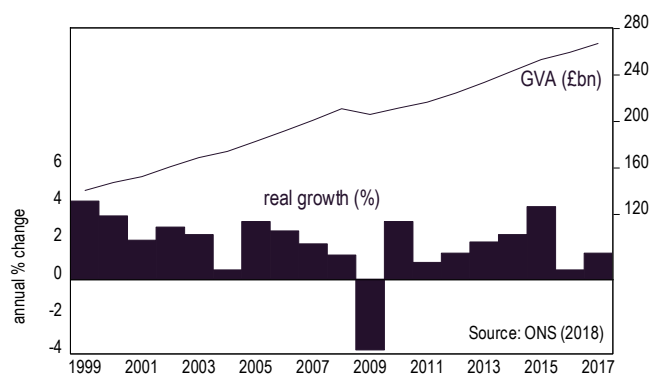
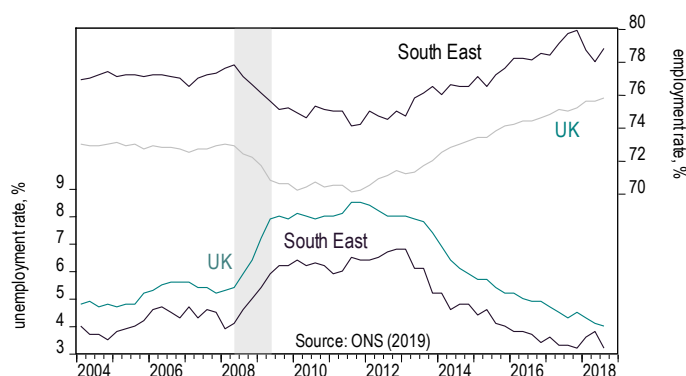


Chart 8: Labour market - South East



## Solent sees fastest economic growth in seven years and third fastest in England

Total economic output of the Solent economy was around £31billion in 2017. The forthcoming changes to the Solent LEP boundary (see page 7) will make little impact to the overall size of the economy. The coastal economy of Solent will still generate around £31bn of economic output annually and account for more than one in every nine pounds of economic output generated in the South East.

The Solent economy is a mid-sized economy, ranked 21<sup>st</sup> out of 38 LEP economies in England but in terms of its contribution to the national growth it punched above its weight in 2017 (Chart 9). The latest preliminary estimates from ONS suggest that economic growth in the Solent was the third fastest amongst all LEP economies in England in 2017. Real economic growth was 3%, slightly faster than in London and much faster than the national or the South East average. 2017 saw the sharpest expansion in the Solent economy since 2010.

Sectoral data points to strong expansion in several sectors that are of strategic importance to the Solent. Exceptionally strong growth in output was seen in professional, scientific & technical activities, accommodation & food and in construction.

Output growth in transport & storage was subdued but within this broad sector warehousing and related activities saw the strongest growth in output. Wholesale saw strong growth but output growth in information & communication was sluggish. Manufacturing output contracted in 2017.

The labour market performance in Solent was mixed in the year to November 2018 (Charts 10 & 11). The headline measures of employment and unemployment were subdued and in line with the South East average but economic activity in Solent increased which was in stark contrast to the South East which registered a fall in economic activity.

Overall, the labour market in Solent remains healthy. Over the past seven years economic activity in Solent has steadily increased, the employment rate reached 76.4% in the year to November 2018 and the number of Solent residents in employment increased by 36,500 to 586,000. Unemployment decreased from 6.6% to 4.3% and the number of unemployed people decreased by almost a third to 26,600.

