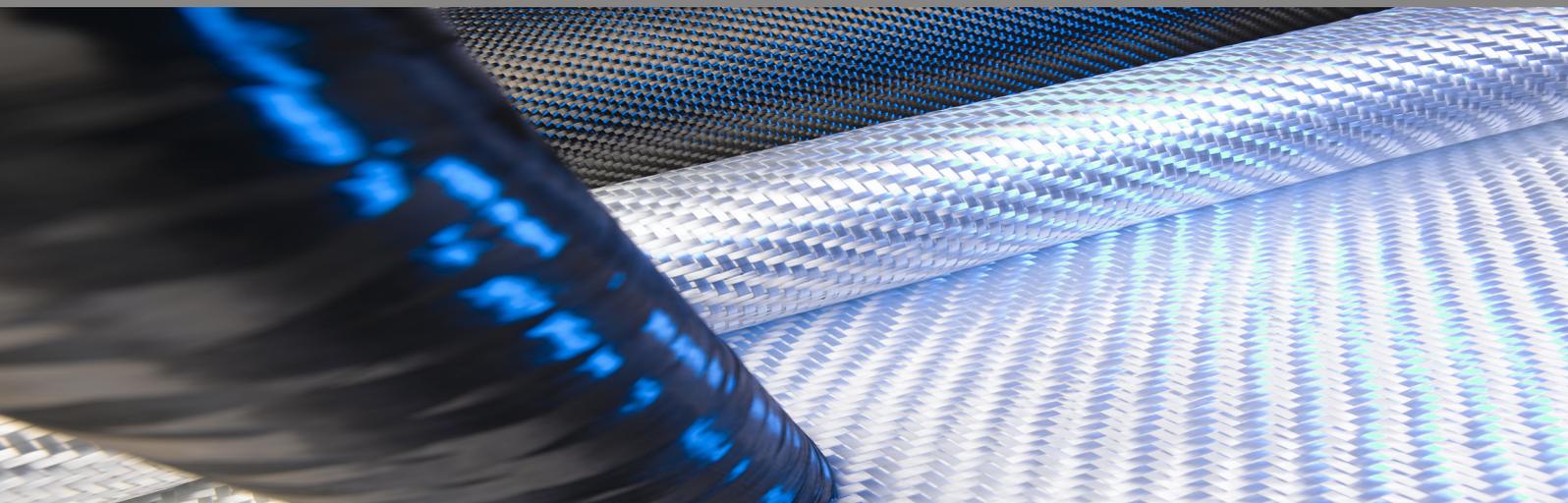


# Isle of Wight Barometer Business Report

SURVEY 6 - APRIL 2010



**Methodology** - The sixth Business Barometer online survey of 42 businesses took place between 13 and 26 April 2010 reporting on the quarter to the end of March 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 Barometer Business Survey is your opportunity to contribute to a better understanding of how the Island's economy is operating and 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

- **From the last Barometer Business Survey there are signs that the economic recovery is strengthening on the island. The stronger performing businesses have continued to move forward, but significantly more businesses have indicated an improvement.**
- **Whilst trading conditions remain challenging, profit margins have increased for 24% of businesses compared to 13% during the previous quarter.**
- **Investment remains subdued, although 59% of businesses now report that investment levels have been maintained. A lower number of businesses have reduced investment.**
- **After the cautious outlook reported in the last survey there has been a clear improvement in business confidence. For the first time over 50% of businesses are more, or much more, optimistic about the future of their business.**
- **The trading outlook appears stronger, with more businesses expecting to see improved trading conditions continue. Future profit margins are expected to increase for a third of businesses although 21% of businesses continue to expect a reduction in margins.**
- **The reported impact of Local Authority policies has increased, with 68% of businesses indicating that they are somewhat or greatly affected. The main area of concern continues to centre on procurement procedures and policy.**
- **32% of businesses are now operating at full capacity. This is slightly higher than the comparable position reported 12 months ago.**

