

Isle of Wight Barometer Business Report

SURVEY 5 - JANUARY 2010



Methodology - The fifth Business Barometer online survey of 45 businesses took place between 6th and 27th January 2010 reporting on the quarter to the end of December.

The Barometer Business survey has been established to be broadly representative of the Island's economy with both large and small businesses taking part across all the main industry sectors.

As we move into the second year of the survey we remain keen to increase the number of businesses involved. If you are interested in taking part then please get in touch using the contact details on the final page. It is your opportunity to contribute to a better understanding of how the Island's economy is operating and register the issues affecting your business.

HEADLINES

- **Notwithstanding the reported increase in business activity across the South East region, and following the improved performance reflected in the last survey, a slightly weaker trading position has been reported this quarter. However there continue to be signs of an economic recovery on the Island, albeit a cautious one**
- **A very mixed picture is apparent. Some businesses appear to have continued to trade well whilst others have not sustained last quarter's improvement**
- **Investment is at its lowest level during the last 15 months although there is an indication that this position may strengthen over the next 6 months with 26% of businesses indicating they intend to increase investment**
- **44% of businesses currently employ fewer employees compared to the same time last year.**
- **Business confidence has slipped with 21% of the respondents less optimistic about their business compared to only 10% 3 months ago. However 40% of businesses are more optimistic. Confidence in the national economy has fallen back to the early 2008 level**
- **During the next 6 months sales and orders are expected to increase for just under half of the Business Barometer respondents**
- **86% of businesses have indicated that they intend to maintain or increase employment levels during the next 6 months**
- **For those businesses who want to trade internationally the main barriers appear to be knowledge of markets/contracts, legal and regulatory issues and the ability of individual business to service an overseas contract.**

Recent Business Performance

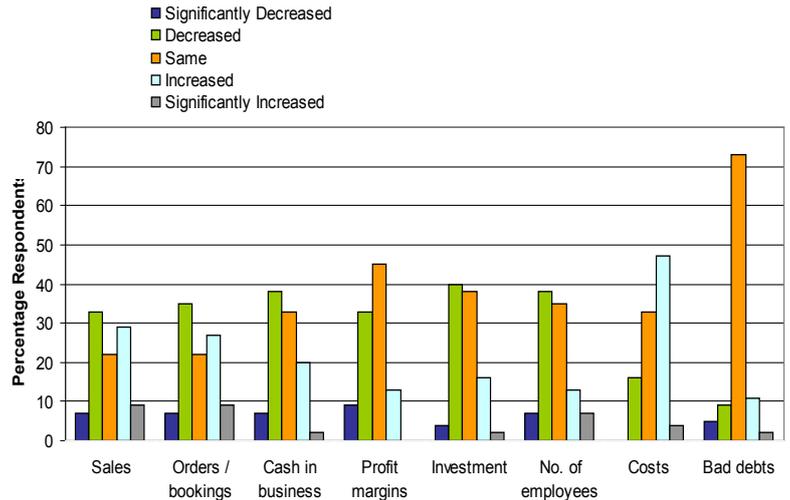
Overall, the improvement in business performance reflected in the last survey has not been sustained this quarter. However this is only part of the story with an increased divergence between those businesses encountering better trading conditions and those which are not.

37% of businesses have reported an up-turn in sales, continuing the trend seen in the last three quarters. In contrast, over 40% of businesses reported a decrease in sales which is comparable to the second quarter of 2009.

The strengthening Orders/Bookings picture reflected in the last quarter has not continued with 42% of businesses now reporting a decrease in their order book. However 9% of businesses indicated that their order book had significantly increased (the highest level reported since the start of the Barometer Business survey in January 2009).

Cashflow has weakened compared to both the last quarter and the corresponding quarter last year. During the previous quarter there was an indication that profit margins had stopped falling but the latest reports would suggest cost pressure has returned with 42% of businesses reporting decreased margins. These cost increases appear to stem from higher raw materials and fuel charges.

There are no signs of an upward movement in bad



debts, with 87% of businesses reporting a reducing or no change position.

