Ipsos MORI

National Business Survey

Regional Report for South East England

January 2009

Contents

About National Business Survey

The National Business Survey is a large scale business survey conducted across all sectors of the economy in England and Northern Ireland. The survey is conducted on behalf of English Regional Development Agencies and Invest Northern Ireland. Data has been weighted by region and business size to reflect national profile.

Within the South East, the data is also weighted by county to reflect the regional profile. Fieldwork was conducted between October and December 2008 and the final achieved sample size was 680 across the South East. In addition to the main National Business Survey which is conducted every six months, the South East Development Agency (SEEDA) will run quarterly snapshots of 600 businesses across the South East and its Counties. This report is available from South East England Development Agency www.seeda.co.uk . For further information on the National Business Survey please contact the Research & Economics team at SEEDA, research@seeda.co.uk (01483 501379).

Executive Summary

Business Climate

- The National Business Survey (NBS) has found that business confidence in South East England has further declined since June 2008. The majority of businesses in the South East (55%) now expect the business climate to deteriorate over the next 12 months, up from 46% at June 2008. Confidence has been hardest hit in the construction sector, where three in four expect things to get worse (75%), followed by the distribution (66%) and manufacturing (62%) sectors. At county level, businesses in Berkshire and Oxfordshire are most pessimistic (68% and 67% respectively expecting the business climate to deteriorate) whereas confidence is significantly higher in West Sussex, where almost a quarter (23%) expect the business climate to improve.

- The economy in South East England is undergoing a challenging set of conditions, and findings from the NBS suggest that the tests it faces are reflective of the challenges facing the national economy. For the past 12 months, the net scores[1] for key economic indicators at the regional and national level illustrate this (%):

    - Volumes of output: -9 in the region, -10 nationally
    - Profit margins: -43 in the region, -43 nationally
    - Domestic orders: -13 in the region, -13 nationally
    - Cash in the business: -34 in the region, -35 nationally
    - Numbers employed: -10 in the region, -10 nationally

[1] Net scores are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

Output, Costs and Investment

- On balance, businesses in South East England have experienced lower levels of output volumes (-9). Close to two in three businesses (65%) say their present level of output is below capacity, in line with the national level (64%), and up from June 2008 (57%).

- Businesses in Hampshire are most likely to say they are operating below capacity (72%), while by sector, manufacturing businesses are most likely to say they are working below capacity (77%).

- Businesses in South East England have experienced a pattern of cost increases very similar to the picture nationally. Energy costs are most commonly cited, with around four in five (82%) saying these have increased over the past 12 months. This is however slightly lower than June 2008 levels (88%). Although almost half of businesses in South East England say that staff costs have increased over the past 12 months (43%), this marks a substantial decline from June 2008 levels, when two in five (60%) said that staff costs had increased.

- Six in ten businesses (60%) say they have passed on increased costs to customers in the past 12 months, down slightly from June 2008 (66%).

- Around half of businesses (46%) expect prices charged to customers to remain the same over the next 12 months, with similar proportions expecting them to rise (27%) as to fall (24%). This contrasts with June 2008, when a higher proportion of businesses anticipated price rises (41%).

- Over half of businesses now expect profit margins to be lower over the next 12 months (57%, up from 45% in June 2008). The construction and distribution sectors are most likely to expect profit margins to fall (69% and 67% respectively).

- Over four in ten businesses (42%) expect domestic orders to be lower in the next 12 months, compared to just 15% who expect them to be higher. This outlook is bleaker than was found in June 2008, when one in three expected domestic orders to decline.

- Expected levels of future investment have fallen sharply since June 2008. More businesses expect to decrease than increase spending in the next 12 months on buildings (net score of -2, compared to +22 in June 2008) and on plant and machinery (-14, compared to +11 in June 2008). While on balance businesses expect to increase investment in training and retraining, fewer expect to do so compared to June 2008 (+4 vs. +17 in June 2008). A similar pattern is in evidence with respect to product and process development (equal proportions expecting to increase vs. decrease investment, compared to a net score of +17 in June 2008).

The Labour Market

- While most businesses expect the numbers employed to be the same over the next 12 months, almost one in four (23%) expect the numbers to be lower, up from one in six in June 2008. Only 8% expect them to be higher (compared to one in six in June 2008). The pattern for the South East is similar to the national trend.

- Just under one in five businesses (18%) say they had staff vacancies in the last 12 months that were hard to fill or could not be filled. This is down on June 2008 levels (24%). Looking forward to the next 12 months, businesses anticipate fewer problems in filling staff vacancies, with just one in eight (12%) expecting there to be difficulties, in line with the national average. Again, businesses are more optimistic than was the case in June 2008, when one in five (20%) expected to encounter problems in filling staff vacancies over the coming year.

- Just under half of businesses in South East England (45%) have provided external training for their staff over the past 12 months, slightly (but not significantly) down on levels in June 2008, and in line with the national average.

- Just over half of businesses say that sales and marketing skills need improving in the next 12 months, similar to June 2008 (50%). Just under a half mention IT skills (42%, similar to the 45% found in June 2008) and just under two in five (36%) mention management skills. Businesses are less likely to emphasise the 'softer' skills of customer care (31%), office administration (31%), communication (29%) and team working (24%) when thinking of what improvements need to be made over the coming year.

Location Drivers

- Over half of businesses in South East England (54%) agree that the location is a good place for business to invest, similar to the national average (56%) and June 2008 levels (57%). Perceptions do not vary significantly by sector, although by region, businesses based in Oxfordshire are particularly likely to agree (69%).

- Businesses in South East England are on balance optimistic that the area in which their business is based will become more attractive to investors in the future (38% feeling it will, versus 18% who think it won't). Perceptions do not vary significantly by sector. By region, businesses in West Sussex are least likely to feel their region will increase in attractiveness for investments – indeed West Sussex is the only country where businesses are more likely to feel that the regional attractiveness will decline (34%) than improve (22%).

Strategic Business Planning and Innovation

- One in three businesses in South East England say they have a strategic business plan, similar to the level recorded in June 2008 (38%), as well as the national average (35%). The implementation of a formal business growth plan does not vary significantly by sector, however it is more common in larger businesses. By county, businesses in East Sussex are most likely to have a formal business growth plan.

- One in nine businesses in South East England (11%) co-operate with universities for research and development activities, unchanged from June 2008, but lower than the proportion nationally (14%). Businesses in the manufacturing and public/personal services sector are most likely to work with universities (19% and 17% respectively). By county, businesses in Berkshire are most likely to co-operate with universities (15%), while those in Kent are least likely to (4%).

- Just over one in five businesses in South East England have introduced a new product or process innovation in the past year. Large businesses are more likely to have introduced a new product or process innovation, with two in five of those with 50 or more employees having done so (41%), compared to half this proportion (21%) among businesses with less than 10 employees.

Environmental Performances

- One in three businesses (33%) have taken steps to reduce CO2 emissions, up from just over a quarter (26%) in June 2008.

- Around four in five businesses have adopted a recycling scheme in the past year (82%), and around a half (51%) have undertaken energy saving schemes and waste minimising schemes (51%). These proportions are similar to June 2008 levels, and in line with the national average.

- Looking forward to the next 12 months, businesses in South East England are most likely to say they will introduce or purchase environmentally friendly products (43%), and adopt an energy saving scheme (42%). This is in line with both June 2008 levels, and the national trend. Businesses are less likely to say they plan to adopt a recycling scheme than was the case in June 2008 (43% in June 2008 compared to 34% currently).

Introduction

- This report is based on findings from National Business Survey November 2008, conducted by Ipsos Mori on behalf of the RDA Network between October and December 2008. It explores perceptions of businesses across South East England on current and recent business conditions as well as looking forward to potential issues and views on projected change over the coming months. The findings of this wave are compared throughout with the June 2008 carried out in the summer of 2008. This report is accompanied by a national level publication on the findings of the National Business Survey.

Background and objectives

- The NBS is a large scale research study conducted across England and Northern Ireland with businesses and organisations from all sectors of the economy (both private and public sector). The survey is conducted on behalf of the RDA Network and as such, fieldwork is divided between England's nine Government Office Regions and Invest Northern Ireland, with varied sample sizes within each region (as set out in the sample profile appended to this report).

- The survey builds on the findings and work of the previously titled, "UK Survey of Regional Economic Trends" which ran over nine consecutive waves, from Spring 2003. The methodology and questionnaire remain largely unchanged from this previous survey to ensure consistency of approach between survey waves and data (see below for more on research methods).

Methodology and sample sizes

- The National Business Survey uses a postal methodology, with the option of completing the survey online for those who find this more convenient.

