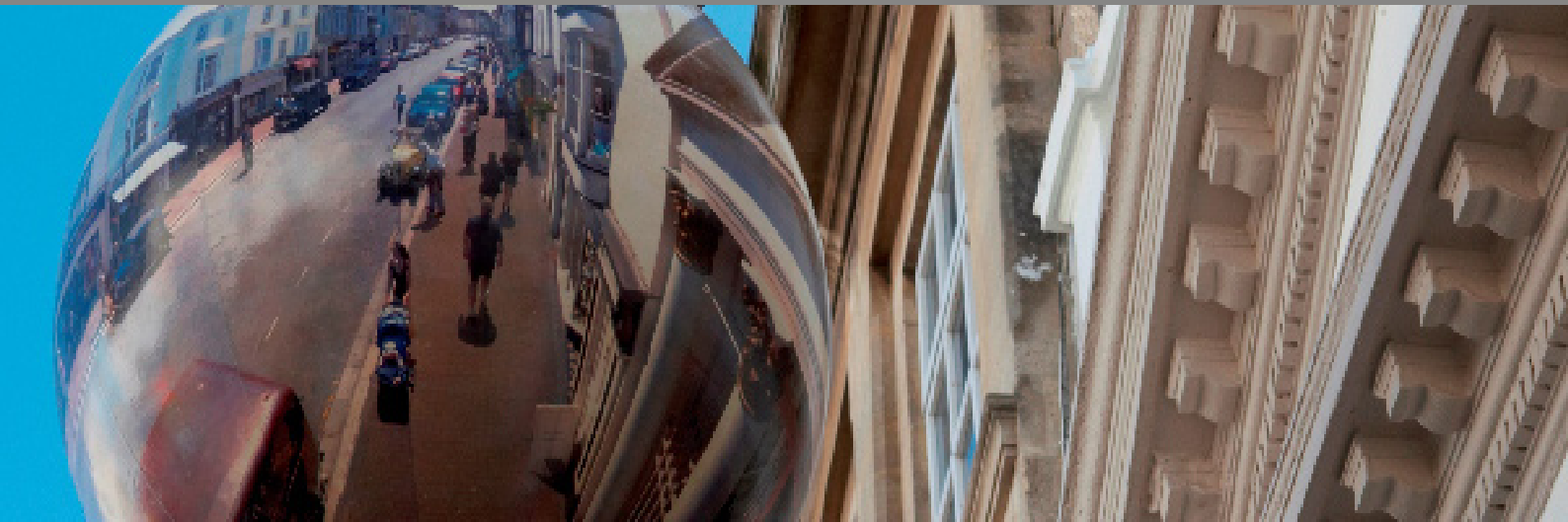


# Isle of Wight Barometer Business Report

SURVEY 4 - OCTOBER 2009



**Methodology** - The fourth Business Barometer online survey of 48 businesses took place between 6th and 23rd October 2009 reporting on the quarter to the end of September. The Barometer Business survey has been established to be 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 are keen to increase the number of businesses involved. If you are interested in being part of this survey, please contact the Economic Partnership using the contact details on the final page.

