



**Brian Johnson**  
Deputy Chair & SME Champion

### Contents

Global economy	2
UK economy	2
South East economy	3
Solent LEP economy	4
Focus on SMEs	5
Solent LEP policy news	7
Solent LEP investment news	8

Welcome to the **second edition of the Quarterly Economic Bulletin**. This edition, focusses on our world-class small and medium sized businesses.

Small and medium sized businesses (SMEs) are a vital component to the Solent economy and account for more than 99% of all businesses in our area, and bring innovation to all sectors of our diverse economy and provide more than 60% of jobs in our communities.

We have spent a lot of time speaking with SMEs in recent months in the context of both future opportunities and immediate barriers to growth. Local feedback reflects some of the challenges reported nationally; with skills, availability of premises and finance highlighted as particularly important in my recent conversations here in the Solent.

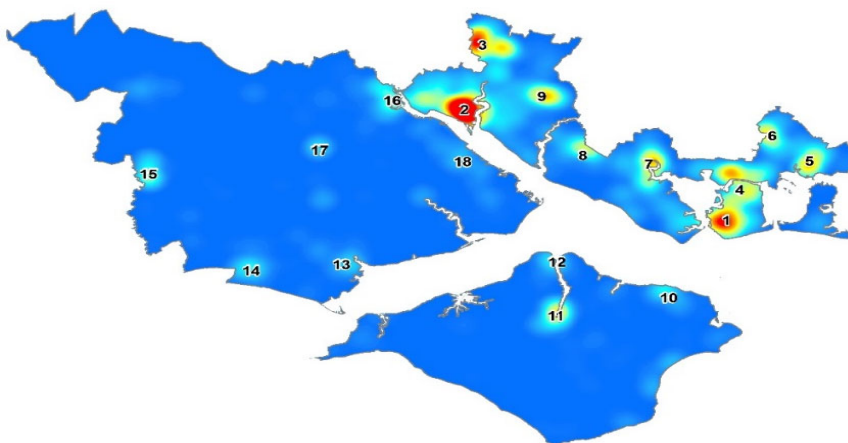
Our Growth Hub team is having a real impact, offering business support and guidance at well over 100% than that provided last year!

They offer a range of fully-funded support for businesses at all stages of their development, from start-ups through to growth. From masterclasses on specialist topics, to monthly one-to-one clinics based in various locations across the Solent. The Growth Hub team is here to simplify the process of accessing business support. Their advice might include one of our own support projects, or they might connect businesses with our network of expert partners across the area. For high-growth businesses, we have also established a bespoke Growth Accelerator Programme to help businesses realise their growth potential. We are here to back our SMEs and invite you to get in touch with us to see for yourself how we can help you achieve your business ambitions.

**Brian Johnson**  
Solent LEP

The Solent LEP coastal economic area is home to some 42,000 SMEs with 50,800 local business units (99.6% of all businesses). SMEs in Solent are spread throughout the area with large concentrations in: (1) Portsmouth West, (2) Southampton, (3) Eastleigh/Chandlers Ford and then (4) Hilsea/Cosham, (5) Havant, (6) Waterlooville, (7), Fareham, (8) Segensworth/Whiteley, (9) Hedge End, (10) Ryde, (11) Newport, (12) Cowes, (13) Lymington, (14) New Milton, (15) Ringwood, (16) Totton, (17) Lyndhurst and (18) Hythe

### SME business density across Solent



## Strong global growth observed in first quarter proves unsustainable

As predicted by business surveys, economic growth among the world's major economies generally slowed down in the second quarter of 2019 and where reduced growth rates relative to the first quarter were clocked by all major economies except France and China (Chart 1). Such a reduction in growth was most notable in Germany and the UK with both economies contracting by 0.1% and 0.2% respectively on the quarter. The US economy performed the best among this group with a growth rate of 0.5% followed by Japan and France. China was the only major economy that expanded at a faster pace in the second quarter compared to the first quarter of the year. However, Chinese annual growth stood at a 27 year low reflecting the pressures of the ongoing trade war with the US and sluggish demand from major European markets.

Trade and investment have slowed globally, manufacturing production has contracted, and business and consumer confidence has been damaged. The global composite survey of purchasing managers for May, June and August 2019 represent the joint lowest the index has been in three years (Chart 2). Both growth of new orders and business optimism hit their lowest in seven years in August. In the context of trade tensions and policy uncertainty the growth outlook for the third quarter is therefore dim.