- An initial mail-out was sent out to a randomly selected, representative sample of businesses and organisations across the country. Following this, supplementary postal reminders were sent out to all organisations which had not responded to the original mailing, as well as email reminders to all organisations with email contact details.

- Fieldwork was conducted between October and December 2008 and the final achieved sample size was 680 across South East England region.

- Data have been weighted by region and business units by employee size bands to reflect the national profile. Within the South East, the data are also weighted by county to reflect the regional profile.

- Responses supplied from Business Link sample are included to enable larger sample sizes for sub regional analysis[2].

Report content, layout and contextual information

- The report includes a number of sections aimed to highlight the key findings from the survey, and makes extensive use of secondary data and comparator information in order to contextualise the findings. The sections include:

  - **Executive Summary:** A stand-alone interpretive summary of the key survey findings.

  - **Introduction:** Introduction to the survey objectives, methods and notes on interpreting the findings and using the report.

  - **Business Climate:** The National Business Survey findings on business climate are placed within the context of national statistics on economic performance.

  - **Prices and Inflation:** The National Business Survey findings on prices and costs are placed within the context of inflationary trends.

[2] Please note that for the South East region, The National Business Survey contains a small proportion of responses from sample supplied by Business Link. The national level findings presented as a comparison in this report do not contain any responses from Business Link supplied sample.

- **Investment Prospects:** The National Business Survey findings on output levels and planned spending are placed within the context of national statistics on output and investments levels.

- **Labour Market in the Region:** The National Business Survey findings on employment levels and skills gaps are placed within the context of a range of labour market statistics.

- **Location Drivers:** This section includes findings on satisfaction with a range of key business location factors.

- **Strategic Business Planning:** This section includes findings on the usage and attitudes of a range of support services.

- **Environmental Performance:** National Business Survey findings on actions taken to improve environmental performance are placed within the context of national level progress in reducing environmental emissions.

Publication of the data

- As with all our studies, these findings are subject to our standard Terms & Conditions of Contract. Any press release or publication of the findings of this survey requires the advance approval of Ipsos MORI. This would only be refused on the grounds of inaccuracy or misinterpretation of the findings.

Acknowledgements

- We would like to place on record our thanks for the input and support provided during the study from Ivan Perkovic and Daniela Freddi at the South East England Development Agency. We would also like to thank all businesses who took the time to take part in the survey.

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Tom Huskinson

Ronan Smyth

Joe Marshall

Lisa Nicholl

1. The Business Climate

Economic Performance: the national context

In January 2009, data from National Statistics[3] confirmed that the UK economy is in recession, due to GDP contraction having occurred in two consecutive quarters. In Q2 2008 the economy stagnated with 0.0% GDP growth[4]. GDP then fell by 0.5% in Q3 2008 and 1.5% in Q4 2008. Major economic indicators are in negative territory: industrial production dropped by 3.6% in the three months to October; whilst manufacturing output fell by 3.5%; and whole economy investment fell by 2.0% in the year[5] to October. The service sector is still growing, though at an output rate of only 1.7%.

The recession which the UK is facing is a global one, affecting all major Western economies. For Q3 2008[6], the greatest contraction in has been in the UK (-0.5%), along with Japan and Germany (-0.5%), whilst the largest economy, the US, fell by 0.1%[7]. This may affect growth in export markets, further affecting the profit margins of UK businesses. The CBI Monthly Industrial Trends Enquiry recorded the Export Order Book in negative balance at -31 in November, having fallen from -5 in July[8]. However the hotel and catering sector is hoping that the weak pound value will attract more overseas visitors.

There has been limited growth in the consumer market: household consumption increased by 2.3% in the year to Q2 2008 and retail sales volumes increased by 2.0% in the year to October 2008. However, the British Retail Consortium reported that like-for-like retail sales for December 2008 were down 3.3% on a year ago, while total sales shrank 1.4%. In recent months a number of high profile retail businesses have gone into administration or liquidation with mounting job losses as a result. These difficulties have created fears that the retail market is approaching a slump, with

[3] All national statistics in this section are from the HM Treasury Databook 18 Dec. 2008.
[4] Quarter on quarter.
[5] 'in the year' is defined as % change on a year earlier.
[6] The latest available comparative data for Western companies is from Q3 2008.
[7] All quarter figures refer to quarter by quarter growth, Pg. 24, HMT Databook.
[8] The balance between negative and positive responses.

consumer confidence and spending power eroded by the continuing fall in house prices and the risk of negative equity and rising debts.

Inflation and interest rates

Leading indicators show inflationary pressure is sharply receding as businesses turn to discounting to boost demand. Data from National Statistics show Consumer Price Inflation at 3.1% in the year to December 2008, compared to 5.2% in September, which was the highest level recorded this year. December's inflation figures are expected to show a sharp decrease, due to falling commodity prices and deep discounting by retailers over the Christmas period.

Producer output prices increased by 5.1% in the year to November 2008, but the rate of increase has fallen from the 2008 peak of 10.0% in July.

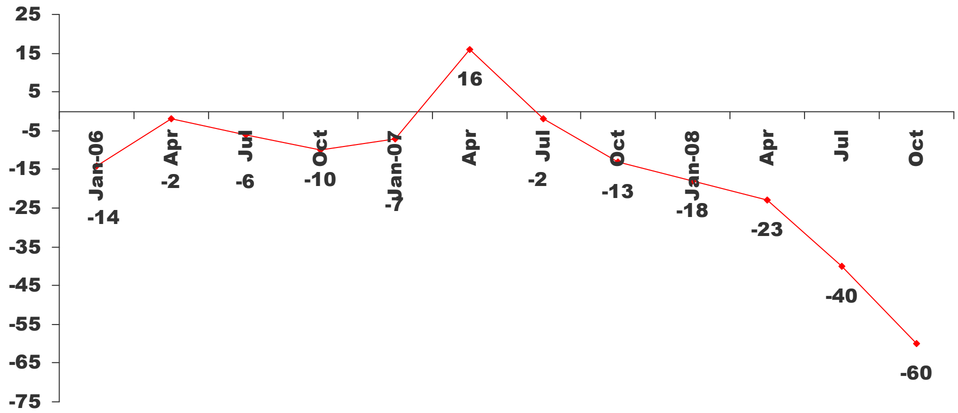
To stimulate the lending between financial institutions and boost demand, the Bank of England took the unprecedented step of reducing interest rates from the 5% level in July to 1.5% in January 2009.

Business Confidence

Figure 1

Business Optimism, CBI Quarterly Industry Trends Survey, Jan 2006 – Oct 2008

Balance is a percentage difference between negative and positive responses



Source: CBI Quarterly Industry Trends Survey

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The CBI Industrial Trends Survey highlights the difficult conditions face by businesses with the balance of confidence falling steadily since July 2007 to stand at an all time low of -60 for October 2008.

The British Chambers of Commerce Quarterly Economic Survey[9] has recorded a balance of -12 for service sector confidence for Q3 2008, down from +1 in Q2 and +17 in Q1. Similarly manufacturing confidence was at -11 in Q3, down from +5 in Q2 and +27 in Q1.

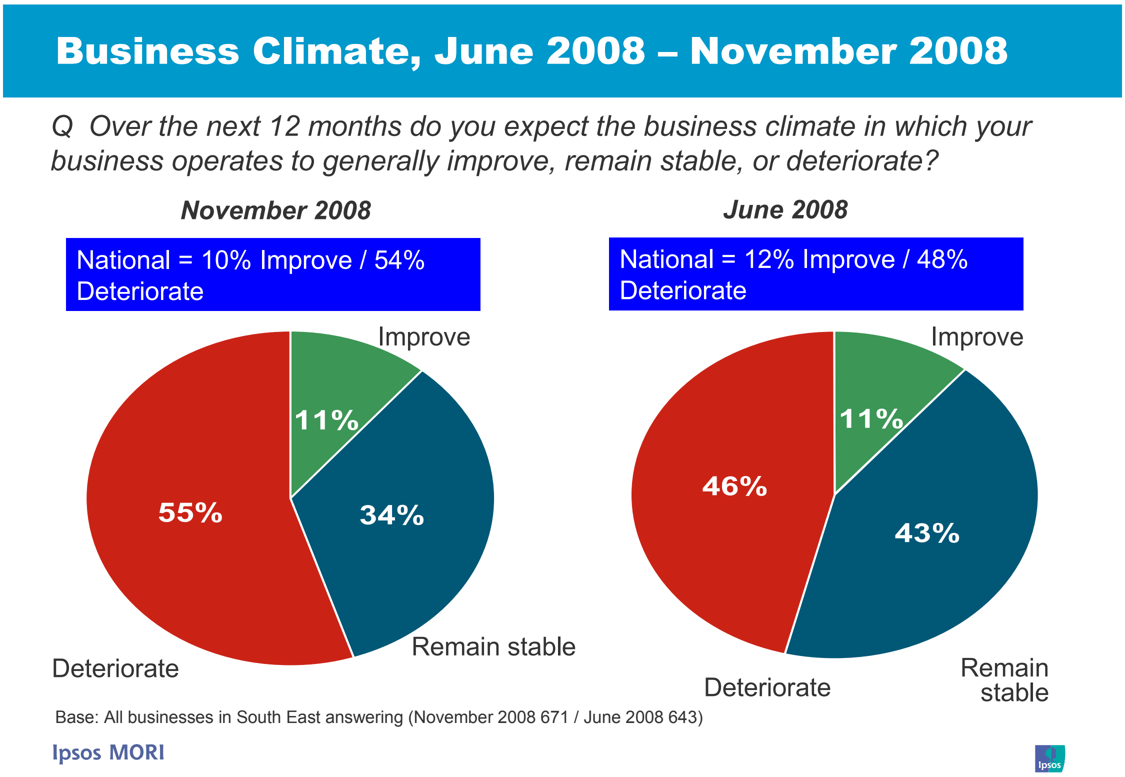
These findings shall be compared in the section below with the results of the National Business Survey.

