

Isle of Wight Barometer Business Report

SURVEY 7 - JULY 2010



Methodology - The seventh Business Barometer online survey took place between 6 and 20 July 2010 reporting on the quarter to the end of June. 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

The UK economy grew at the fastest pace in four years between April and June increasing by 1.1%. This was in excess of expectations and was driven by increases in the business and finance sectors and the construction sector which increased by 6.6%, after having fallen by 1.6% in the previous quarter. This growth in the construction sector was stimulated by public sector projects which are now being scaled back or cancelled and therefore the sector is expected to come under renewed pressure.

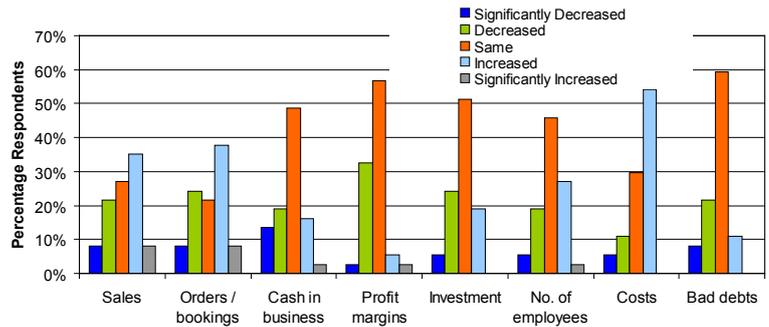
- Overall, the improvement in the Island's economy has continued. Sales and order book growth have continued although profit margins remained relatively static.
- The outlook appears weaker with more businesses expecting to see their recently improved trading conditions come under pressure. This compares to the last survey when profit margins were expected to increase for over a third of businesses.
- Government regulations are seen as an increasing business constraint and optimism about the national economy has significantly reduced.
- A tightening cash flow position has been reported which is expected to continue during the coming six months with cash flow now seen as a significant business constraint.
- Bad debt levels have lowered with 89% of businesses seeing their bad debts either remain the same or reduce.
- Investment remains subdued although a slightly larger number of businesses (19%) report they have increased investment. Looking ahead the number of businesses set to increase investment falls back to 11%.
- The level of international trade has levelled off which is in contrast to the national economy where export volumes have continued to increase, especially to the faster-growing markets such as China and the USA.
- 35% of businesses are now operating at full capacity which is 10% higher than the comparable position reported 12 months ago.

Recent Business Performance

The rate of improved trading performance appears to have continued with both sales and orders/bookings higher. Sales growth is now at its highest level since late 2008 with 43% of businesses reporting either an increase or significant increase in sales.

There has been a tightening of cash flow reported, with a number of businesses seeing their cash flow significantly decrease and fewer businesses have seen their cash position increase. The vast majority (94%) of businesses have recorded that support from their Bank has not changed.

Compared to the last quarter, which reflected an increase in profit margins, margins have remained relatively static with more businesses indicating a no-change position. Cost inflation has continued, albeit affecting a slightly lower number of businesses.



A modest increase in investment levels has continued with 19% of survey respondents reporting an increase in investment.

Employment levels have remained broadly unchanged. The June JSA unemployment figures reflect a slight decrease (161) compared to 12 months earlier.

On a positive note bad debt concerns have considerably reduced.

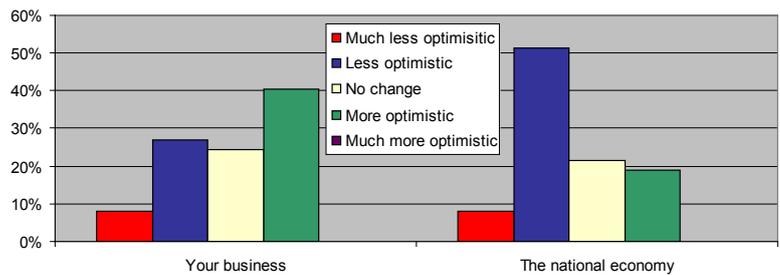
Optimism

After two quarters of rising business optimism this quarter has seen deterioration at both business and national level.

In total 59% of businesses are now less optimistic about the national economy compared to 39% last quarter and only 19% of businesses are more optimistic about the future compared to 27% previously. This reduction in optimism appears to reflect the post election period and concerns about the impact of public sector cuts. The public sector accounts for approximately 1/3 of the Island's economy and provides business for a number of other sectors.