## UK economy contracts in second quarter

The 0.2% contraction in economic output in the UK in the second quarter represents the sharpest quarterly slowdown in the UK economy since the last quarter of 2012. Broadly speaking all sectors of the economy underperformed (Chart 3). The service sector was the only broad sector that managed a degree of growth, but growth in this sector was meagre and insufficient to prop up the flailing manufacturing and construction sectors. Manufacturing contracted at its sharpest pace since the height of the global financial crisis in 2009, registering a reduction of output of 2.3%. Sluggish performance of the economy in the second quarter was somewhat expected since a strong performance in the first quarter was widely recognised as temporary and was largely attributed to stock building as firms brought forward purchases.

The UK labour market has, however, remained relatively resilient. Employment has continued on its upward trajectory with an increase of 31,000 in the three months to July. Employment growth was nevertheless slower than in the previous month. Relatively low inflation around the Bank of England 2% target has contributed to the growth in real pay (Chart 4). The UK remains mired in its 'productivity puzzle' with another fall in labour productivity.

Chart 1: Quarterly economic growth

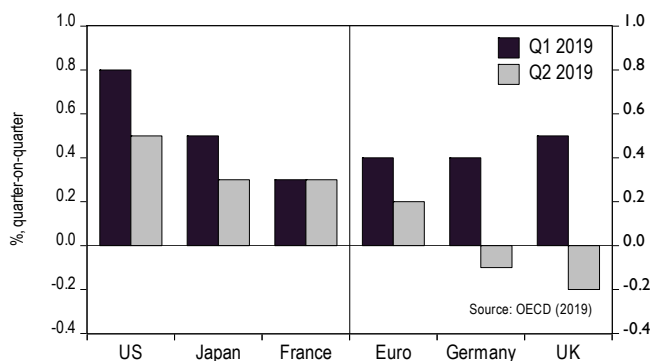


Chart 2: Global Composite Output Index

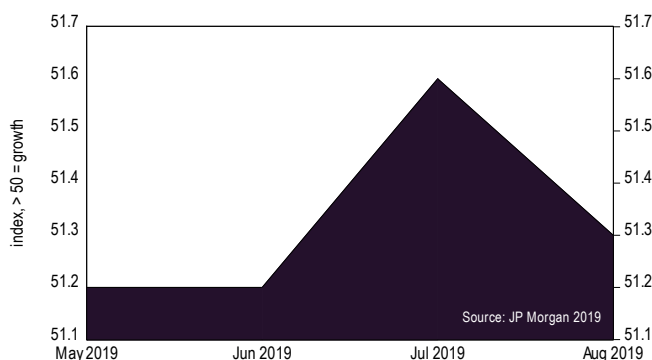


Chart 3: Quarterly economic growth by sector - United Kingdom

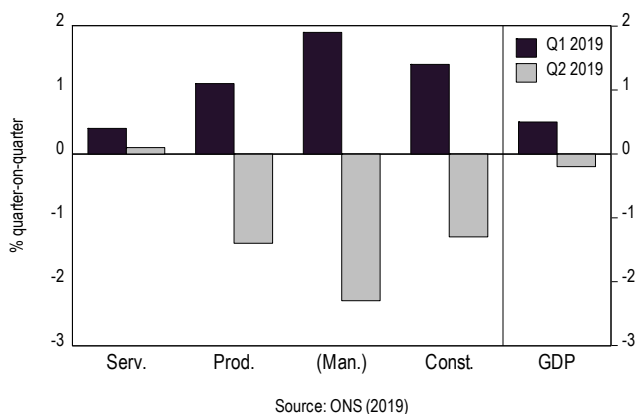
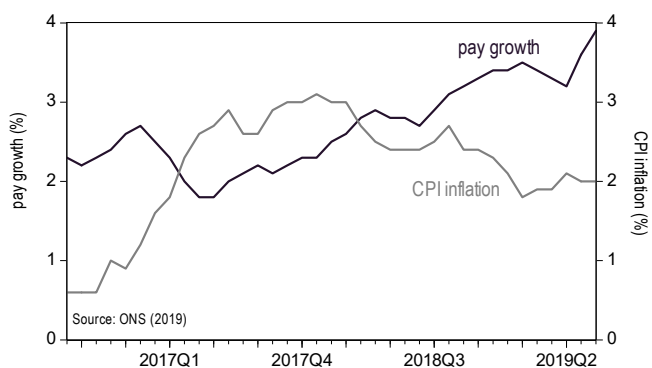


