

Isle of Wight Barometer Business Report

SURVEY 9 - FEBRUARY 2011



Methodology - The ninth Barometer Business online survey took place between 11th and 25th January 2011 reporting on the quarter ending in December 2010. 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

- Continued upward pressure on costs has resulted in lower profit margins. The position reported this quarter is the lowest since the Barometer Business Survey started in October 2008
- The impact of increasing costs is expected to continue during the next 6 months with 81% of business expecting their costs to increase further
- There appears to be some good news on the employment front with 44% of businesses expecting to recruit during the next 6 months
- Investment remains subdued with 57% of businesses reporting a no change position
- 56% of businesses remain either much less, or less optimistic about the national economy
- Low demand for products and services continues to be the most significant challenge facing Island businesses
- As a business constraint cash flow appears to have weakened and therefore access to finance has increased in importance
- The area of public sector cuts which is anticipated to have the greatest impact on business is the area of direct economic investment followed by parking and planning and building control

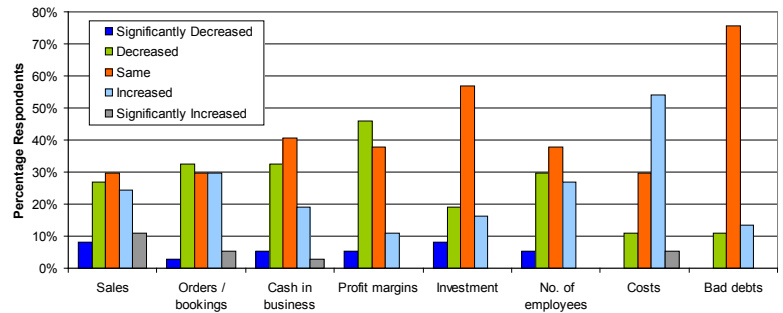
Recent Business Performance

Sales performance over the last three months has fallen slightly with only 36% of businesses experiencing growth compared to 45% last quarter. 35% of businesses encountered decreased sales of which 8% have seen their sales significantly decline.

Orders have recovered slightly after a dip in the last survey, with 65% of businesses reporting a no change, or an improved position.

The key movement reported this quarter has been the continued escalation in costs. 60% of businesses have experienced increased costs which has had a significant impact on profitability, which has fallen for over 50% of respondents.

As a result profit margins are at the lowest level since the Barometer Business Survey started in October 2008.



Investment has remained subdued with 57% of businesses reporting a no change situation. A similar picture is reflected surrounding bad debts although 13% of businesses have reported a weakening of their bad debt position.

Optimism

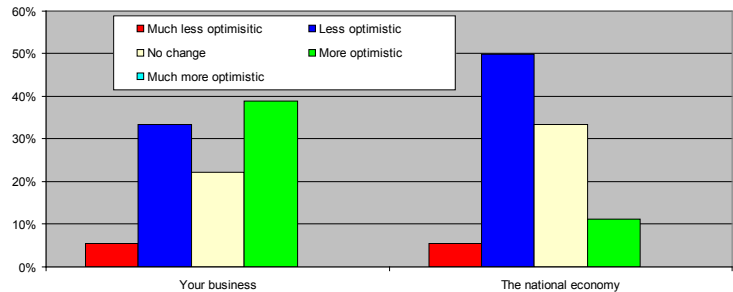
After the collapse in confidence about the national economy during early 2010 the recovery reflected in the July and October surveys has plateaued and now remains below the January 2010 level.

The level of optimism at business level has remained broadly unchanged in the last three surveys but continues to operate below the comparable period in 2010.

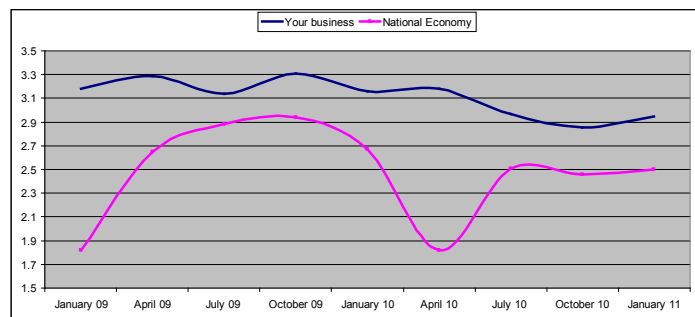
The divergence between confidence in own business and the national economy has continued to be reported. 56% of businesses are either much less or less optimistic about the national economy compared to 39% in their own business.

In contrast 39% of respondents remain optimistic about their own business whilst only 11% are optimistic about the national economy.