[9] 5,099 businesses were surveyed.

The Business Climate in South East England

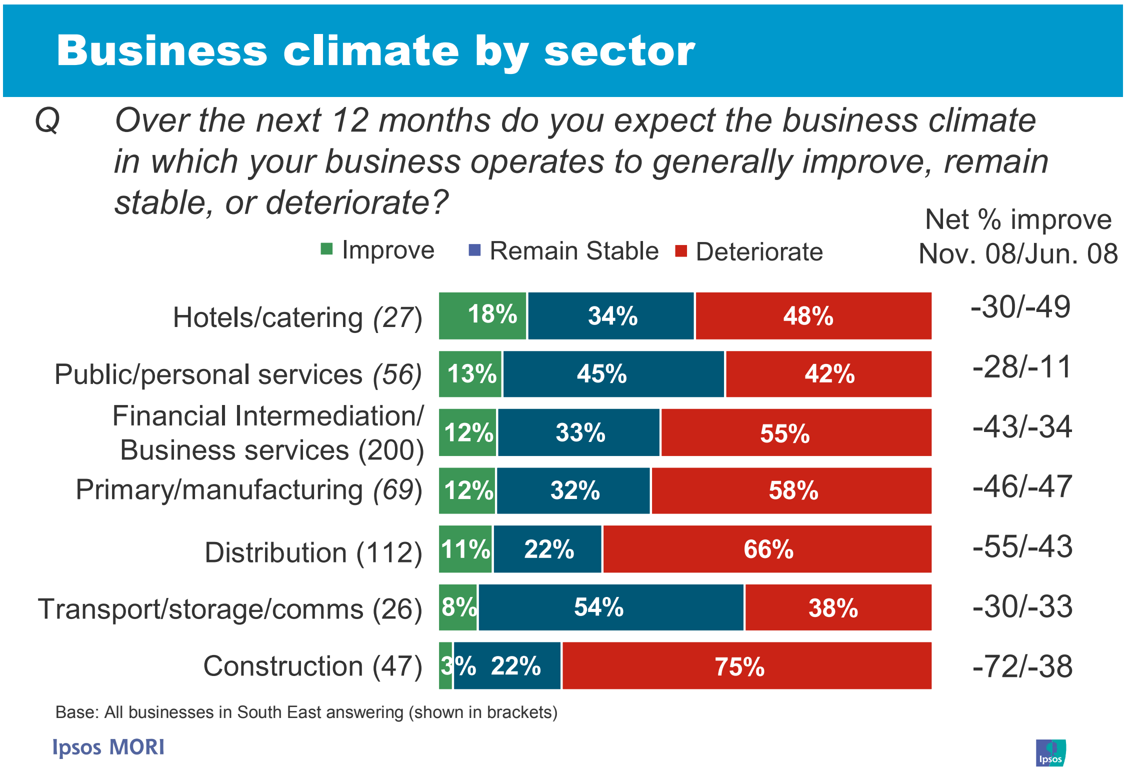
The National Business Survey provides a key measure of business confidence, which will be tracked over time with findings broken down by key variables, including sector, business size and region.

Figure 2



Businesses in South East England continue to share the concerns that are apparent throughout England as a whole. Only one in ten (11%) believe that the climate in which they operate will improve in the next 12 months, with the majority feeling it will deteriorate (55%, up from 46% in June 2008). While the most popular viewpoint in June 2008 was that the business climate would remain stable, the most popular view currently is that it will deteriorate.

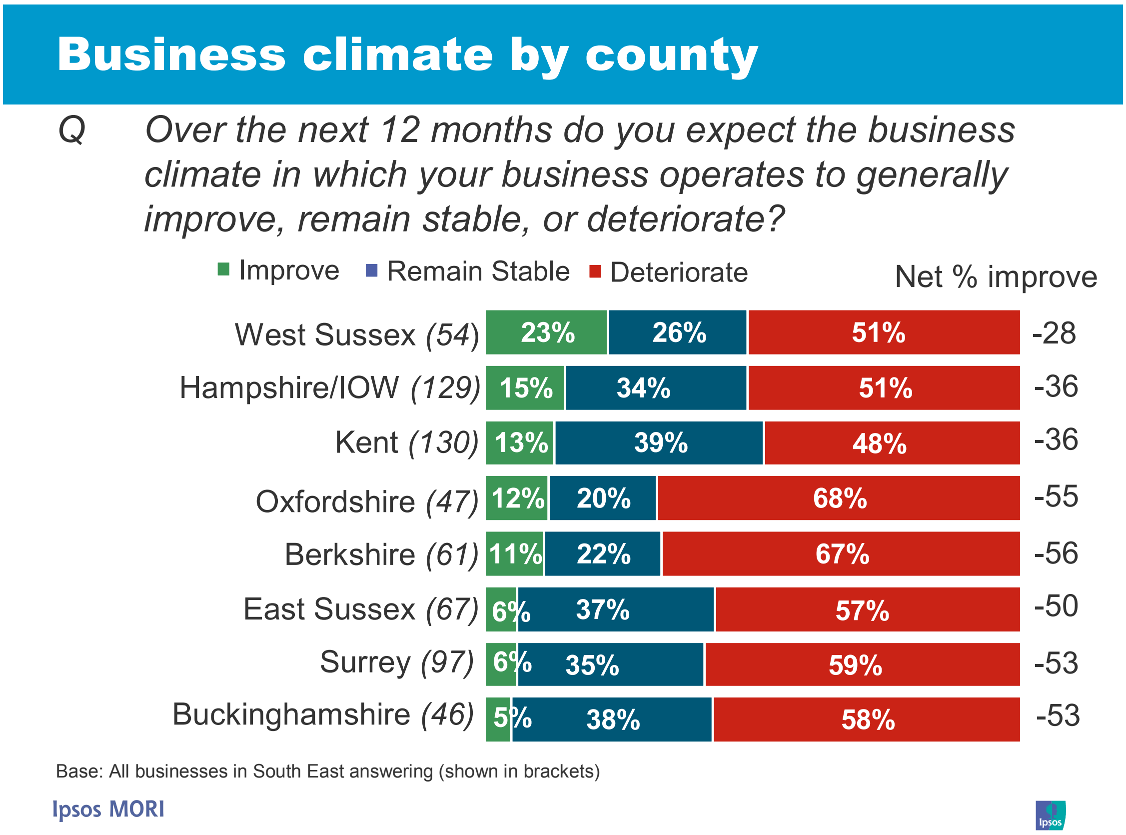
Figure 3



All industry sectors surveyed feel it more likely that the business climate will deteriorate versus improve over the next 12 months. The construction industry is the most pessimistic, with a net score of -72 (based on the balance of those who say the business climate will improve, minus those who say it will deteriorate); this is a far bleaker outlook than was found in June 2008 (-38). The distribution sector also has a more pessimistic outlook than was the case in June 2008 (-55 in November 2008 vs. -43 in June 2008).

The hotels/catering sector and public/personal services sector are the most likely to anticipate improvements (18% and 13% respectively feeling that the business climate will improve); however, on balance the outlook is one of a worsening environment in which to do business.

