

Isle of Wight Barometer Business Report

SURVEY 8 - OCTOBER 2010



Methodology - The eighth Barometer Business online survey took place between 5th and 21st October 2010 reporting on the quarter ending in September. 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.

The Survey is your opportunity to contribute to a better understanding of how the Island's economy is operating and to register the issues affecting your business. If you are not already involved and would be interested in taking part, then please get in touch using the contact details on the final page.

HEADLINES

- In the period July - September 2010, respondents reported sales increasing by 28% and orders by 36%
- Notwithstanding an increase of sales and orders, only 5 % of respondents have recorded an increase in their profit margins, decreasing in the past year from 22%
- A decrease and significant decrease in investment was identified by 36 % of respondents, with 44% saying investment will remain the same, which is on a par with national reports (*source: Bank of England*)
- This quarter, 20% of respondents are more optimistic about their business compared to optimism of the national economy, where only 8.5% have confidence in the national economy. This is below figures previously seen however 45% of respondents expect an increase in sales over the next six months
- Feedback continues to be received about the Local Authority using national networks for construction projects and with some Housing Associations also moving in the same direction this has raised concerns about the impact it will have on the local construction sector
- The level of international trade remains low and feedback received indicates that despite free trade across EU countries, protectionist policies are evident when it comes to bidding for projects in France, Spain and Portugal in particular
- The future looks stronger when it comes to employment, with 78% of respondents expecting their employment figures to stay the same or increase and only 3% of respondents expecting a significant decrease in the number of employees
- Nationally, employment is predicted to remain the same with the increase in private sector hiring offset by expected cuts in the public sector headcount
- Capacity only 17% of respondents have said they are operating at full capacity, this is the lowest reported level since the Barometer Business series started
- Respondents have acknowledged the need for more information on the impact climate adaptation could have on their business

Recent Business Performance

(compared to the same quarter a year ago)

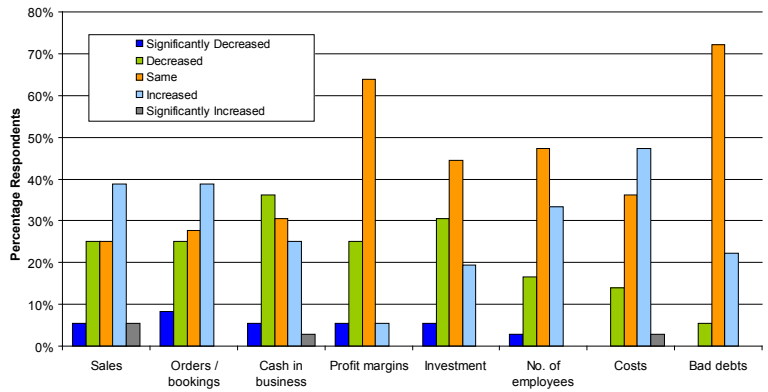
In the quarter July - September 38% of respondents reported that both their sales and orders have gone up, an increase on that reported in October 2009 where sales increased by 28% and orders 36%.

47% of participants have seen an increase in costs similar to that seen the same time last year of 47%.

Only 5 % of respondents have recorded an increase in their profit margins, decreasing sharply in the past year from 22% in October 09.

33% of respondents have seen an increase in the number of employees, compared to 27% back in October 09 and 30% in the last survey.

When looking at the official employment figures the Island had 24,000 economically inactive people, equating to 29% of the possible adult workforce (*source: NOMIS*). This compares to 20.4% SE average and 23.5% Nationally. Economically inactivity includes the unemployed, early retirees and people with a



disability or looking after a home.

A decrease and significant decrease in investment was identified by 36 % of respondents, (26% reported in October 2009) with 44% saying investment will remain the same (48% reported in October 09), which is on a par with national reports (*source: Bank of England*). The main barrier to firmer investment plans is attributed to the uncertainty about how cuts in public spending would affect demand.