Chart 4: Pay growth and inflation - United Kingdom



## Will the UK avoid technical recession in third quarter?

Germany's IFO institute has predicted a further period of negative growth in the third quarter and hence a technical recession in Germany. A technical recession in the UK would also be realised should the UK economy contract in the third quarter. Going into the third quarter, a promising growth rate of 0.3% was recorded in the month of July which was generally greater than expected. This perhaps suggests that the contraction witnessed by the UK in the second quarter was somewhat artificial and reflected only the running down of accumulated stock. However, monthly data is volatile, and it needs to be treated with a degree of caution. Whether the economy avoids technical recession will to a large degree depend on August's performance. Survey evidence from purchasing managers suggest that the average level of business activity in the UK in the three months to August stood slightly above the level that points to contraction (Chart 5). The August PMI report concludes that 'business activity in the service sector almost stalled in August as Brexit-related worries escalated'. Furthermore, the survey indicates that output in manufacturing contracted faster in August than July, with the output in the sector dropping at its fastest rate since July 2012. The forward-looking indicators such as the volume of new orders remain equally subdued (Chart 6).

## Strong economic expansion in the South East followed by a sharp slowdown in business activity

Of all the subnational economies in England the South East was the region with the fastest growth rate in the final quarter of 2018 according to the new but experimental official estimate of quarterly regional growth. Quarterly economic growth was 0.8%, compared to 1% in the third quarter (Chart 7). A slowdown in growth was common to all regions. This was particularly pronounced in London where a growth rate of 1.9% was recorded in the third quarter followed by stagnation in the last quarter of 2018.

The relative dominance of the service sector in the South East economy implies that the region was somewhat insulated from the weak growth experienced by the UK economy in the second quarter. However, the most recent survey evidence suggests that business activity in the region stalled in August with a three-month average indicating flat growth (Chart 8). This data essentially shows that the performance of the South East was in line with the UK in the third quarter but volume of new orders (a leading indicator of future growth) in the South East has been falling over the summer months.