Optimism compared with 3 months ago



Optimism over the past nine surveys

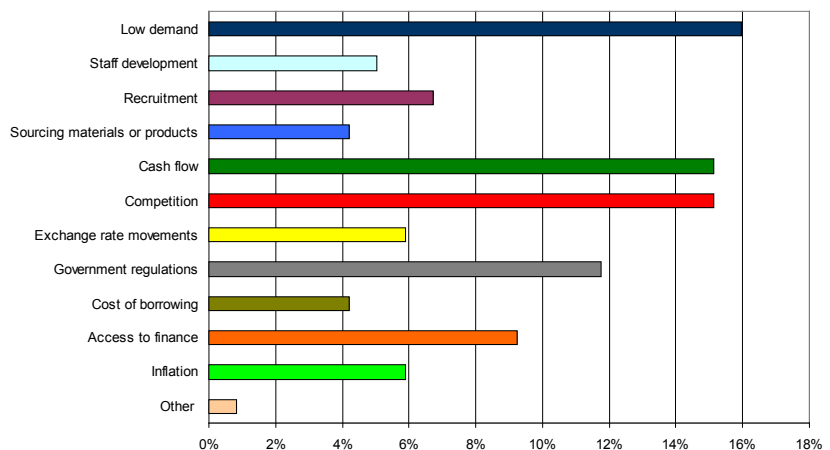


Key Challenges

In line with business constraints low demand continues to be the key challenge. This is followed by competition, which after reducing in importance in 2010 has now increased again, with 15% of businesses stating that it was expected to be a key challenge over the next 3 months.

Access to finance, whilst a relatively lowly concern last year has increased in importance with 10% of respondents now identifying it as a key challenge.

Key challenges - next 3 months



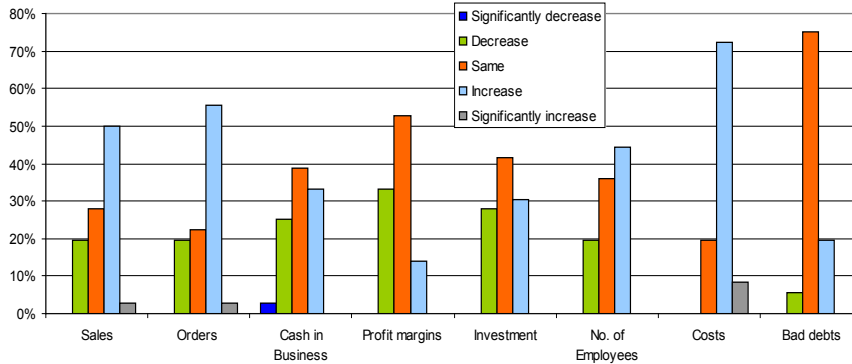
Forecast business performance over the next six months

Looking ahead there continues to be great concern about costs with 81% of businesses expecting their costs to increase, or significantly increase. This is by far the highest level ever reported in the Barometer Business Survey.

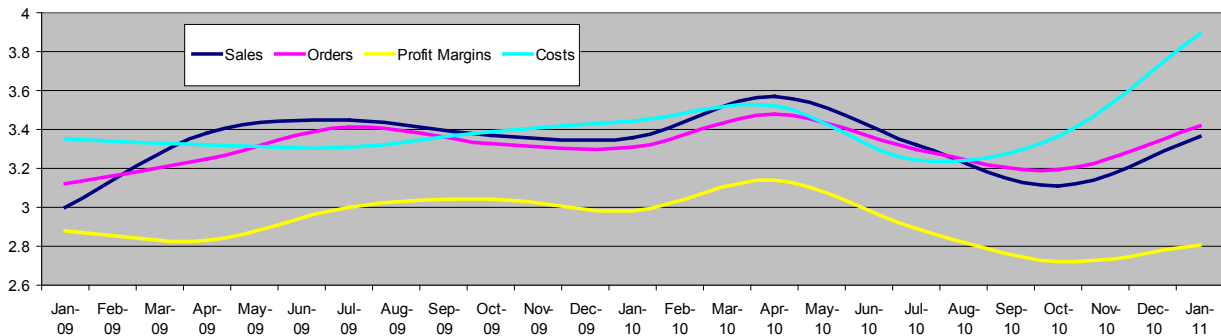
To offset this position there is some optimism that sales and orders will increase during the next 6 months, reducing the impact of increased costs on the bottom line. As a result 52% of respondents expect their profit margins to remain unchanged, 14% expect an increase and 34% a reduction. This is a slightly stronger position than the one reported last quarter but is still significantly below 12 months ago and the strongest position reported in the April 2010 survey.

There appears to be some good news on the employment front with 44% of businesses expecting to recruit during the next 6 months.

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



Business Performance forecast for next 6 months

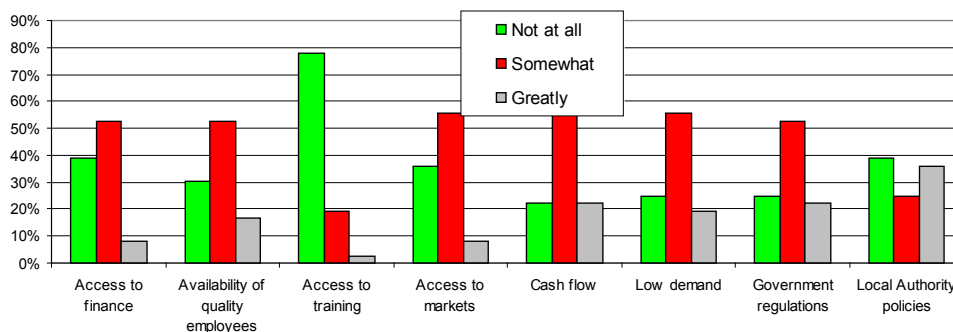


Business Constraints

Since September 2010 there has been increasing pressure on cash flow and this has now replaced Government regulations as the most significant business constraint.