Figure 4

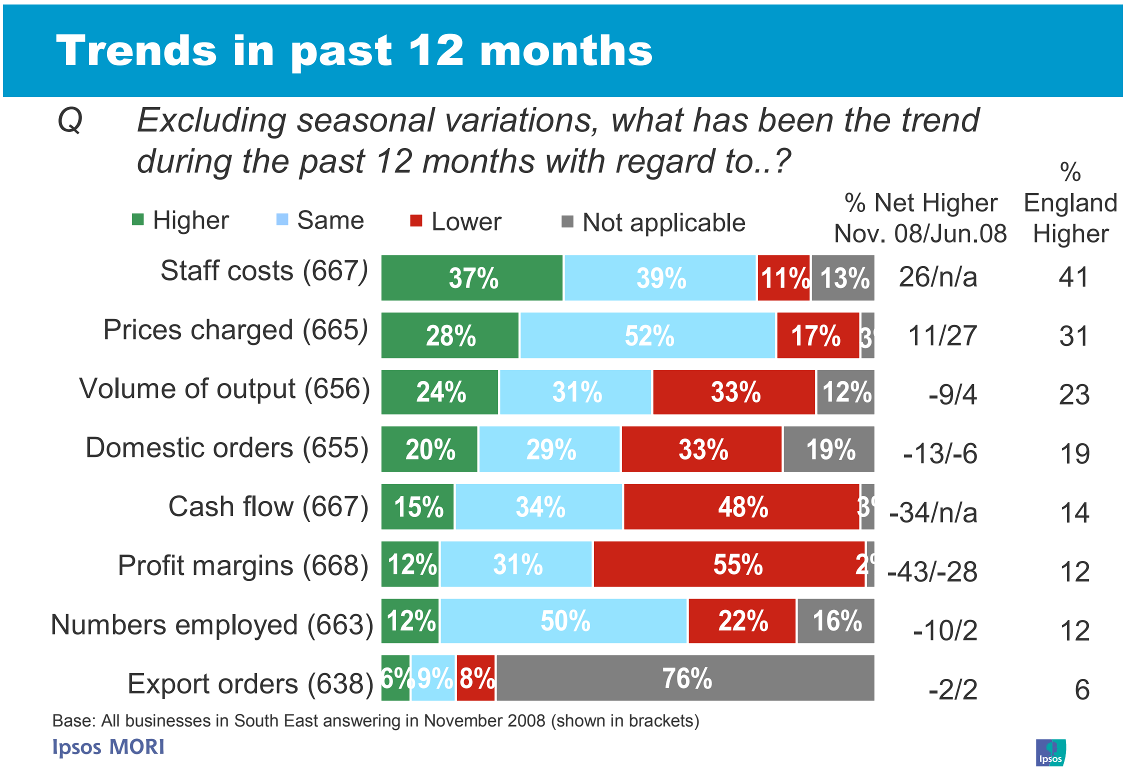


At a county level, confidence is significantly higher[10] in West Sussex, where almost a quarter (23%) expect the business climate to improve, compared to the regional average of 11% and the national average of 10%. Therefore East Sussex (6%), Surrey (6%) and Buckinghamshire (5%) are all below the regional and national average.

[10] At the 5% level.

Business Trends in the Region

Figure 5

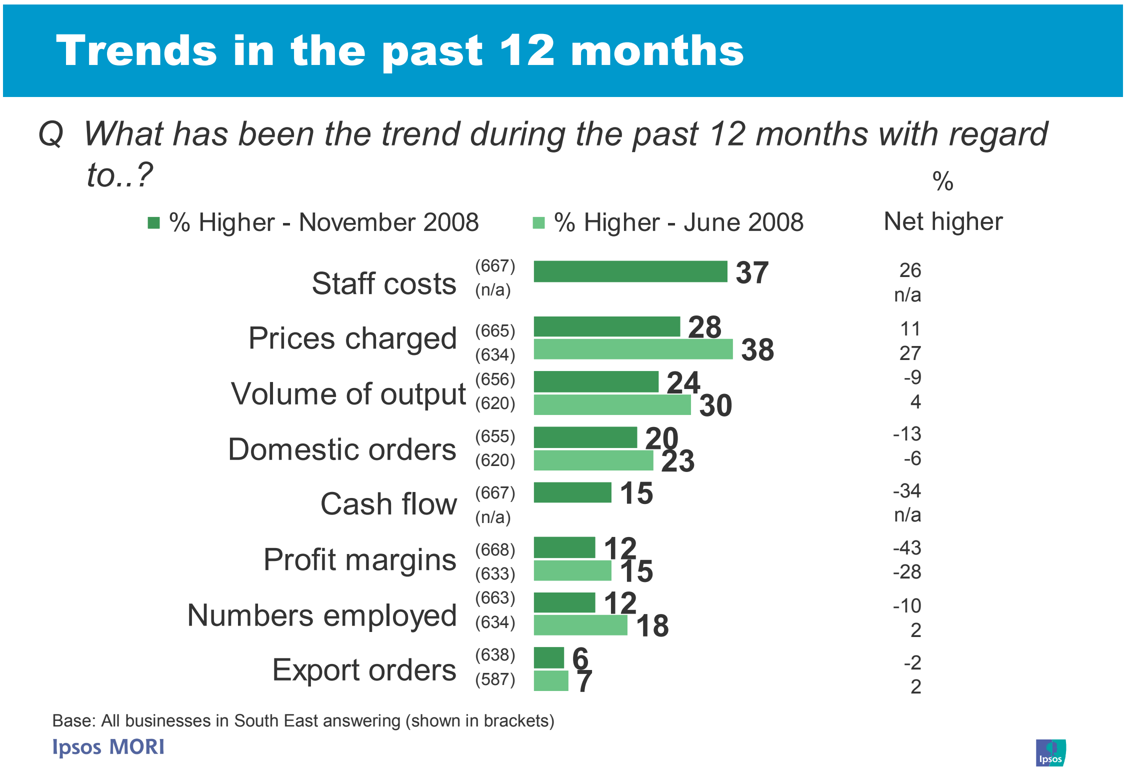


Over a half of businesses in South East England (55%) say that profit margins have fallen over the past 12 months, with a similar proportion (48%) saying that cash flow has fallen.

Staff costs and prices charged have, on balance, risen over the past 12 months. Almost two in five businesses in South East England (37% / 41% nationally) say that staff costs have increased, compared to just one in nine (11%) who say they have decreased. Prices charged to customers have risen for almost three in ten businesses (28%, compared to 17% who say they have fallen).

Other indicators of business trends emphasise the challenges that businesses have faced over the past 12 months. On balance businesses in South East England have experienced considerably less cash flow and lower profit margins over the past 12 months (nets of -34 and -43 respectively), as well as lower levels of domestic orders, numbers employed, and output volumes (nets of -13/-13 nationally, -10/-10 nationally and -9/-10 nationally respectively).

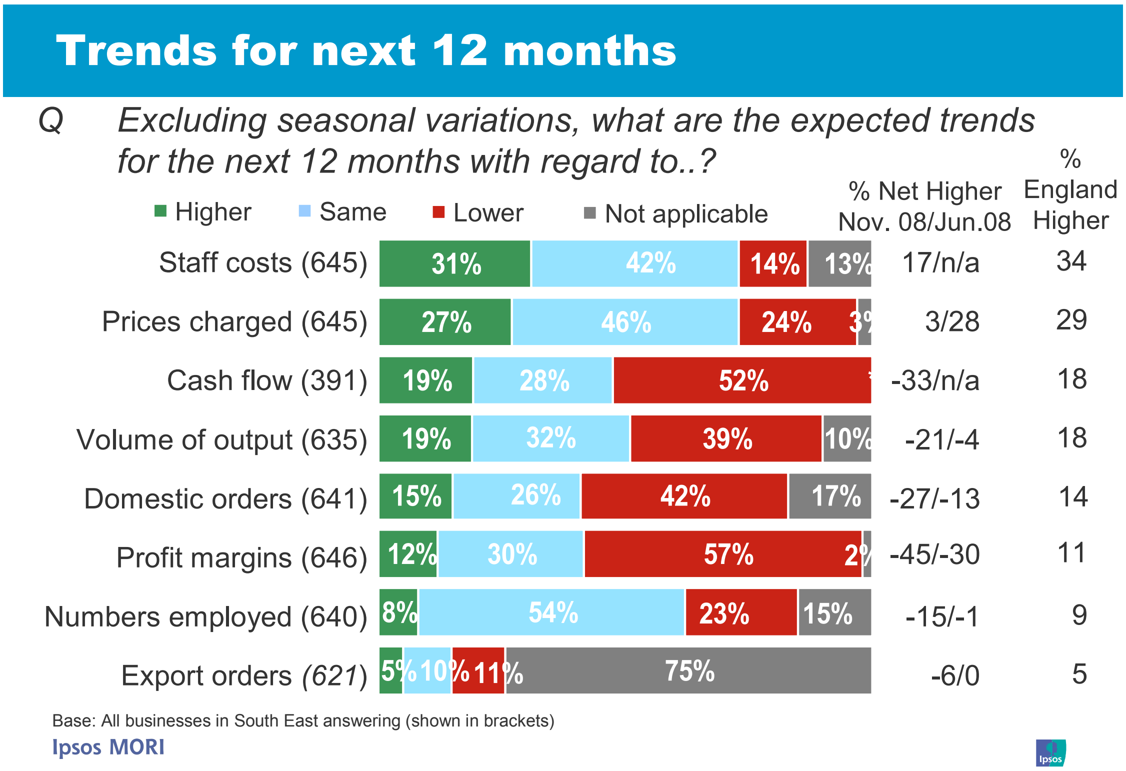
Figure 6



Compared to June 2008, businesses have been less likely over the past 12 months to raise prices charged to customers (28% in November 2008 versus 38% in June 2008).