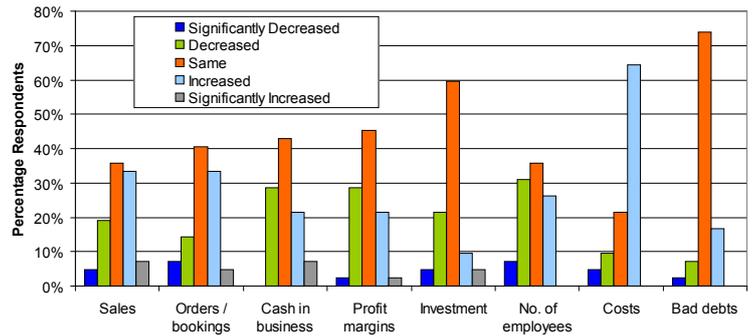
## Recent Business Performance

Whilst trading conditions remain challenging, profit margins have increased for 24% of businesses compared to 13% during the previous quarter. The number of businesses operating at reduced margins has fallen to 31% from 42% last quarter although rising costs remain a feature for 64% (51% of businesses). The main drivers of cost inflation appear to be transport and raw material costs.

40% of businesses have reported an up-turn in sales compared to 37% in the last survey. Just as significant the number of businesses indicating a reduction in sales fell by 14% to 19%. Overall sales performance is the strongest we have seen during the last 18 months. A similar position is reflected in order books/bookings.

Cash flow has stabilised with 43% of businesses indicating a no change position. Of the remaining businesses, 28.5% (22%) have reported a strengthened position and 28.5% (45%) a weakened position compared to the corresponding quarter last year. This is the strongest reported position to date and for the first time no businesses have reported a significantly decreased cash flow position.

A major ongoing concern reflected by the Barometer Business Survey has been reducing investment levels.



This continues although 59% of businesses now report that investment has been maintained at the same level. The number of businesses reducing investment levels has fallen from the last quarter high of 44% to 26%, which is comparable to the results being reported in early 2009. However confidence has not totally returned with increases in investment remaining relatively subdued at 14% (18% last quarter).

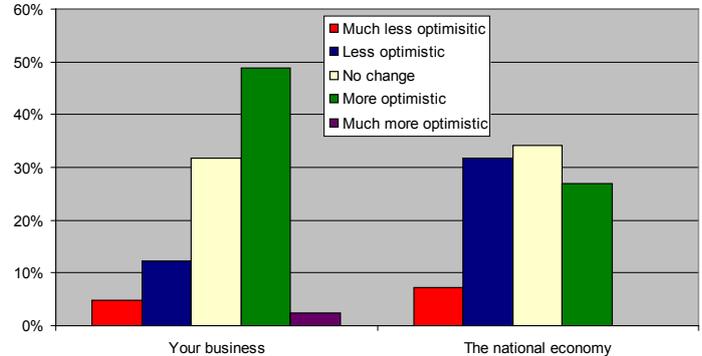
A reduction in the downward trend in employment levels is reflected, with 26% of businesses increasing employee numbers compared to 20% last quarter, and 38% of businesses recording a reduction in employees numbers compared to 44% last quarter.

## Optimism

After the cautious outlook reported in the last survey there has been a clear improvement in business confidence. For the first time over 50% of businesses are more, or much more, optimistic about the future of their business. However 17% of businesses continue to be less optimistic.

Optimism about the national economy, pre-election, has also increased. However 39% of businesses remain less optimistic. It will be interesting to note the impact of the General Election on business optimism.

Optimism compared with 3 months ago



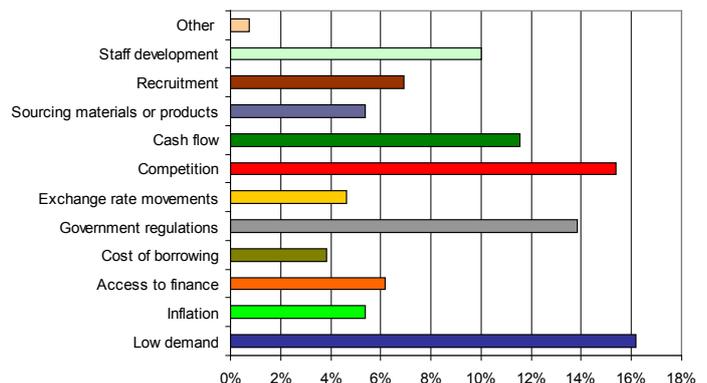
## Key Challenges

Whilst low demand and cash flow continue to be key challenges, their overall importance has reduced. The level of competition has increased as a business challenge.