## HEADLINES

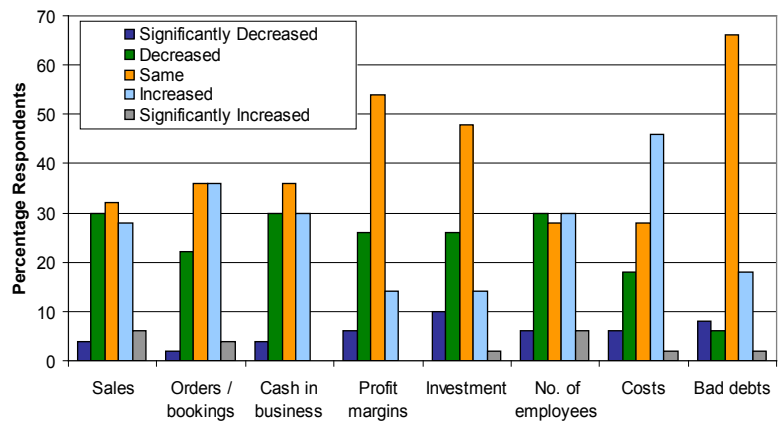
- **Overall business performance has slightly strengthened during the last quarter, although the gap between businesses encountering better trading conditions and those still under pressure has widened. There is no noticeable emphasis on particular sectors, it would appear to reflect performance at an individual business level**
- **There are signs that sales, order books and cash flow are improving with bad debts receding**
- **Investment is at its lowest level this year and this is expected to continue during the next six months**
- **This quarter's survey reflects a more optimistic position with only 10% of respondents less optimistic about their business, although there remains concern about the shape of the economic recovery and the sustainability of the early signs of improved trading**
- **Employment opportunities are expected to improve during the next six months with 27% of Barometer Businesses expecting to increase employment numbers**
- **The number of Barometer Businesses who trade internationally has increased, likely assisted by the lack of strength in the pound, at a time when UK demand has remained weak**
- **The key challenges faced remain unchanged with low demand still the main challenge followed by cash flow, Government regulation and competition**
- **Compared to the last two surveys access to finance is now seen by some businesses to be more of a constraint**
- **A third of Barometer Businesses indicated sustainable energy efficiency measures were a key element of their business. The priority areas identified for improvement were energy efficiency and waste management**

## Recent Business Performance

There has been a definite change in trading conditions over the last three months. Sales have decreased for a third of businesses, whilst in contrast 34% of the respondents have indicated a period of sales growth. Unlike the previous two quarters some businesses have indicated significantly increased sales. A strengthening Orders/Bookings picture has also emerged with the highest level of growth seen since the survey started in January 2009.

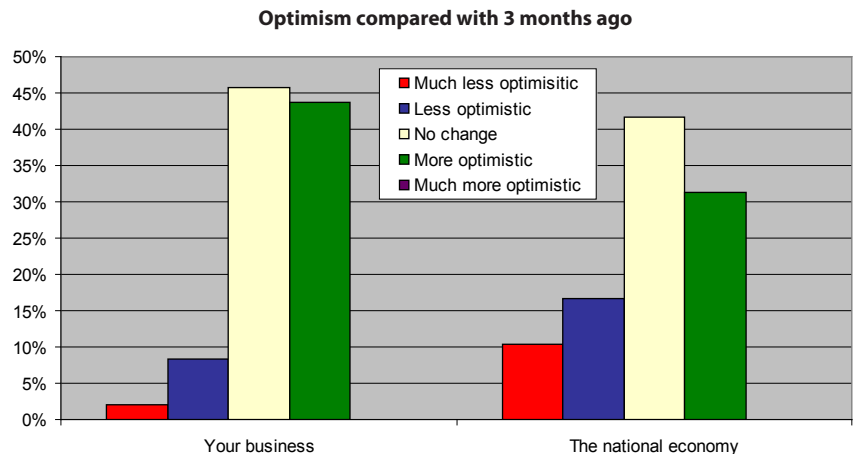
Compared to the previous two quarters, cash flow has also strengthened although it remains fragile and below the level at the start of the year. Profit margins have stopped falling but there are only limited signs of any upward movement. Costs continue to rise for 48% of respondents which is slightly lower than the historical levels.

The most worrying feature of this quarter's survey is the low level of investment. 36% of business indicated investment levels have either decreased or significantly decreased. This is the lowest level reported this year.