The net higher score for profit margins have dropped substantially from -28 in June 2008 to -43 in November 2008, as has the number employed indicator from +2 in June 2008 to -10 in November 2008.

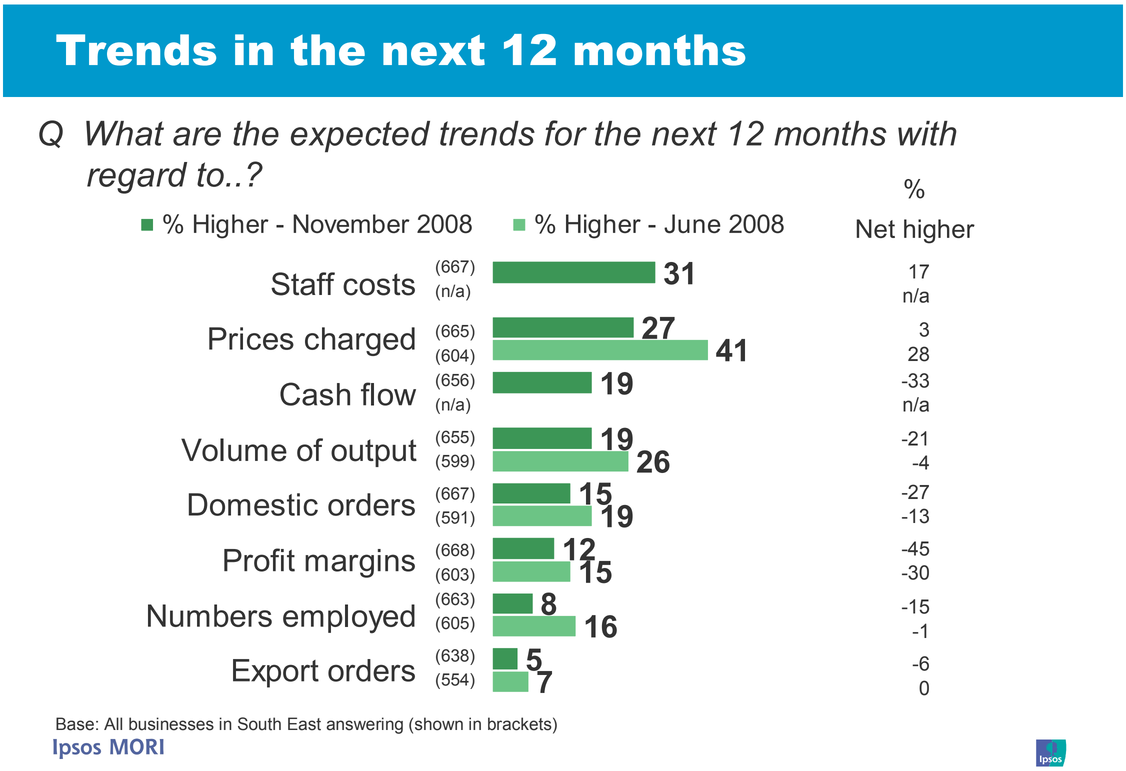
Figure 7



The expected trends for the next 12 months are in negative territory other than for staff costs and prices charged. The majority of businesses in South East England (57%) expect profit margins to fall over the next 12 months, with the majority also expecting less cash flow (52%). The outlook is also poor in terms of volume of output (39% expect this to decrease) and domestic orders (42% expect these to decrease).

Three in ten (31% / 34% nationally) expect staff costs to rise, more than twice the proportion who expect them to fall (14%), while over one in four (27% / 29% nationally) anticipate charging their customers more, compared to 24% who expect to charge less.

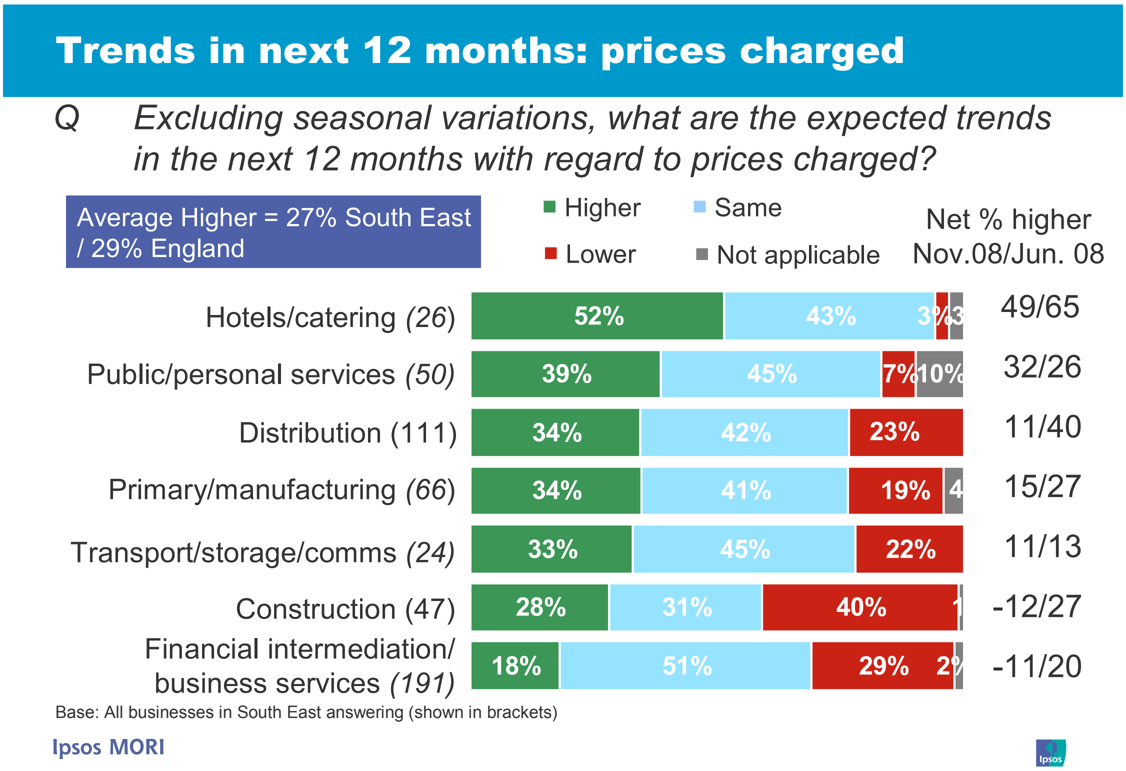
Figure 8



Comparing November 2008 results with those from June 2008, the most striking difference in terms of business trends over the next 12 months concerns the prices businesses expect to charge their customers. Two in five businesses (41%) expected to increase prices in June 2008 (net of +28), which compares to fewer than three in ten (27%) in November 2008 (net of +3). This reflects the fall in inflation over the two waves.

The outlook in other areas has also deteriorated. Businesses now have a firm expectation that they will cut staff: 16% anticipated taking on more employees in June 2008 (net of -1); in November 2008, just 8% expect to take on more employees (net of -15). The outlook for domestic orders and profit margins are also bleak. While businesses anticipated a weakening in these areas at June 2008, November 2008 indicates that this pessimism is accelerating. Fewer than one in five (15%) expect domestic orders to increase over the next 12 months (net of -27), compared with 19% in June 2008 (net of -13). Just one in eight (12%) expect profit margins to rise (net of -45), compared with 15% in June 2008 (net of -30).