As a business challenge there has been a significant increase in staff development and recruitment issues, which would indicate a change in focus to one of expansion and growth.

Government Regulations continue to be a significant business challenge.

Key challenges - next 3 months



## Forecast business performance over the next six months

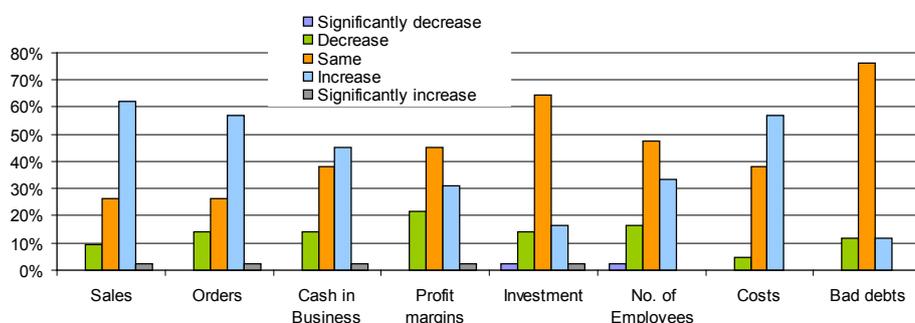
Profit margins are expected to increase for a third of businesses which is 13% higher than the last survey. However 21% of businesses continue to expect a reduction in margins. In line with current business performance the reported outlook for sales and orders has improved with more businesses expecting growth during the next six months. The most significant movement is reported from those businesses who previously reported a no change position.

Off the back of improved sales and margins, cash flow is expected to strengthen for 48% of businesses with a reduced number of businesses (14%) still expecting a decreased cash flow position. Concerns continue to exist about increasing costs with 57% (41%) of businesses expecting their costs to rise. The bad debt position is not expected to change significantly.

Notwithstanding the modest increase in investment levels seen during the last 3 months, future investment remains subdued. Whilst fewer businesses are set to reduce investment (down to 17%) a lower number of businesses are intending to increase investment (19% compared to 26% last quarter). A mixed picture on employment intentions is reflected in the survey. A third of businesses indicate an intention to increase employee numbers compared to the historical average of 25%, but 19% of businesses intend to reduce employment headcount.

Overall, the outlook appears stronger with more businesses expecting to see their reported improved trading conditions continue.

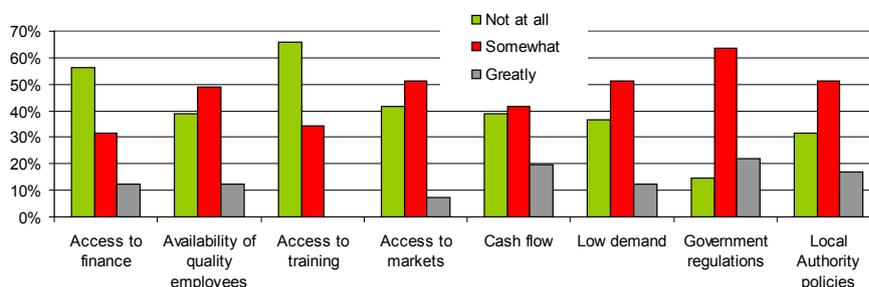
**How do you think your business will perform in the next 6 months?**



## Business Constraints

The hierarchy of constraints continues to see Government Regulations as the most important factor. The impact of Local Authority policies has increased with 68% of businesses indicating that they are somewhat or greatly affected. Availability of quality employees, low demand and cash flow remain important constraints.

Specific comment was made about the administrative burden of employing people and the inadequacies of government websites to handle mandatory electronic submissions. A number of businesses highlighted Local Authority procurement as a key constraint for local SMEs, especially in the construction industry.



## Capacity

After the downturn reflected in the last survey, 32% of businesses are now operating at full capacity. This is slightly higher than the comparable position 12 months ago.

To read previous Barometer Business reports please visit [www.naturalenterprise.co.uk](http://www.naturalenterprise.co.uk)

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