Chart 9: Fastest growing LEP economies in 2017

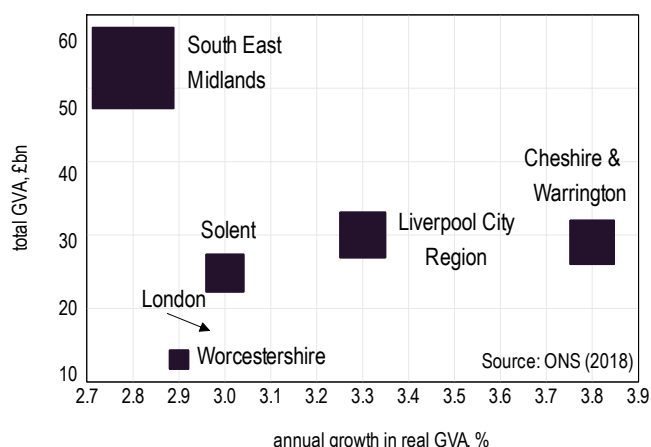


Chart 10: Employment in Solent

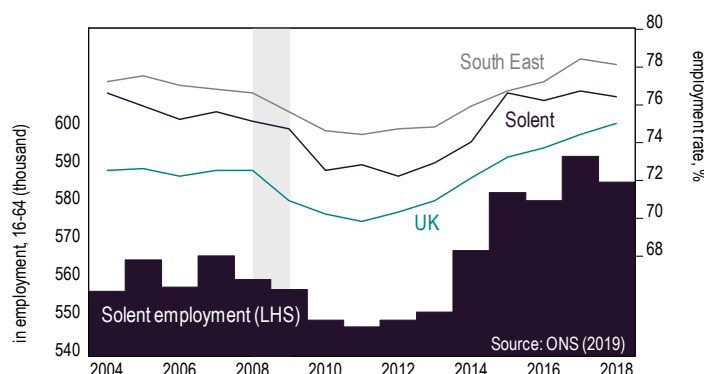
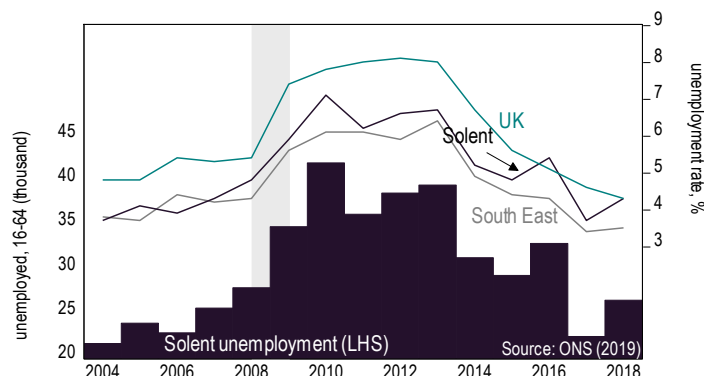


Chart 11: Unemployment in Solent



## Focus on Brexit

On 23 June 2016 the UK voted in a referendum to leave the European Union (EU), thus ending more than four decades of a trade and economic union between the United Kingdom and the EU. The UK government has stated that its aim is to leave both the customs union and the single market, but the government wishes UK trade with the EU to remain as 'frictionless' as possible'. After two years of tough negotiations the 'Withdrawal Agreement and Political Declaration' on the future relationship between the UK and the EU was endorsed by the EU leaders at a special meeting of the European Council in November 2018. However, the UK Parliament rejected the proposal at its meeting in January 2019. The UK stands on the brink of leaving the EU but as of mid-February 2019 the nature of the future relationship between the UK and the EU was not clear.

Following the EU referendum, business confidence and business investment have remained subdued, but the labour market has continued to go from strength to strength against expectations. Increases in employment have pushed up overall income growth which in turn has supported the growth in the economy. Economic growth in the UK post the EU referendum was unimpressive but arguably better than expected. The growth in the EU economy was equally subdued.

Several studies examined the potential consequences of Brexit for the UK economy. Most, but not all academic studies, suggest that the overall effect on the UK economy will be negative over the medium-to-long-term. There is clearly potential for a disruptive short-term impact on the UK economy from leaving the EU. However, it is arguably questionable to what extent this would lead to a significant cost for the economy over the long-term. The long-term effect of Brexit might be more beneficial to the economy providing that Brexit can boost the UK's access to emerging markets. These effects are generally hard to model, and they tend to be omitted from most studies for that reason.

The economic consequences of Brexit are of substantive interest to sub-national policymakers since this would allow them to design the appropriate policy response. The latest Treasury estimate suggests the impact of hard Brexit on the South East economy could be substantial but nevertheless lower than in most other UK regions. There is no academic consensus with studies suggesting the South East alongside London should be the least affected region by the negative economic consequences of Brexit, while others suggest that South East alongside London will be affected more than other UK regions but that their

recoveries will be faster than elsewhere in the UK. 'Localising' those effects is extremely challenging. Studies tend to apportion the national sectoral effects in terms of output to the local level using job estimates. This approach assumes that every firm in a specific sector within the UK will be equally affected by external shocks. The fact that some firms, in for example the Solent area, may have unique features that gives them competitive advantage to withstand external shocks over other firms in the same sector is not reflected in their estimates.