Chart 5: Business activity and GDP growth - United Kingdom

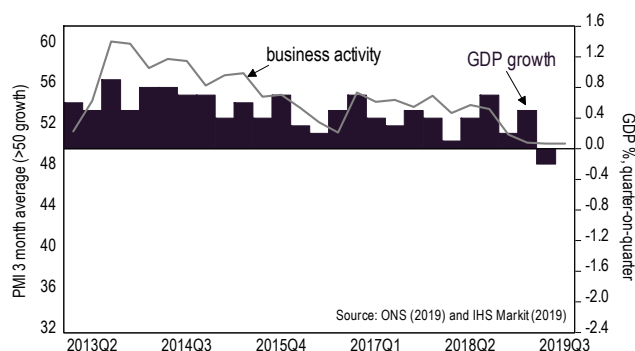


Chart 6: Employment and new orders - United Kingdom

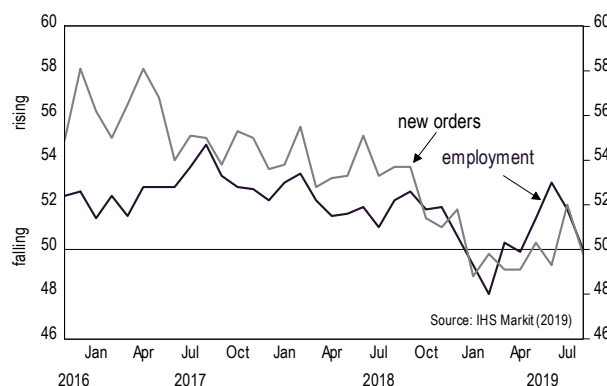


Chart 7: Quarterly GDP growth - English regions

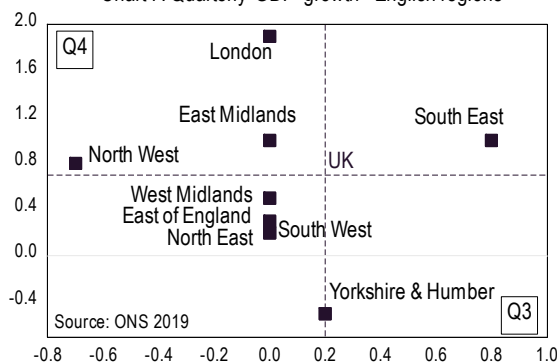
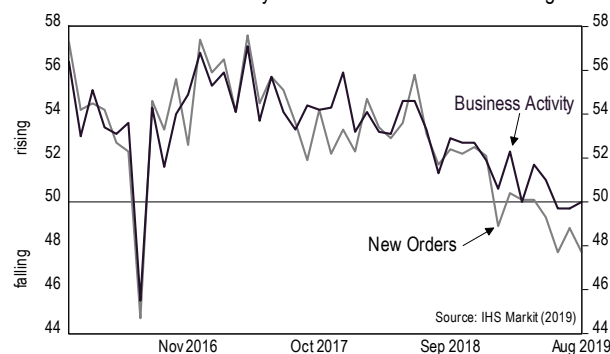


Chart 8: Business activity and new orders - South East England



## Solent sees a slight decrease in economic activity, employment and unemployment

In the year to March 2019 the Solent LEP area had over 751,000 residents in employment, or 76.5% of the working age population. This represents a slight decrease in both the absolute number of employed residents and the proportion of working age residents in work. Unemployment stood at just 3.6% which corresponds to a total of just over 28,000 Solent residents. For the same period a year earlier, unemployment stood at a higher rate of 3.8%. The economic activity rate stands at 79.3% compared to 81.1% in the year to March 2018. Therefore, the headline labour market data for Solent points to a slight decrease in employment, unemployment and economic activity rates (Chart 9). A small proportion of Solent residents have therefore moved out of employment into economic inactivity and others have stopped looking for work as they left the labour force.

Over this time the composition of employment has changed slightly (Chart 10). The year to March 2019 saw a decrease in the number of employees in employment and an increase in self-employment among Solent residents. Despite the small decrease in economic activity and a higher incidence of self-employment the headline data suggests that the labour market in Solent remains robust.

## Housing affordability in Solent improves

House price growth for the UK is close to flat with prices falling in several regions. The decline in prices has been led by London and the South East where prices are now falling year-on-year. The Solent area is no different with prices falling in most Solent local authorities (Chart 11). The sharpest decrease in house prices in the year to July 2019 within the Solent area was registered in New Forest, the two cities and Fareham. This arguably makes sense since these areas recovered most rapidly from the 2008 correction. Elsewhere in Solent prices are still rising but at a slower pace. With wage growth coming in at above 3.5% in the last few months, and inflation at around 2%, house prices are falling in real terms (adjusted for inflation) which implies that housing affordability in the Solent area is improving steadily.

Timely sub-regional growth data is not available but economic growth in Solent was most likely subdued in the second quarter given the large share of manufacturing, other production and construction activities in its economy. The economy of Solent is forecast to expand by about 1.2% this year according to consultancy firm Cambridge Econometrics. This is slightly faster than the estimate for last year but well below 2017 (Chart 12).