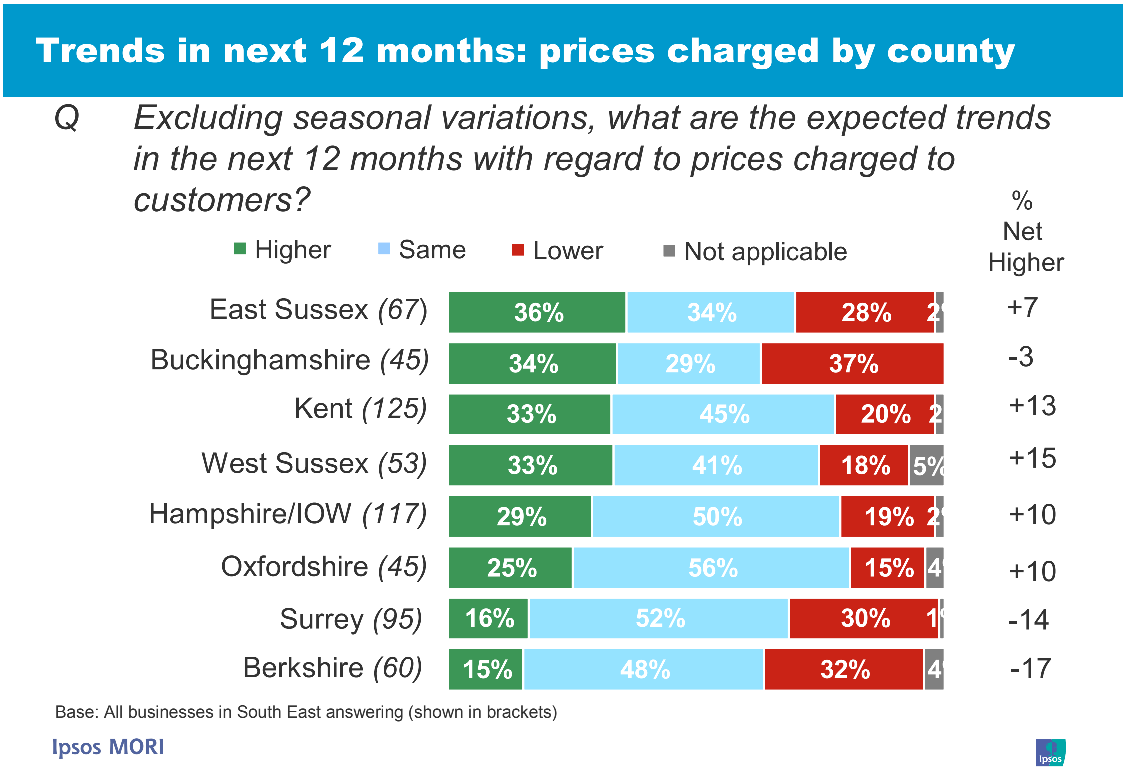
Figure 9



Looking in more detail at businesses' expectations of the prices they will charge their customers over the next 12 months reveals that the hotel/catering industry is most likely to increase prices (52% expect prices to rise), followed by public/personal services (with 39% expecting price rises). For the distribution, primary/manufacturing and transport/storage/communications sectors around one in three businesses expect to raise prices.

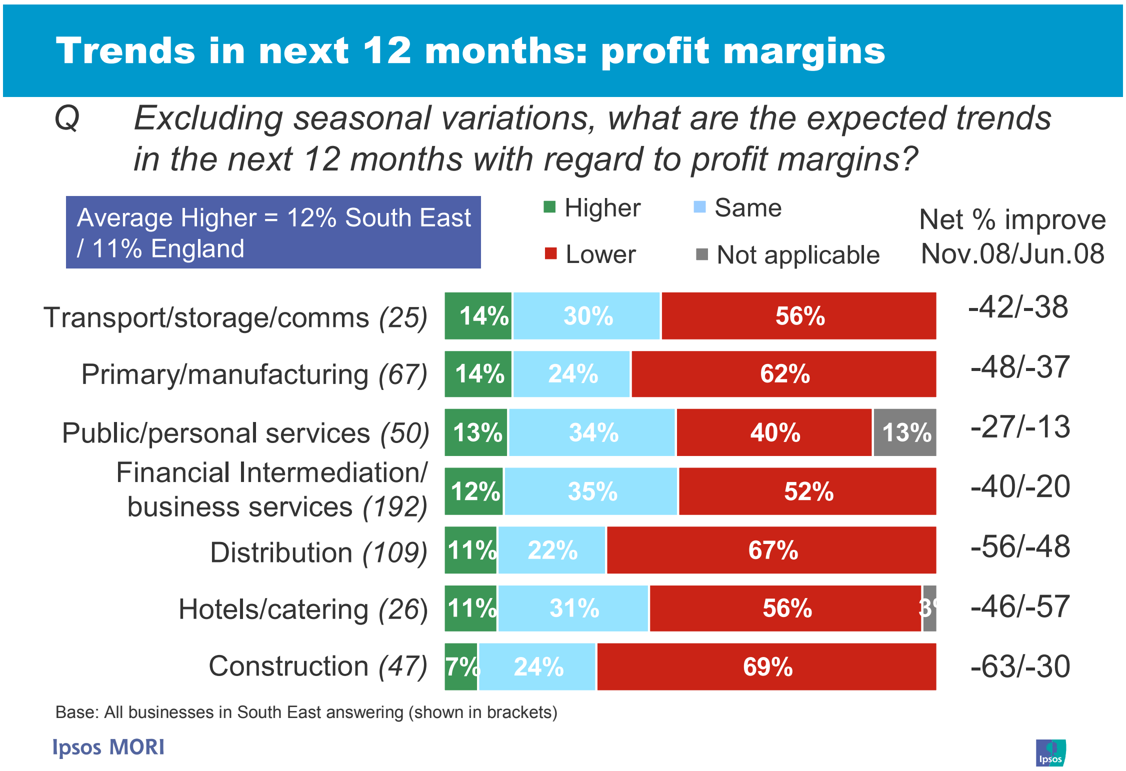
The construction and financial intermediation sectors are least likely to raise their prices (28% and 18% respectively anticipate price rises). Indeed, these are the only two sectors where businesses tend to anticipate lowering prices over the next 12 months.

Figure 10



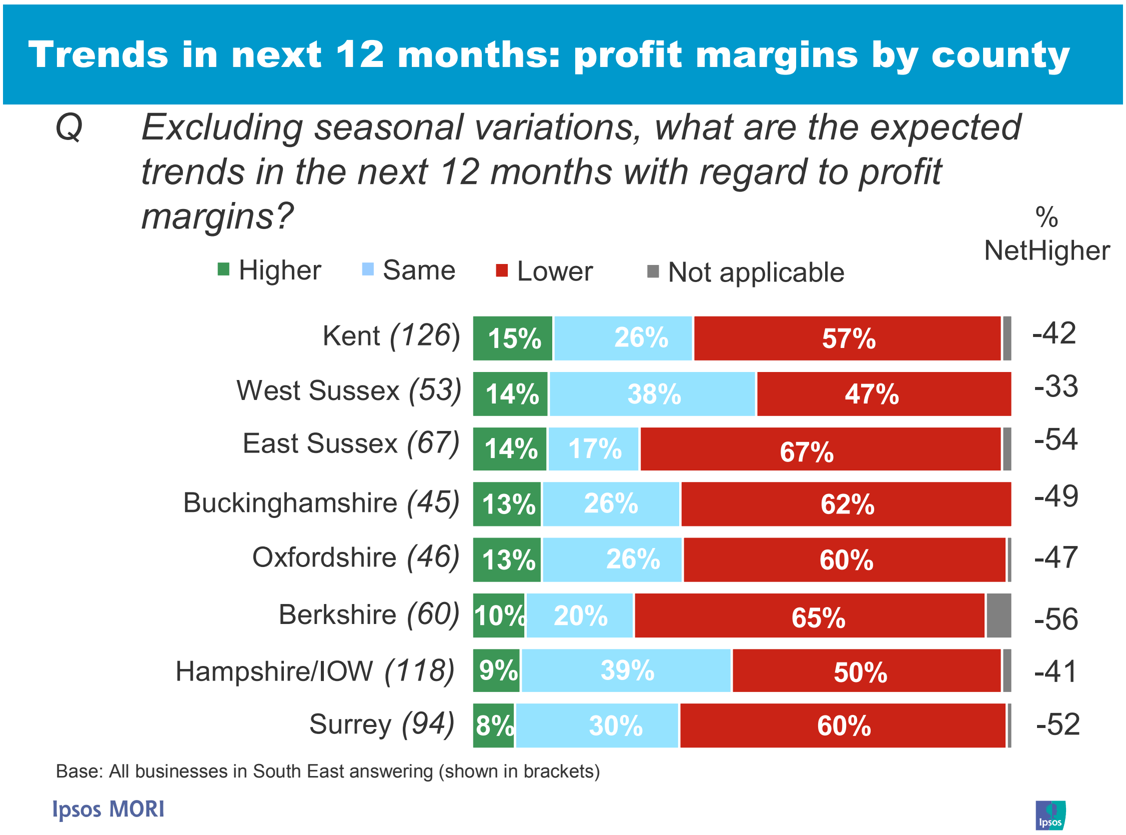
The trends in Surrey and Berkshire are lower than the other counties at a statistically significant level. At the national level (29%) and regional level (27%) around three in ten businesses expect higher trends in prices charged over the next 12 months compared to only 15% in Berkshire and 16% in Surrey.