Recent research carried out at the Institute for Fiscal Studies (IFS) suggests that the impact of trade barriers would vary greatly across different industries. The study shows that manufacturers of transport equipment (including car manufacturing), chemicals and pharmaceuticals are likely to experience the largest negative impact on their value added across a range of trade policy scenarios. The negative effect on these sectors in the Solent economy are likely to be modest. Jobs data suggests that employment concentrations in the manufacture of pharmaceuticals, chemicals, and motor vehicles are well below the national average. Manufacture of 'other' transport equipment is the only sector that is overrepresented in Solent relative to the national average.

The change in the terms of trade is likely to lead to disruptions and delays at the main ports of entry to the UK market. These short-term effects could lead to increased lorry movements on a constrained road network which would impose costs to businesses. The costs to consumers could primarily manifest themselves through higher inflation. The non-EU market accounts for about 56% of Hampshire's exports and this is proportionately close to the national average. The US economy alone accounts for about a fifth of all exports (Chart 12). Solent is home to the ports of Southampton and Portsmouth, with Southampton being the largest port for non-EU trade. Increased trade with the non-EU countries should create opportunities to the economy of Solent. The port of Southampton should benefit from increased flow of goods. Sectors such as legal services and distribution & logistics should be direct beneficiaries but accommodating future growth in distribution & logistics may be faced with constraints such as land availability.

The Solent has a large service sector economy that may be exposed to the effect of non-trade barriers to a much greater extent than to any future barriers on trade in goods. A recent study by the London School of Economics (LSE) suggests that the impact of tariffs and non-tariff barriers on most local authorities in Solent is likely to be relatively modest compared to most other local economies in the South East.

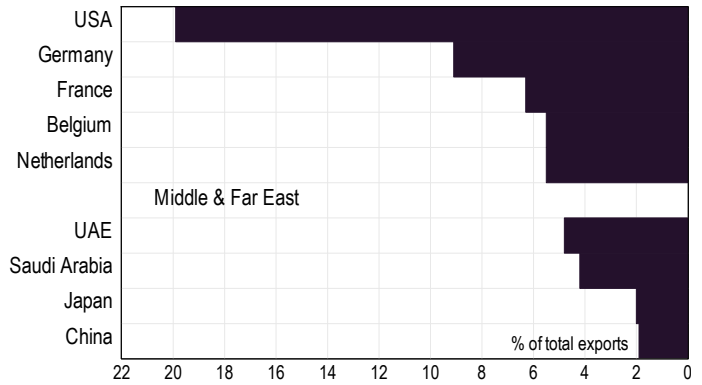
The Solent is home to over 600 foreign owned businesses and their subsidiaries. About 40% of which are EU firms and close to 1 in 4 are US firms (Chart 13). Leaving the EU could reduce FDI flows since the UK and Solent could become less attractive to investors looking to access the EU market. However, the main attractiveness to foreign firms for locating in Solent is access to the UK market as indicated by the substantial share of EU businesses.

With over 7,500 businesses in export intensive sectors that employ more than 67,000 people, the economy of the Solent is well suited to benefit from growth in demand from existing or new Free Trade Agreements (FTA). The area has a relatively large concentration of export intensive businesses in several manufacturing activities, transport, computer programming and consultancy and in professional, scientific and technical activities.

The economy of Solent is relatively diverse which should imply that it should be more resilient to external shocks than those less economically successful economies in the UK. The precise impact on the economy of Solent will depend on the terms of the withdrawal that the UK government is able to negotiate and any potential positive impacts on the economy from negotiating new FTAs with non-EU economies.

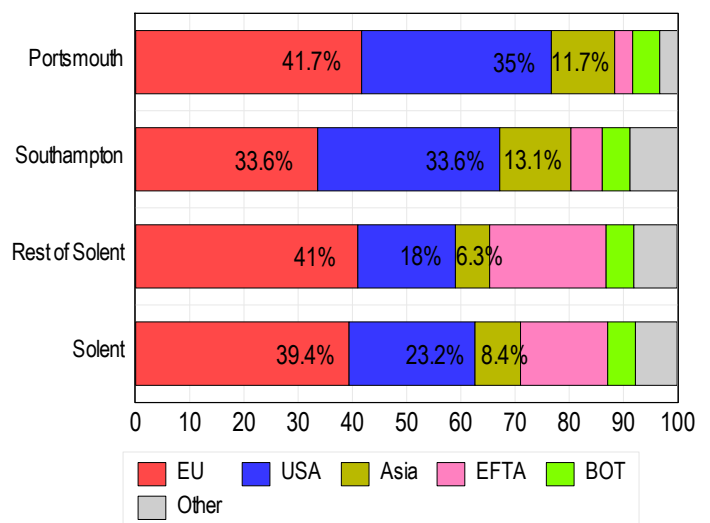
The 'Brexit readiness' page on the Solent LEP website provides links to businesses and other support pages in preparing for EU Exit: <https://solentlep.org.uk/what-we-do/news/brexit-readiness/>