Chart 9: Headline labour market indicators\* - Solent

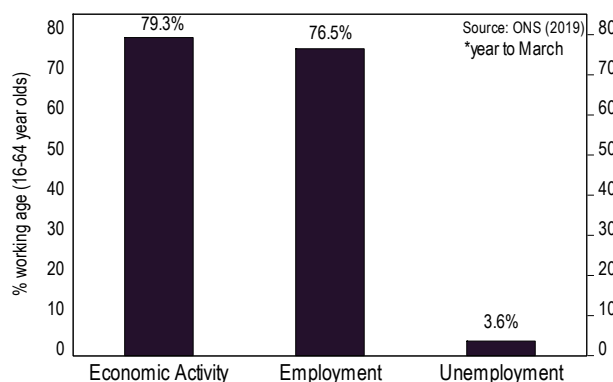


Chart 10: Employment growth\* - Solent

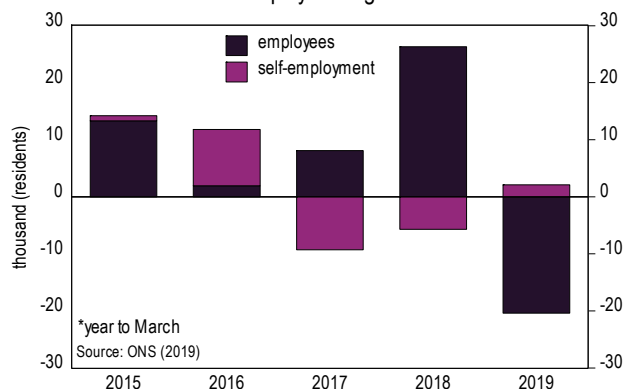


Chart 11: House prices - Solent

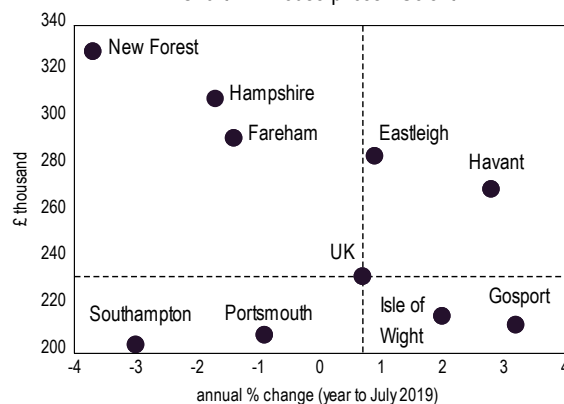
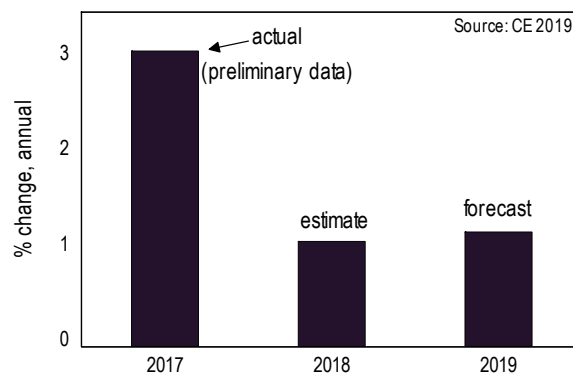


Chart 12: Economic growth - Solent





## Focus on SMEs

A vibrant small & medium-sized enterprise (SME) sector is a vital ingredient for a healthy economy in the 21<sup>st</sup> century. Businesses that employ less than 250 people account for 99.6% of all private sector enterprises in the South East. They are responsible for large contributions to value added and employment. Three quarters of SMEs do not employ anyone aside from the owner(s) but SMEs still account for over 60% of total employment and about 46% of turnover in the region.

There are almost 43,800 SMEs with about 52,600 local business units operating in Solent (Table 1). SMEs account for 99.6% of all businesses in the area. Within this group of businesses SMEs that employ at least 10 people (about 4,650 enterprises) account for close to one in every 10 enterprises in Solent. Since some of these enterprises have multiple business units in the area, they account for about one in every six local business units or 8,750 local businesses.

SMEs are spread throughout Solent with large numbers of SMEs found in major urban centres. However, SMEs account for a larger share of all businesses in rural areas than in the main cities that tend to have a higher proportion of large businesses. SMEs that employ at least 10 people are about 1.1 times as concentrated in Solent as in the UK. High concentrations of SMEs that employ at least 10 people relative to the UK average are found in Portsmouth, Southampton and the Isle of Wight. These businesses are about a quarter more concentrated in Portsmouth than nationally and about a fifth more concentrated in both Southampton and the Isle of Wight. Fareham and Gosport also have SME (10+ employees) concentrations of around 10% above the national average.

The area is also home to a large concentration of export intensive SMEs (see map page 6) and to substantial numbers of SMEs in several strategically important sectors (Chart 13). Over 3,700 SMEs are found in Creative Industries, about 3,500 in Digital Technologies, 2,500 in Advanced Engineering and 2,300 in the Green Technologies sector. This is followed by over 1,700 SME businesses in a narrowly defined Marine & Maritime and 230 in Aerospace & Defence sectors.