## Optimism

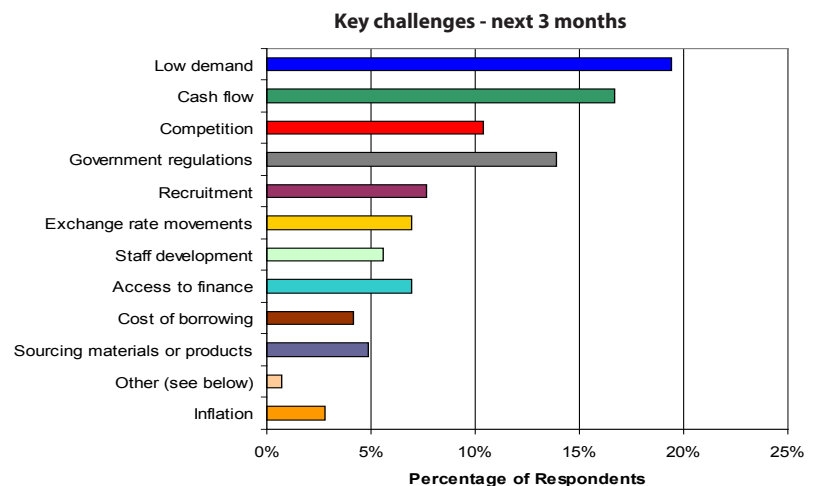
After the downbeat picture reflected last quarter, a greater level of optimism is reflected in the current survey. Optimism about business prospects is at an annual high with only 10% of businesses indicating they are now less optimistic. There is also cautious optimism about the national economy with 31% of business more optimistic. However this optimism appears very fragile with no Barometer Business indicating they are much more optimistic about their own business or the national position.



## Challenges

The key challenges facing Barometer Businesses remain unchanged with low demand still the main factor followed by cash flow, Government regulations and competition.

In particular low demand and cash flow have been identified as increased challenges over the next three months. The latter is a common theme throughout this quarter's survey, alongside access to finance. Competition is expected to reduce over the next three months.



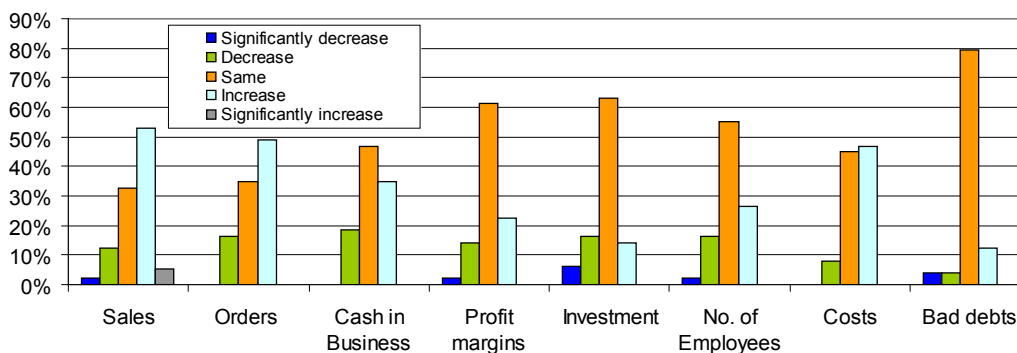
*Your opportunity to register the issues affecting your business and contribute to a better understanding of how the Isle of Wight's economy is operating*

### Forecast business performance over the next six months

Unlike the cautious picture reflected in the last survey, when most businesses predicted a neutral trading position, improvements are now expected in sales, orders and profit margins. Some cost pressure is expected with 47% of business expecting costs to increase. Of particular concern is the upward movement in the rateable value of properties, leading to increased business rates. Although positive overall, a mixed position is reported about cash flow with fewer businesses expecting their cash position to remain the same.

In line with the performance during the last three months, investment over the next six months is projected to be lower. Only 14% of businesses expect investment levels to increase. The impact of seasonality issues is not clear and will only become apparent during the second year of the Barometer Business Survey. During the next six months, 27% of businesses indicate that they are expecting to increase employee numbers, which is higher than the last two quarters.