Figure 11



Businesses across all sectors have a poor outlook of their profit margins over the next 12 months, with the proportion of businesses expecting profit margins to increase ranging from just 7% for the construction sector to 14% for the transport/storage/communications sector, compared to 12% for the region and 11% nationally. In June 2008 businesses were overwhelmingly expecting profit margins to fall; November 2008 exacerbates this trend. Almost all sectors are now more pessimistic about their profit margins than was the case in June 2008.

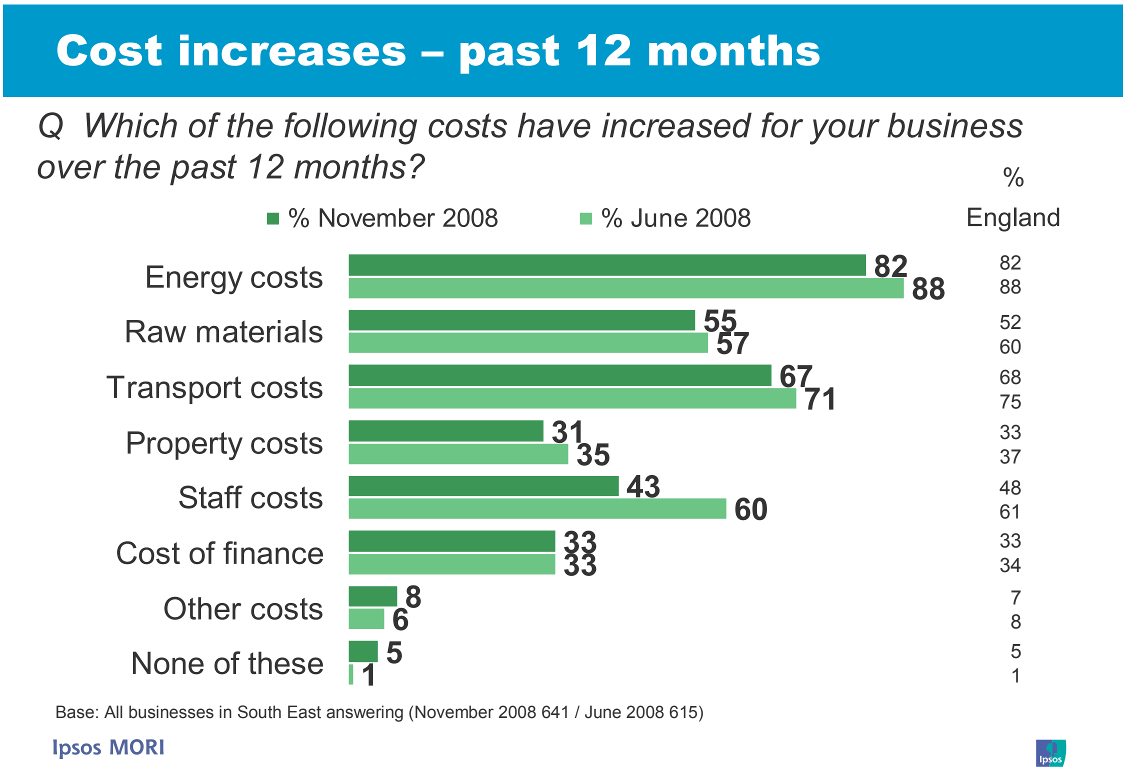
Figure 12



In all counties between a half and two thirds of businesses expect lower profit margins in the next 12 months. The net higher figure ranges from -33% in West Sussex to -56% in Berkshire.

2. Business Cost Pressures

Figure 13

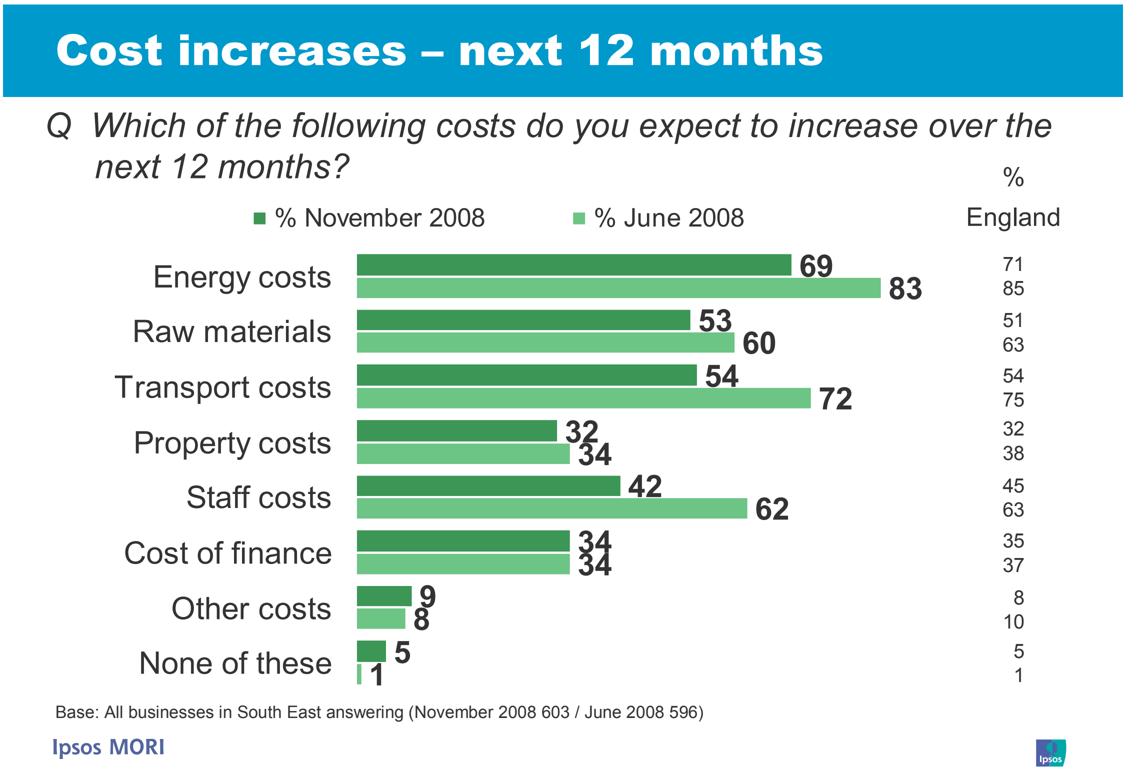


When asked about cost increases in the NBS, businesses in South East England have experienced a pattern of cost increases very similar to the picture nationally. Energy costs are most commonly cited, with around four in five (82%) saying these have increased over the past 12 months. This is however slightly lower than June 2008 levels (88%).

Transport costs are next most commonly cited – these costs have also risen for the majority of businesses over the past 12 months (67%). Over half of businesses say that the cost of raw materials has increased over the past 12 months (55%, similar to June 2008 levels).

Although almost half of businesses in South East England say that staff costs have increased over the past 12 months (43%), this marks a substantial decline from June 2008 levels, when two in five (60%) said that staff costs had increased.