Fareham, Gosport, Portsmouth and Southampton have relatively high concentrations of SMEs that employ at least 10 people in Creative Industries. Environmental Technologies are concentrated in Southampton, Eastleigh and Portsmouth. Relatively large concentrations of larger Digital SMEs are found in Gosport, Fareham, Havant, Portsmouth and Southampton. Havant, Eastleigh, Portsmouth and Fareham have high concentrations of

larger SMEs in Advanced Manufacturing sector. Marine businesses are found across Solent with high concentrations of larger SMEs in Southampton, the Isle of Wight, Portsmouth, Eastleigh and Fareham.

Table 1: SMEs in Solent - 2019

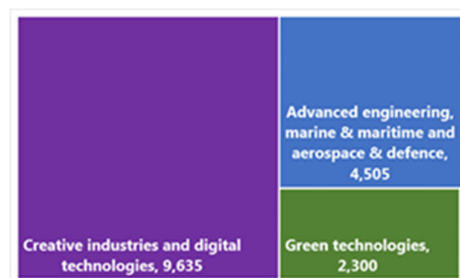
Size (employment)	Enterprise	share (%)	Local Unit	share (%)
Micro (0 to 9)	39,290	89.4	44,015	83.4
Small (10 to 49)	3,840	8.7	7,110	13.5
Medium-sized (50 to 249)	660	1.5	1,455	2.8
Large (250+)	150	0.3	185	0.4
SMEs (0 to 249)	43,790	99.7	52,580	99.6
SMEs (10 to 249)	4,650	10.2	8,750	16.2
Total	43,930	100.0	52,765	100.0

Source: ONS (2019)

Solent alongside Farnborough has the highest concentrations of Aerospace & Defence businesses in the South East. Concentrations of SMEs that employ at least 10 people in the Aerospace & Defence sector in Portsmouth, and Eastleigh is about 1.6 times the national average. The Isle of Wight has concentrations of about a quarter above the UK average.

In 2018 Solent had 7,300 more SME businesses than in 2010, of which 630 were businesses that employ at least 10 people. SME business growth in Solent was marginally slower than the South East average and this was driven by the slower growth in the micro and small business groups.

Chart 13: SMEs in sectors of strategic importance to Solent



Note: Life sciences = 80

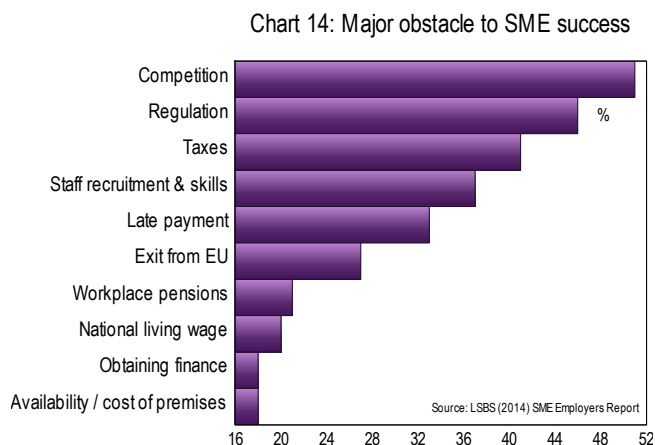
Source: ONS (2019) and EBIS. 2018 data

Despite marginally slower growth in all SME businesses, Solent outperformed the South East across a number of strategic business sectors. Business growth among micro businesses was ahead of the South East average in Advanced Engineering and Aerospace & Defence. The same is true of SMEs that employ at least 10 people (small and medium) in Marine & Maritime, Digital Technologies and Aerospace & Defence.

Due to internal (firm-specific) factors and constraints in the business environment SME contribution is below its potential. As already stated, the vast number of small businesses stay small over their lifespan. A variety of common challenges faced by SMEs has been identified from several surveys (Chart 14).<sup>1</sup>

Competition in the market place tops the list followed by regulation and taxes. SMEs are often seen as being at a disadvantage compared to large businesses when it comes to business advice and direct access to central government departments and agencies. Financial factors are another area that affect both business survival and growth. Issues of collateral and alignment with international standards affect SMEs disproportionately which in turn could affect access to finance. However, obtaining finance in the current business environment is ranked relatively low on the list of major obstacles to SME success. The issue of late payment is a far more important constraint to SME business growth and success.