**How do you think your business will perform in the next 6 months?**

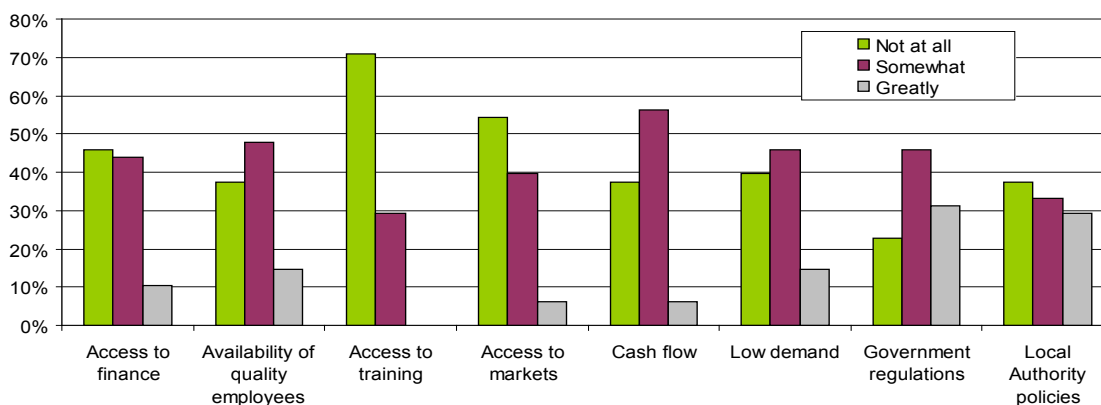


### Constraints

Overall, the level of constraints on businesses has not significantly changed. The hierarchy of constraints (Somewhat and Greatly combined) still sees Government regulations, Local Authority policies and availability of quality employees as important.

Unlike the last two quarters, access to finance as a constraint has increased for some businesses, 10% of businesses now see this as a greater constraint. This position is coupled within an increase in cash flow being a business constraint. Both these factors will need to be addressed if growth is to be achieved.

**Business Constraints**



## International Businesses

The number of businesses with international customers has increased, with 38% of Barometer Businesses now operating internationally. The main growth markets being European. The number of businesses trading with the USA and China has reduced during the last quarter.

Following two quarters of falling international business performance, this trend has been reversed with 21% of businesses, who trade internationally, indicating a strengthened position during the last three months compared to a year ago. This position is expected to continue with 63% of businesses who trade internationally expecting increased sales during the next six months. This compares to 35% and 29% respectively in the last two surveys.

It would appear the weak pound has helped a number of businesses at a time when UK demand has remained relatively weak.

## Capacity

Across the four surveys to date the number of businesses NOT operating at full capacity has fluctuated from 74% to 65%, during the last quarter 68%. The last quarter movement is encouraging, but too small, being one quarter in isolation and insufficient to indicate a permanent improvement.

## Banking

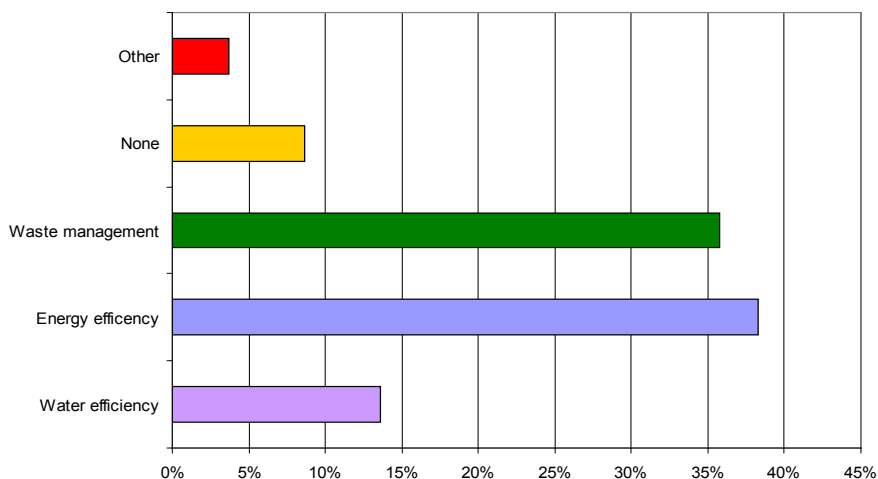
In terms of banking support a divergence in the level of support has been reported. 8% of businesses have indicated the level of support from their bank has weakened whilst 2% have indicated that it has improved. 75% of businesses indicate there has been no change.

One of the Barometer Businesses reported the offer of a small business loan at an interest rate of 20%, reflecting the continued cautious approach of the Banks to lend to small businesses and the increased cost of finance.

## Sustainable Business Practices

A third of Barometer Businesses indicated that sustainable energy efficiency measures were a key element of their business. The priority areas for improved sustainable business practises were energy efficiency and waste management. Feedback received expressed concern about current landfill arrangements on the Island. 8% of business indicated there are no areas they would look to improve. 44% of businesses indicated that they had insufficient information to implement change in this area.

Future Sustainable Business Practice Plans



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