Chart 12: Main export destinations - Hampshire & the Isle of Wight



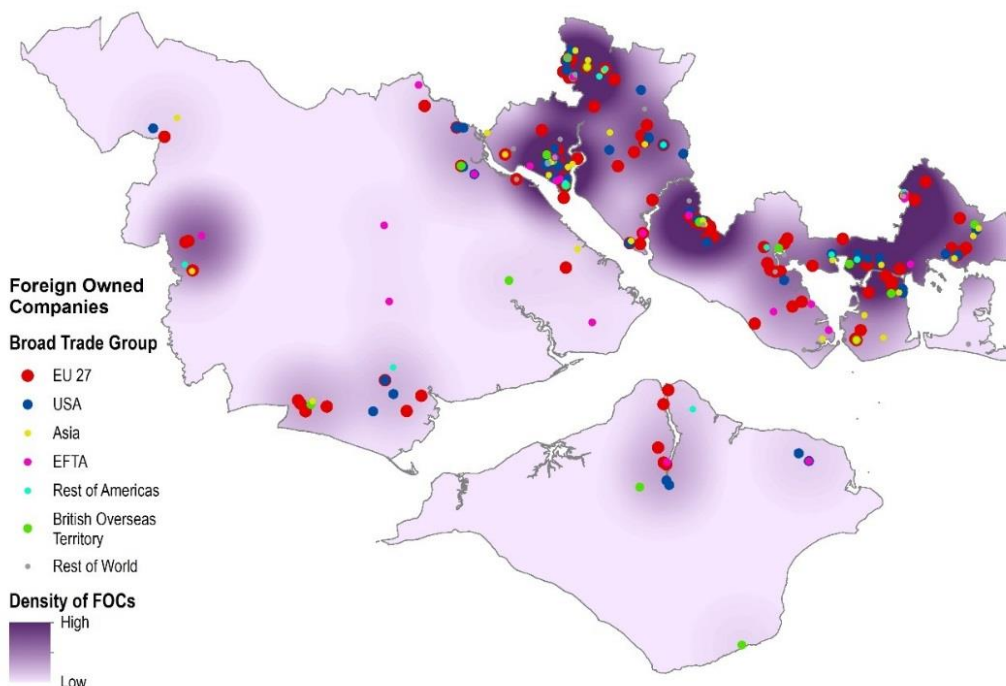
Source: EBIS (2018) estimate

Chart 13: Origin of inward investment



Source: BvD (2018)

Spatial distribution of foreign owned businesses in Solent



## Solent LEP policy news

### Preparing for BREXIT - drawing a local picture

The Solent Local Enterprise Partnership is working with the Government in order to gather information about how businesses in the Solent are preparing for Brexit.

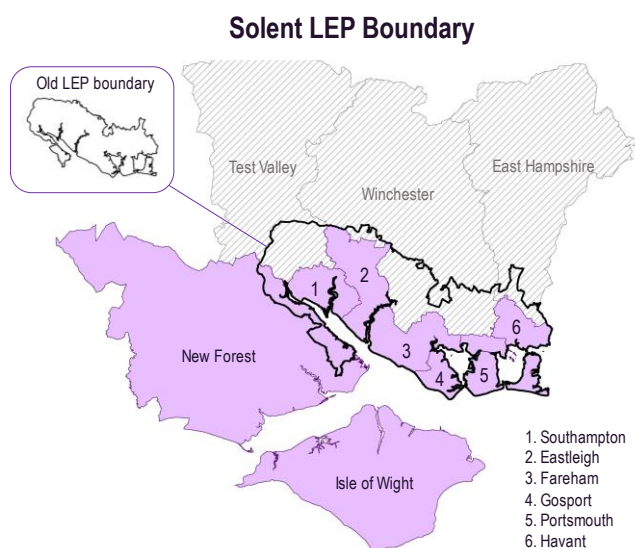
How are you preparing for the changing relationship with the EU? What type of actions are you taking in preparation? What type of support from the Government would be useful in coming months?