Unsurprisingly Brexit is seen as a challenge and some survey evidence suggests that it had more negative impact on SMEs than any other external factor. However, there are significant variations by sector with SMEs in manufacturing and retail more exposed than other sectors. Some of these challenges are likely to have fed into SMEs' willingness to invest which has softened in recent periods, not least due

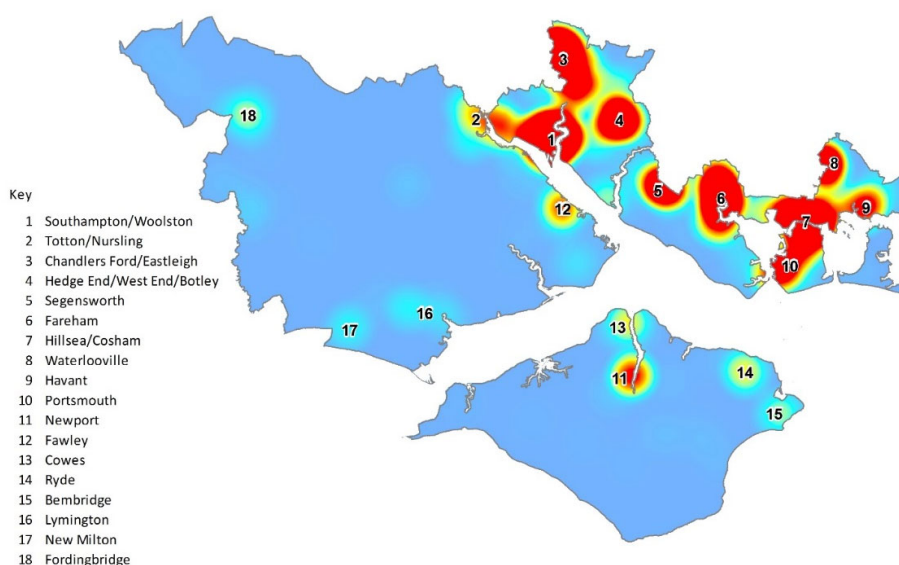


to uncertainty about Brexit and the future trade deal with Europe and the UK and global economic outlook.

In today's challenging business environment Solent LEP has a key role to play in supporting local businesses. Core to the Solent LEP Growth Strategy has been the creation of a growth hub that provides a "one stop shop" directing businesses towards sources of business support, whilst the Solent Growth Fund is there to support the growth of SMEs. The Solent Growth Hub has supported over 15,000 businesses over the past couple of years.

Further information on the Growth Hub is available at: <https://www.solentgrowthhub.co.uk/>

#### Business density of SMEs in export intensive sectors (2019)



<sup>1</sup> ERC (2018) *State of Small Business Report 2018*. Dun & Bradstreet (2018) *Small Business, Big Opportunity*

## Solent LEP policy news


### Your Vision for Solent 2050

The Solent LEP is developing a new economic strategy for the area to promote regional productivity through a focus on the Government's foundations of: Ideas; People; Infrastructure; Business Environment and Places.

The Solent LEP has been listening to local businesses, communities and key stakeholders through a series of engagement events, dedicated dialogues and online surveys. Launched at the LEPs annual conference in March, the consultation has resulted in over 1,250 responses and over 500 business engagements to date; numbers which continues to rise.

Whilst both the LEPs engagement activity and work to develop the strategy continues, three key strategic, future-based themes are emerging, all of which are underpinned by the enhancing factors of digital and technology, coastal communities, connectivity and natural capital.