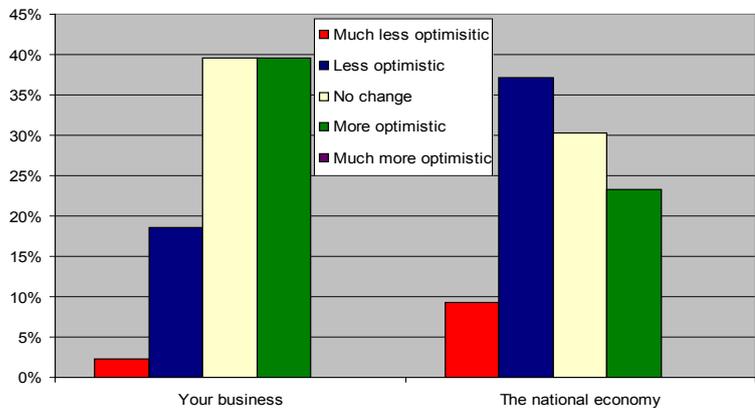
In line with the previous quarter, investment levels remain subdued. 44% of businesses (36% last quarter) have either decreased or significantly decreased investment levels. This is the lowest level since the Barometer Business Survey started in January 2009. Only 18% of businesses have increased investment. In terms of employment, 44% of this quarter's respondees employed fewer employees during the last quarter compared to a year ago.

Optimism

The more upbeat picture reflected in the last quarter has now diminished with confidence at an individual business level slipping back to the mid 2009 level. 20% of the respondees are less optimistic compared to 10% 3 months ago. A slightly lower 40% of businesses remain more optimistic.

Confidence about the national economy has fallen back to the early 2009 level with 47% of business much less or less optimistic. Only 23% (31% last quarter) of businesses were more optimistic about the national situation.

Optimism compared with 3 months ago

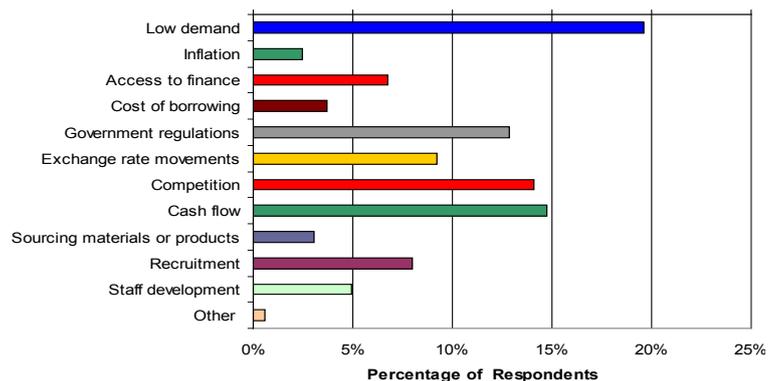


Key Challenges

Low demand and cash flow pressure remain the key challenges facing Barometer Businesses, followed by competition and Government regulation. Concerns about exchange rate movements have increased, reflecting the growth in international trade.

Disappointment was expressed by one respondee about the quality of the HMRC advice line and website.

Key challenges - next 3 months



Your opportunity to register the issues affecting your business and contribute to a better understanding of how the Isle of Wight's economy is operating

Forecast business performance over the next six months

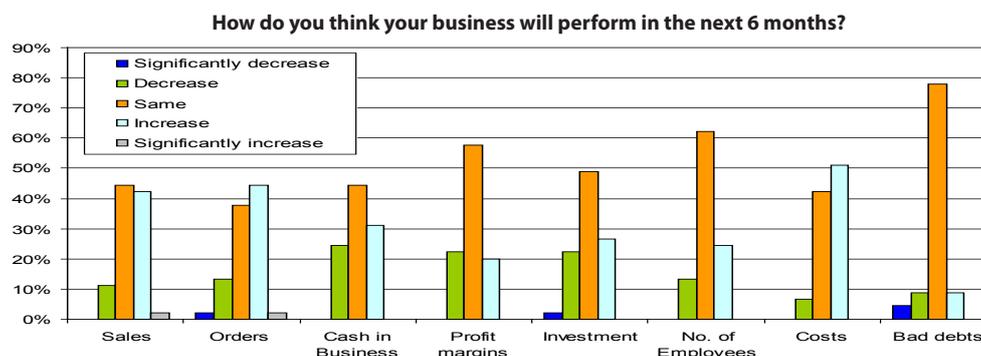
Looking forward there remains some confidence about future growth in sales and orders albeit at a slightly lower level than that expected at the time of the last survey. Sales are expected to increase for 44%, and orders for 46%, of businesses.

Compared to 3 months ago both cash in the business and profit margins are expected to tighten although over 30% of businesses expect their cash flow to improve. Concerns continue to exist about increasing costs with 51% of businesses expecting their costs to rise. The bad debt position is not expected to change significantly.

In line with the performance during the last three months, investment over the next 6 months is projected to be relatively low. However 26% of businesses did indicate they will be looking to increase investment. This compares to only 14% at the time of the last survey.

The decline in employment may be about to stabilise with 86% of business indicating they will hold employment at the same level or will be looking increase employee numbers. However no businesses reported an intention to significantly increase employee numbers during the next 6 months.