Contrasting opinions were expressed about the post election policy announcements. Concern about the impact of public sector costs on Island jobs was

Optimism compared with 3 months ago



registered. The abolition of SE England Development Agency (SEEDA) was seen by some as a good thing and by others as a threat. Concern was also expressed about the perception that current government policies appear to be based on cutting costs rather than promoting growth.

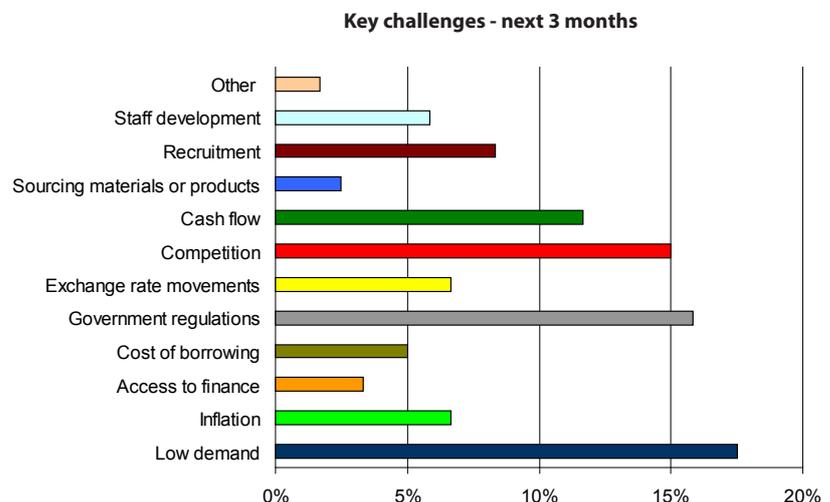
Once again comments were received about the perceived strategy of only including large businesses in public sector contract tenders.

Key Challenges

Low demand and Government regulations continue to be the key challenges facing businesses on the island. Both are currently at their highest levels since the Barometer Business Survey started in late 2008.

The level of competition and cash flow remain key challenges although their relative importance has not substantially changed since the last quarter.

After a significant increase last quarter, staff development as a business challenge has now fallen back in line with the historical position.



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

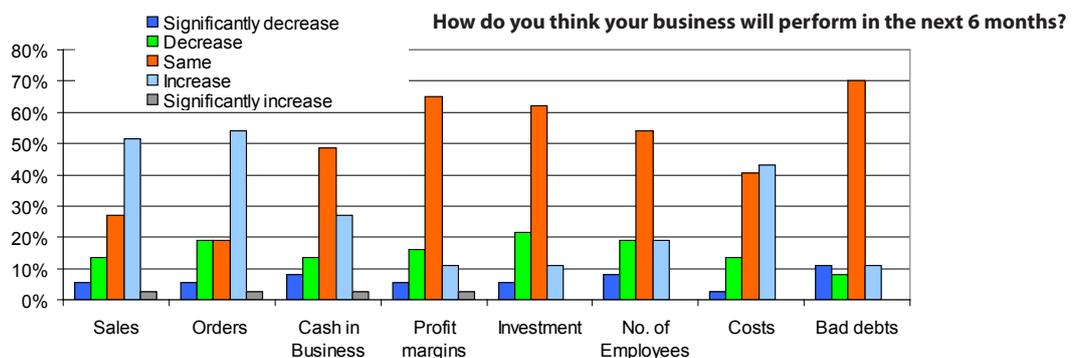
During the next six months performance is expected to slow down for the first time this year, although over 50% of businesses are still expecting to see sales/orders increase. A number of businesses have indicated that they foresee sales/orders significantly reducing.

Cash flow is expected to be adversely affected with 22% of businesses indicating their cash flow will weaken.

Compared to 3 months ago more businesses predict their profit margins will remain unchanged, with only 13% of businesses expecting to see an increase. An increasing number of businesses hope to see some form of cost reduction.

Investment, which is still at a relatively low level, is expected to reduce further, with only 11% of businesses foreseeing increased investment during the next six months. This compares to 19% during the last quarter.

Employment levels are also set to reduce with 28% of businesses expecting to decrease headcount. 19% of businesses report they expect to significantly reducing their employee numbers.