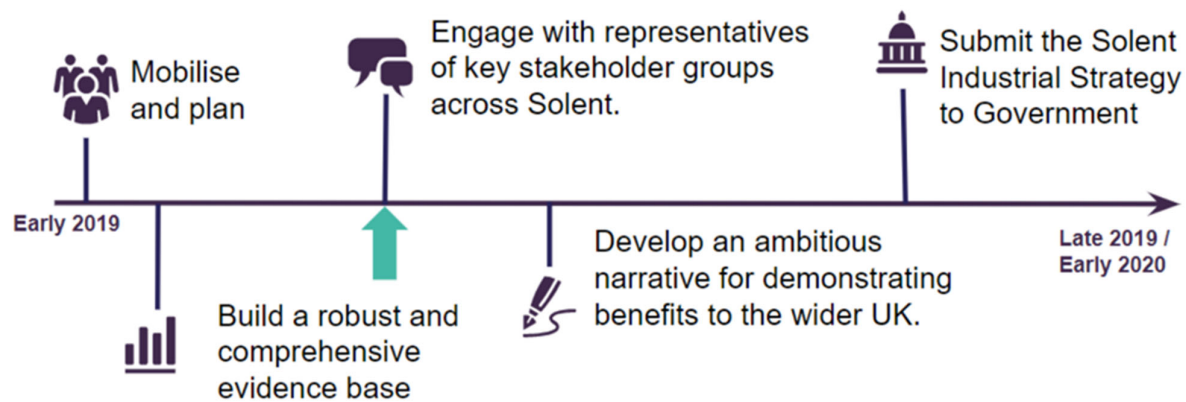
### Solent Local Industrial Strategy: Emerging Themes

Core Elements	
	<b>Marine and Maritime cluster</b> Enhance the marine and maritime cluster, attracting innovative engineering and advanced manufacturing industries to the area.
	<b>Clean Growth</b> Promote the Solent as a leading hub for environmentally friendly innovation and development.
	<b>Visitor Economy</b> Preserve and enhance the natural and cultural assets for residents and visitors to enjoy, for generations to come.
	<b>Renaissance of Coastal Communities</b> Reinvigorate and develop key coastal sites, that provide hubs for development and innovation that characterise the region, in line with its cultural and maritime heritage.

### Enabling Factors

Embracing and Innovating New Technology	A Celebration of our Cultural, Heritage and Creative Assets
Strengthened Natural Capital	Improved Connectivity (Digital and Transport)
Skills and Talent	Housing

## Our journey to develop a Local Industrial Strategy for the Solent:



## Solent LEP investment news

### Solent Manufacturing on the World Stage

Founded in 2001, Havant based Innova Design and Build is an advanced manufacturing and precision engineering SME working across multiple industry sectors including electronics, marine and defence. The firm's cutting edge machining software has enabled Innova to dramatically reduce lead times and costs, making machining a fast and affordable process for prototype and smaller quantity orders. Their capability has seen the firm hit the world stage, producing trophies for both the FIFA 2014 and 2018 World Cups.

The Solent LEP has worked with Innova to accelerate growth at the business. Supported by an £18,000 funding award from the LEP, Innova have established an in-house pre-treatment and painting service. The new in-house facility has enabled Innova to meet new aerospace standards; growing the company's market share in the sector.

sector, developing a new service offer for Solent-based manufacturers and creating three new jobs at the firm.



**Solent Manufacturing on the World Stage:** 2014 and 2018 FIFA World Cup Man of the Match Trophies Manufactured in the Solent by Innova Design and Build



## Building a Workforce for the Future

The Solent LEP has supported SMEs by enabling a trained labour force via the collaboration of industry and education. Getting people with the right skills in place is key and we have prioritised investment in this area, including the new further education training centre CTEC Fareham College's new Civil Engineering Training Centre, to which we contributed £XX.

University-led projects such as the Future Technology Centre in Portsmouth, and Warsash School of Maritime Science and Engineering have also received investments. These have complimented our partnership with the Careers Enterprise Company, forging links between Solent schools and colleges, and employers, as well as supporting direct business investment in skills to build a workforce with skills fit for the future economy.



CTEC: Employers frequently visit the site to support training, mentor apprentices and maintain the strong industry connections that the training scheme is renowned for. advanced manufacturing and marine sectors through empowering the next workforce generation

## Forthcoming

### Bank of England

- MPC base rate: 7 Nov
- Inflation report: 7 Nov

### Office for National Statistics

- UK & Regional Labour Markets: 12 Nov, 17 Dec
- Consumer Price Index: 13 Nov, 18 Dec
- GDP (quarterly): 11 Nov
- Business Investment: 11 Nov

## National

General election - 12 December

## Solent LEP

- Solent Skills Advisory Panel - 1 Nov
- Business Growth Clinic – Havant: 7 Nov
- Big Networking Night: 21 Nov
- Business Growth Clinic – Eastleigh: 5 Dec

**Forthcoming in Solent Quarterly Economic Bulletin (Winter 2019) 'Technology & the Labour Market'**