The impact of Local Authority decisions and spending cuts to date has not been fully felt (see Spending Cuts section) although 36% of businesses consider they are being adversely affected by local policies. Adverse comments continue to be received about Local Authority planning and procurement policies and procedures.

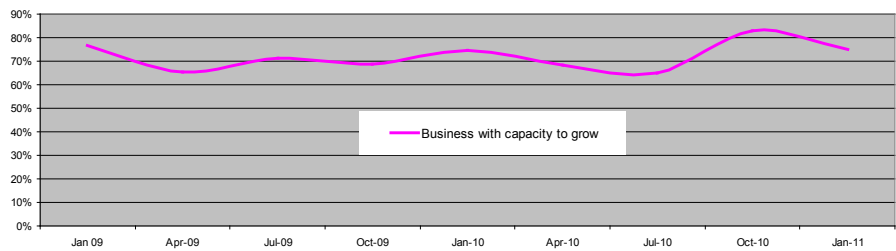
It has been reported that access to finance and access to markets have increased as business constraints.



Capacity

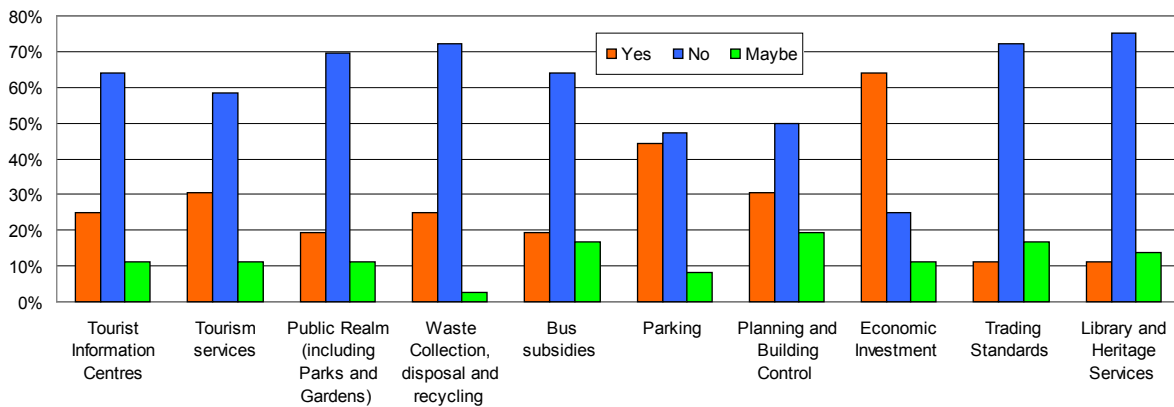
75% of businesses reported that they were not operating at full capacity. Whilst this is a recovery on the previous quarter (83%) this remains above the benchmark level of 70%.

Business Capacity over the past nine surveys

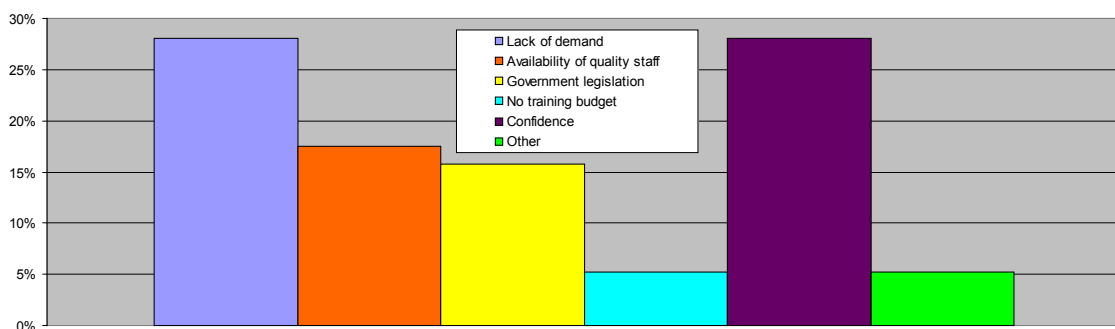


Spending Cuts

In the survey we asked for an assessment of the impact of the proposed Local Authority spending cuts. The area where the anticipated greatest impact would be expected is in the area of direct economic investment, 64% of businesses would be concerned if a major reduction was seen. The next areas of concern were parking costs, especially from the retail sector, planning and building control and tourism services. Businesses appear less concerned about cuts to Library and Heritage services, Trading Standards and Waste Collection.



What are the barriers to your business which prevent you from increasing staff numbers?



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

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