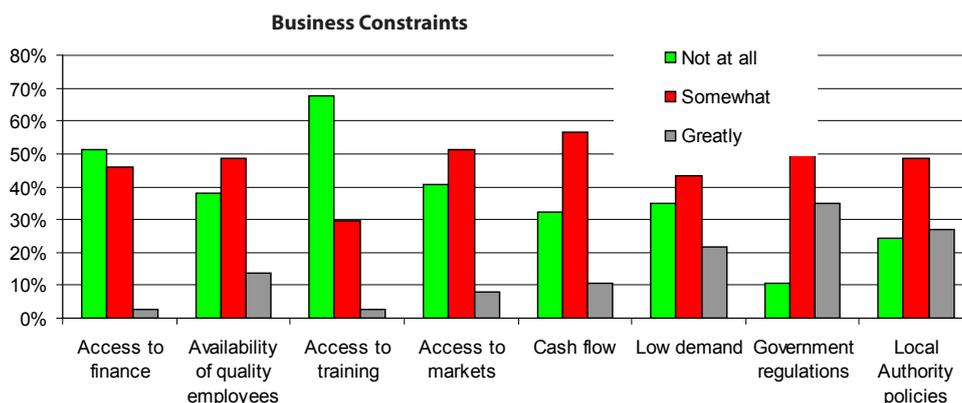


Business Constraints

The hierarchy of constraints continues to see Government Regulations as the most important factor followed by the actions of the Local Authority. Over a third of the respondents reported being greatly affected by Government regulations.

Cash flow as a business restraint has increased in importance.

Specific comments were made about parking arrangements to get on and off the Island on High Speed services following the abolition of the permit system. Parking costs are considered to be high, with limited availability whilst the park and ride service is considered ineffective. The reliability of cross Solent travel was also quoted as a major constraint.



Capacity

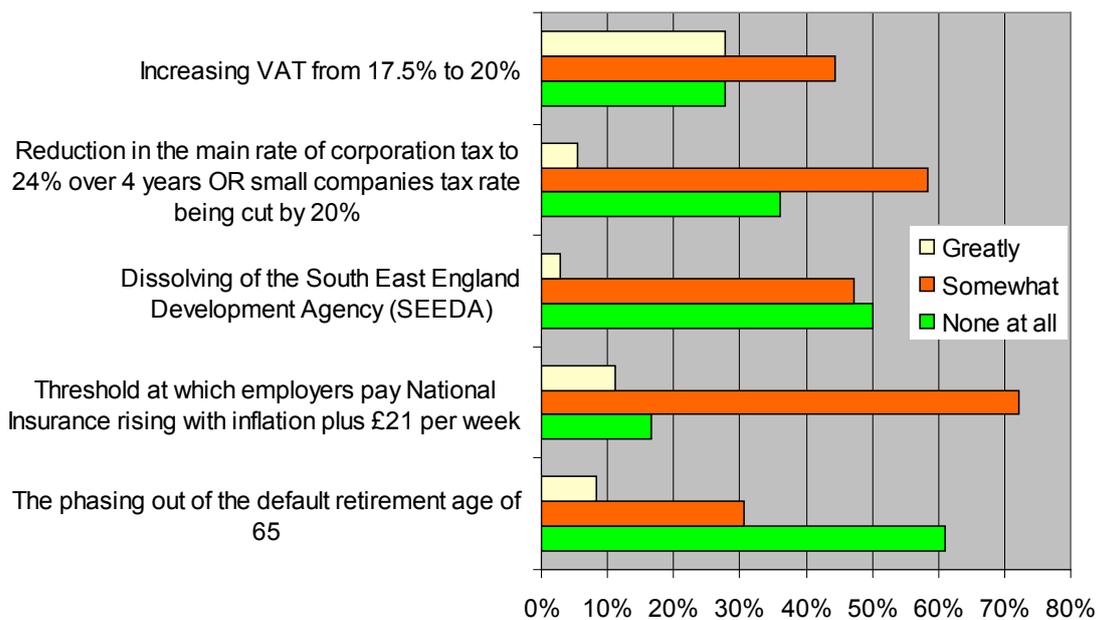
The number of businesses operating at full capacity continues to increase. 35% of businesses are now operating at full capacity which is comparable to the position reported in early 2009, which was the highest level recorded. 12 months ago only 31% of businesses were reported as operating at full capacity.

International Business

The number of businesses with international customers has not materially changed but of those who do trade internationally, 57% have indicated increased activity. This growth is expected to continue during the next six months.

The previous trend of increasing trade with Europe has been reversed with growth now being seen in the USA and China.

The anticipated impact of the recent budget announcements and government policy



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