This feedback will help the Government shape their priorities in support of UK businesses.

Find out more [here](#). Please take 5 minutes to complete the short survey.

### Changes to Solent LEP Boundary

As part of Government Policy Review, LEP boundaries are required to fit to whole local authority areas. Prior to the review, the Solent LEP boundary included parts of four districts also sharing membership with the Enterprise M3 LEP.



Under the new LEP economic areas the New Forest is now entirely part of the Solent LEP economic area, whereas East Hampshire, Test Valley and Winchester are now wholly within the Enterprise M3 LEP.

### Building our Coastal Powerhouse

LEPs have been set a mission by Government to deliver Local Industrial Strategies (LIS). These are intended to promote regional productivity through a focus on the foundations of: Ideas; People; Infrastructure; Business Environment and Places.

The Solent Local Industrial Strategy is an opportunity to put our region on the path to realise its potential as a world-renowned economic cluster by 2050. We aim to establish the Solent as a confident, forward-looking, pioneering and internationally-facing economy through securing an unprecedented coastal renaissance.

Our Local Industrial Strategy will be shaped by:

- Gathering evidence of local strengths and challenges, future opportunities and actions needed to boost productivity, earning power and competitiveness.
- Seeking investments that will best use local growth funding with impact monitored and evaluated.
- Using our convening power to bring together partners from the private, public and third sectors, for example to co-ordinate responses to economic shocks working with a wide-range of local partners as an informed and independent voice for the area.

The consultation to support the development of our Local Industrial Strategy is to be launched at our 2019 Annual Conference on 12 March. We will be seeking input from key partners across all areas and sectors from our economy to support its development. This is with a view to having a completed strategy agreed with Government in early 2020. As part of our work we want to engage with our partners to help shape the development of the strategy and there will be a number of events coming up.

For further information and to register your interest please email [LIS@solentlep.org.uk](mailto:LIS@solentlep.org.uk)



## Solent LEP investment news

### New UK Maritime Centre of Excellence - gets Cabinet Seal of Approval

Penny Mordaunt, MP for Portsmouth North joined Anne-Marie Mountfield, Chief Executive of the Solent LEP at Portsdown Technology Park in January. Along with QinetiQ, they marked the official start of work on the site.

The £23m redevelopment project will generate up to 100 jobs and create a new UK Centre of Excellence for Maritime Mission Systems. The Solent LEP is contributing £5m to the project via HM Government's Local Growth Fund, alongside QinetiQ's investment of over £18m.

The MP for Portsmouth North said: *"The creation of the UK Centre of Excellence for Maritime Mission Systems here in the Solent is testament to the expertise of the people from the area and its ongoing commitment to supporting the brave women and men of the Royal Navy. Attracting other maritime organisations to the area, this development will provide more jobs for local people and boost our economy."*



**Anne-Marie Mountfield, Chief Executive, Solent Local Enterprise Partnership and Penny Mordaunt MP, Secretary of State for International Development, and Minister for Women and Equalities**

### Construction begins on new Civil Engineering Training Centre

Construction of Fareham College's new £4.1m Civil Engineering Training Centre (CETC) officially began in January. The Centre will be situated at Solent Airport in Lee-on-the-Solent adjacent to the College's existing CEMAST (Centre of Excellence for Engineering, Manufacturing and Advanced Skills Training) campus. CETC will be the home for the College's pioneering Civil Engineering and Groundworks Apprenticeship (CEGA) and will deliver more than 1,600 groundwork and civil engineering apprenticeships in its first five years of development.

The Solent LEP has been able to support this ground-breaking project with Local Growth Fund investment.



Construction works start at Fareham College's new £4.1m New Civil Engineering Training Centre

### Solent Prosperity Fund

Looking for funding support? The Solent Prosperity Fund is open for applications for loan and/or grant support from the Local Growth Deal. It is there to provide opportunities for new and established businesses to grow.

It is also available for businesses and other organisations to deliver larger capital projects.

[Find out more here](#), call our Business Support Executives on 023 9268 8055 or send them an email on [enquiries@solentlep.org.uk](mailto:enquiries@solentlep.org.uk).

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