Optimism

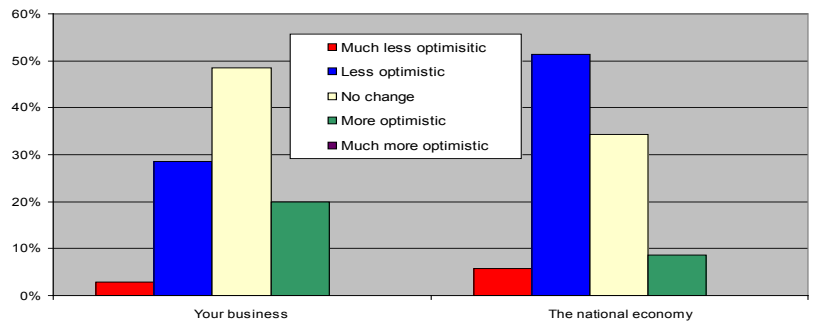
50% of our respondents are less optimistic of the national economy than just three months ago, whilst 29% of respondents' optimism concerning their business has also decreased.

This quarter, 20% of respondents are more optimistic about their business compared to optimism of the national economy where only 8.5% have confidence in the national economy.

Positively only 3% of respondents are much less optimistic about their business, a similar outlook to the national economy with 5% of the respondents being much less optimistic.

Optimism in respondents' own businesses has seen a steady decline over the past year, but when looking

Optimism compared with 3 months ago



at the same time period, optimism in the national economy dropped significantly in April, coinciding with the General Election and has since seen an increase which has now plateaued.

Key Challenges

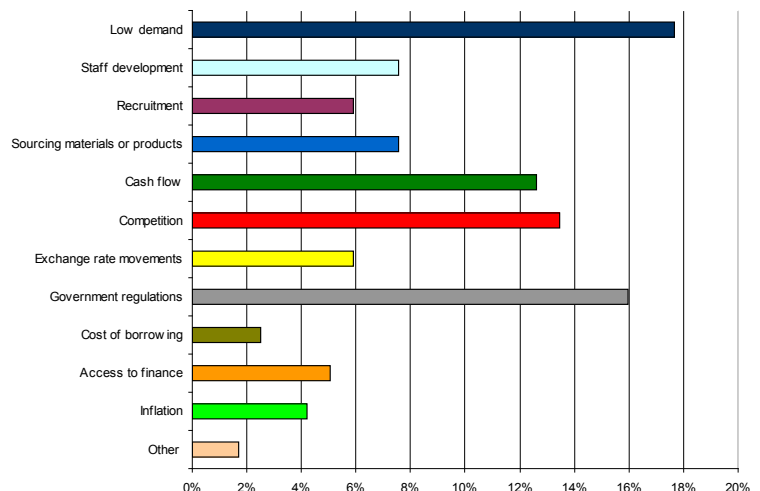
Low demand (17% of respondents) continues to be the most challenging area with government regulations coming a close second (15%), a consistent position since our first Barometer Business survey report back in January 2009.

This is also reflected across the South East region with the outlook for businesses becoming increasingly uncertain as the impact on decisions to reduce the UK's deficit have been made (*Source: Institute of Chartered Accountants in England and Wales*).

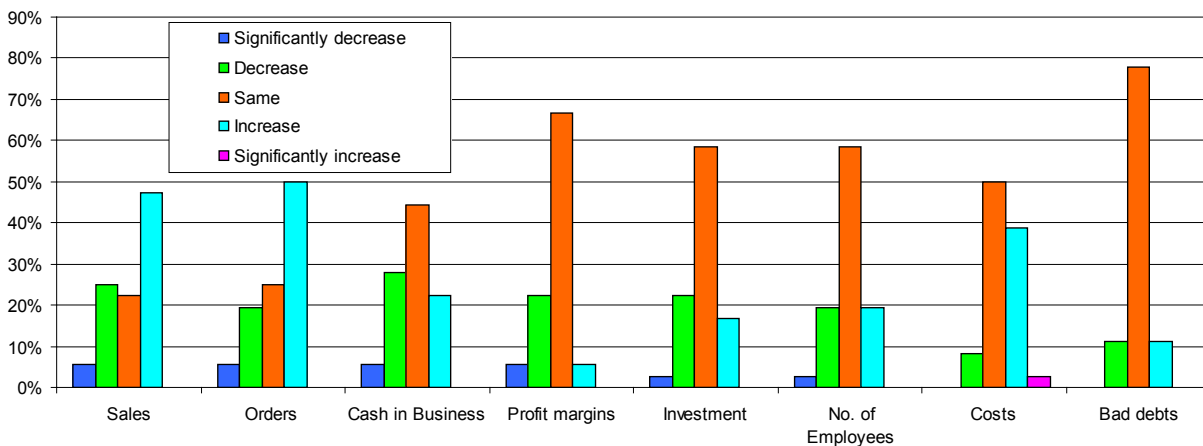
Remaining a significant challenge is competition, cash flow, staff development and the sourcing of materials. A further challenge is that surrounding employment legislation which is seen as increasingly restrictive.