Overall, confidence about future trading conditions continues to appear very fragile although some comfort can be taken from the increase proposed in investment levels by some businesses. This again reflects the increasing spread of business performance and confidence.

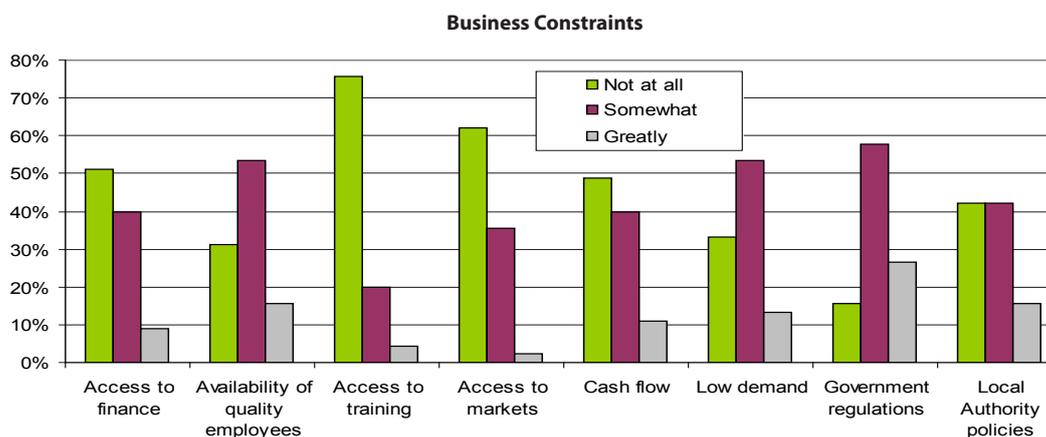


Business Constraints

The hierarchy of constraints continues to see Government Regulations, availability of quality employees, low demand and Local Authority policies as important.

Unlike the previous quarter, access to finance and cash flow have reduced in importance. This would seem to reflect less ambitious plans for businesses growth.

Specific comment was made about the Governments' policy for renewable energy. The Local Authority's procurement procedures were attributed as a significant factor in stopping businesses from tendering for public sector contracts.



Capacity

The progress seen during the last survey has not been sustained with only 26% business now operating at full capacity. There is likely to be a seasonal element to this position with the current figures in line with the level recorded 12 months ago.

International Trade

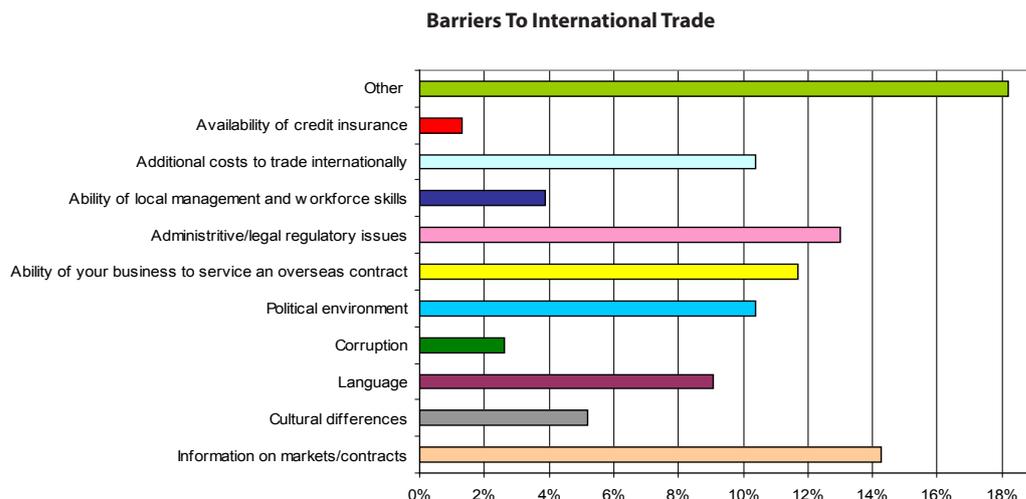
Those businesses that trade internationally reported a mixed trading position. Individual respondents reported both an increase and a decrease in international business in equal amounts.

The number of businesses with international customers has reduced slightly.

However during the next 6 months 47% of our international businesses expect their international trade to increase. The main areas of trade remain within Europe, although new contracts appear to have been secured in USA, China and the Far East.

In response to the question about the barriers to international trade, the main challenges appear to be knowledge of markets/contracts, legal and regulatory issues and the ability of individual businesses to service an overseas contract. This information has been shared with the various Business Support agencies on the Island.

A number of businesses expressed no intention or wish to trade internationally.



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