Feedback continues to be received about the Local Authority using national networks for construction projects and with some Housing Associations also moving in the same direction this has raised concerns about the impact it will have on the local construction sector.

Key challenges - next 3 months



Forecast business performance over the next six months



47% of Barometer Businesses expect an increase in sales over the next six months and 75% expect their orders to remain the same or increase. However, projected sales over the past two years have not always followed through to the actual trading performance.

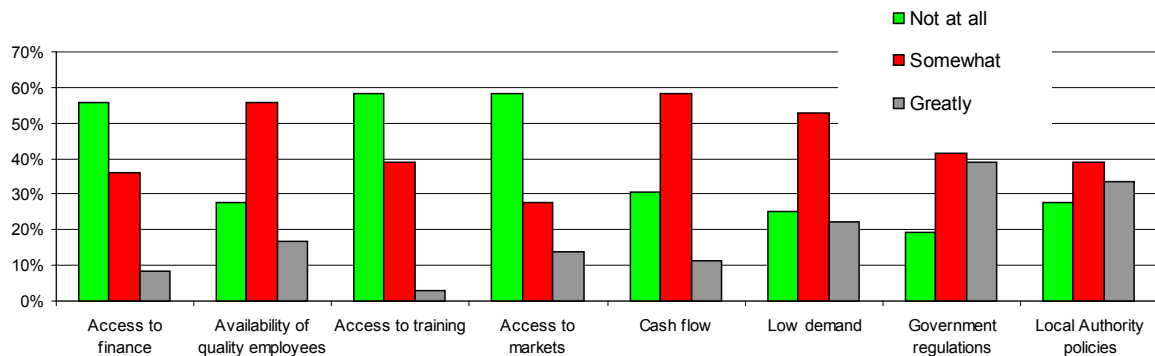
When it comes to employment the future looks promising with 78% showing their employment figures to stay the same or increase with only 3% of respondents expecting a significant decrease in the number of employees. Nationally, employment is predicted to remain the same with the increase in private sector hiring offset by expected cuts in the public sector headcount.

On the Isle of Wight, with the potential public sector cuts in employment, it remains to be seen whether private businesses can absorb the personnel at risk.

There has also been a projected increase in investment, although this remains at a relatively subdued level.

The Barometer Business survey is a combination of public and private sector organisations but the division is not readily apparent in the survey.

Business Constraints



Local authority policies and government regulations are reported as being the most constraining areas, a trend which has been constant since the first Barometer Business survey report in 2009. Likewise, since January 2009, access to training has not been identified as a major concern for Isle of Wight businesses.

The availability of quality employees was a strong concern in January 2009, but this then dropped which could be attributed to businesses no-longer recruiting. Interestingly businesses are now finding it hard to find good members of staff which could reflect an upturn in the demands being made on their business; this can also be seen in their six month forecasting where an increase in staff for 19% of respondents is expected.

Returning to the current quarter being reported on; access to training, markets and finance have become less of an issue for respondents. Reassuringly while access to quality staff is good, access to training isn't an issue. This could reflect the standard of training on the island or the expectation of Island businesses for their staff to join them fully trained.

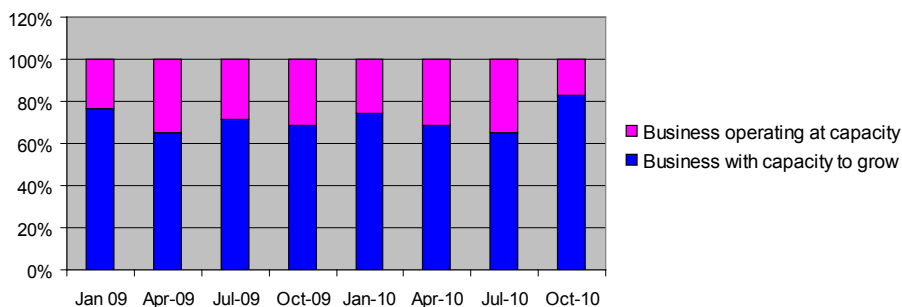
The level of international trade remains low and feedback received indicates that despite free trade across EU countries, protectionist policies are evident when it comes to bidding for projects in France, Spain and Portugal in particular.

Barometer Businesses have also fed back their concerns surrounding the restriction of the development of 'garden sites' and that the VAT increase will be a further threat.

Capacity

Notwithstanding the reported increase in sales and orders, only 17% of respondents have said they are operating at full capacity. This is the lowest reported level since the Barometer Business series started and would suggest that businesses have started to gear up to meet an expected increase in business activity.

One year ago the story was very different with nearly double the respondents (31% compared to 17% in 2010) reporting they were operating at capacity and 69% with the ability to increase their productivity.

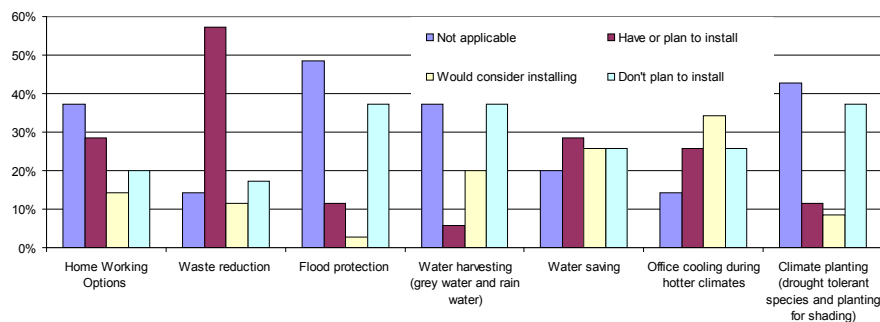


Climate Adaptation

"This year's weather (abnormally dry September and very wet winter) is starting to give us a taste of what our businesses will have to adapt to in the future, requiring long-term risk mapping to avoid what is widely recognised as one of the most critical threats to our businesses future. Now is also the time for forward-thinking businesses to take advantage of the opportunities offered by a changing climate".

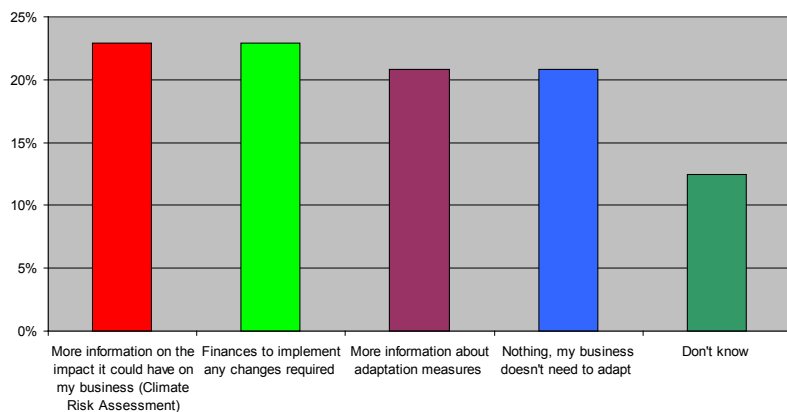
Sam Buck - Climate Adaptation Project Manager at Natural Enterprise

Have you installed or considered installing any of the following climate change adaptation measures?



Encouragingly over 57% of respondents have, or plan to implement ways of reducing waste produced from their business with a large proportion also proposing to look at home working, water saving and office cooling (during hotter climates) as steps towards demands made by extreme changes in weather.

What does your business need in order to adapt to climate change?



Responses to this question were quite evenly spread but positively a large majority of respondents acknowledged the need for more information on the impact it could have on their business.



natural enterprise

To read previous Barometer Business reports visit naturalenterprise.co.uk

If you would like your company to become a Barometer Business please contact:

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