Figure 14

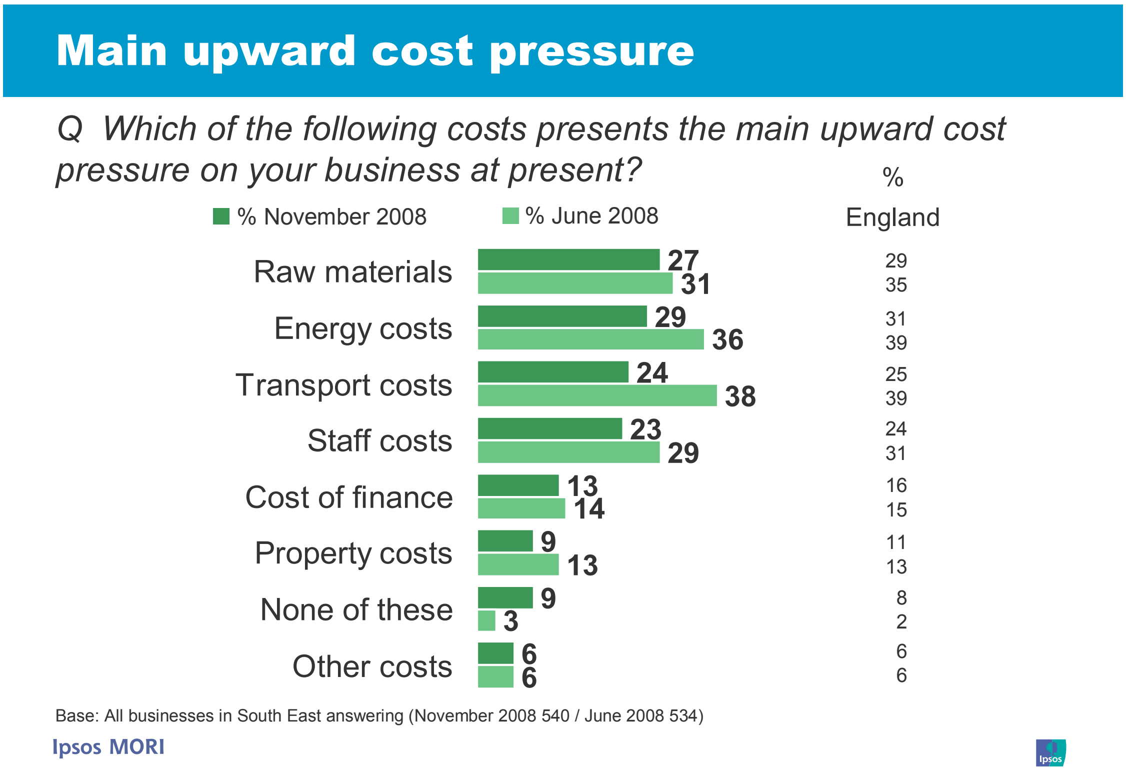


The majority of businesses in South East England expect energy costs (69%), transport costs (54%), and the cost of raw materials (53%) to increase over the next 12 months. This marks a reduction in the proportions anticipating price increases in June 2008, at which point over four in five (83%) expected energy costs to increase, almost three in four felt that transport costs would rise, and three in five thought raw materials would increase in price (60%). Furthermore, while the majority of businesses in South East England (62%) felt that staff costs would increase in June 2008, currently a minority of two in five (42%) expect staff costs to rise.

It is important to note that while the NBS indicates that cost pressures are easing for businesses in South East England, many businesses still expect key costs to rise over the next 12 months.

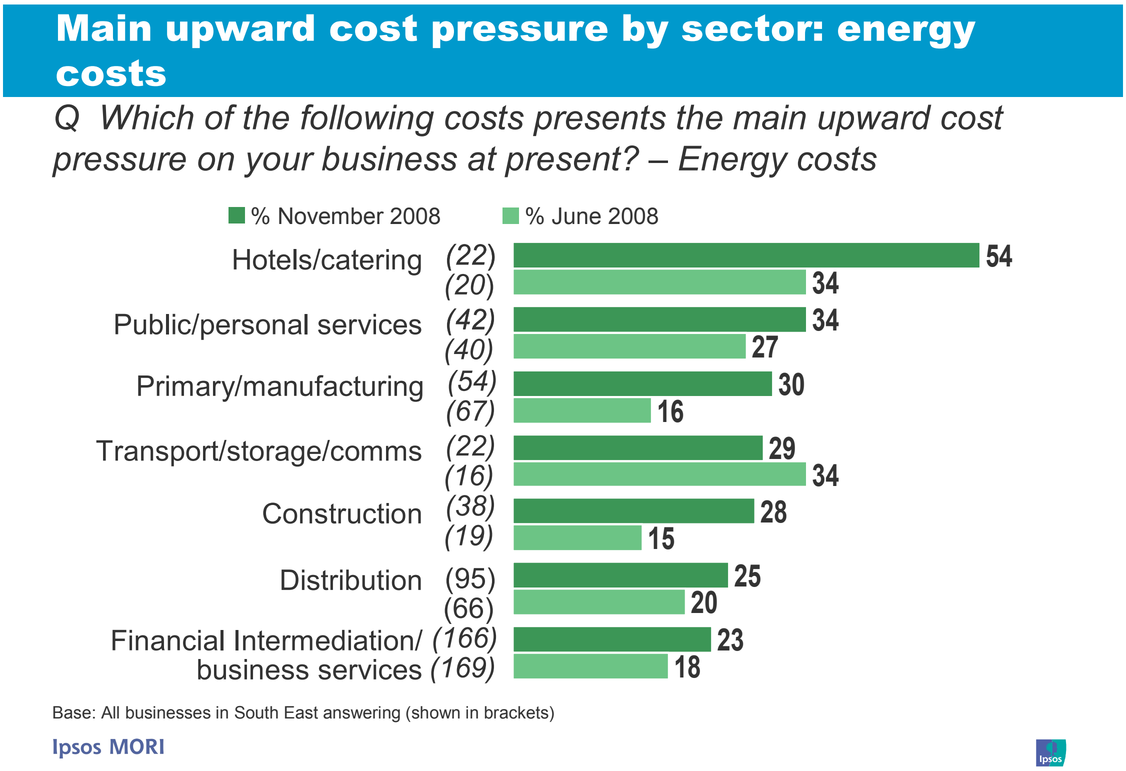
Upwards cost pressures for businesses in South East England are closely in line with the pressures businesses are experiencing nationally. By county, energy costs are most likely to be predicted to increase by businesses in West Sussex, while property costs are most likely to be predicted to increase by businesses in Kent.

Figure 15



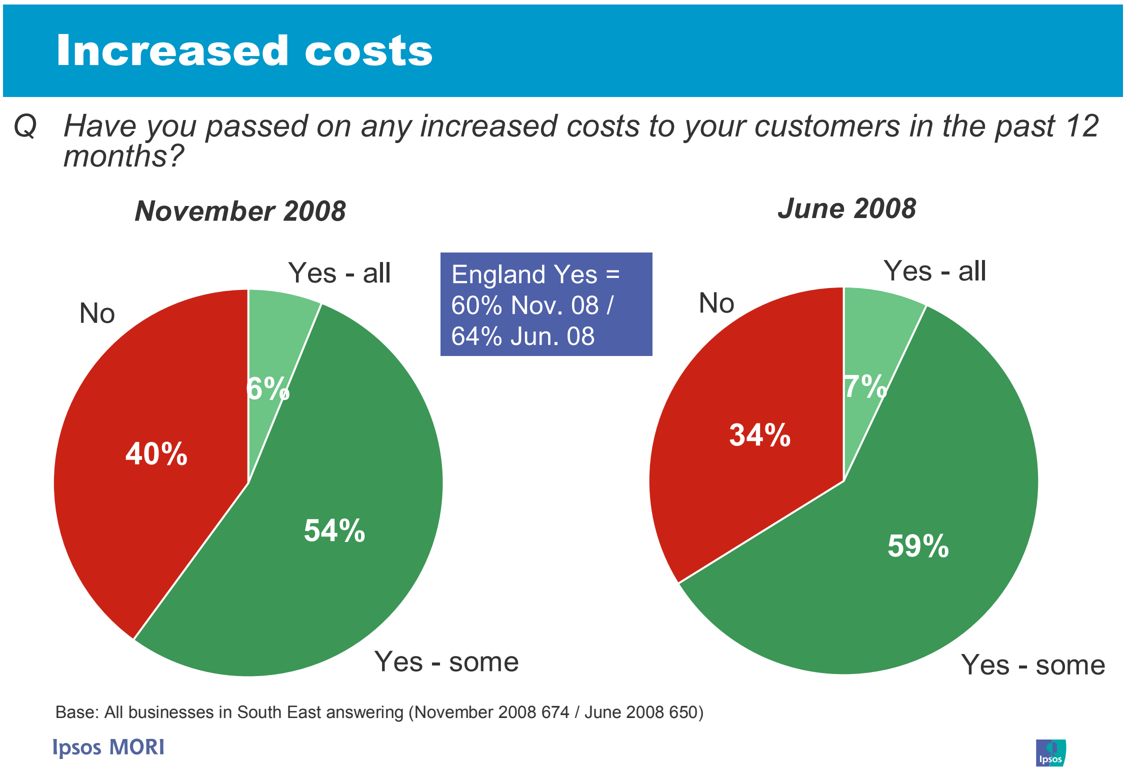
Businesses in South East England feel that raw materials are currently posing the main upward cost on their business (cited by 29%). This is followed by energy costs (27%) and transport costs (24%). The pattern of cost pressures affecting businesses in South East England are closely in line with those affecting businesses nationally.

Figure 16



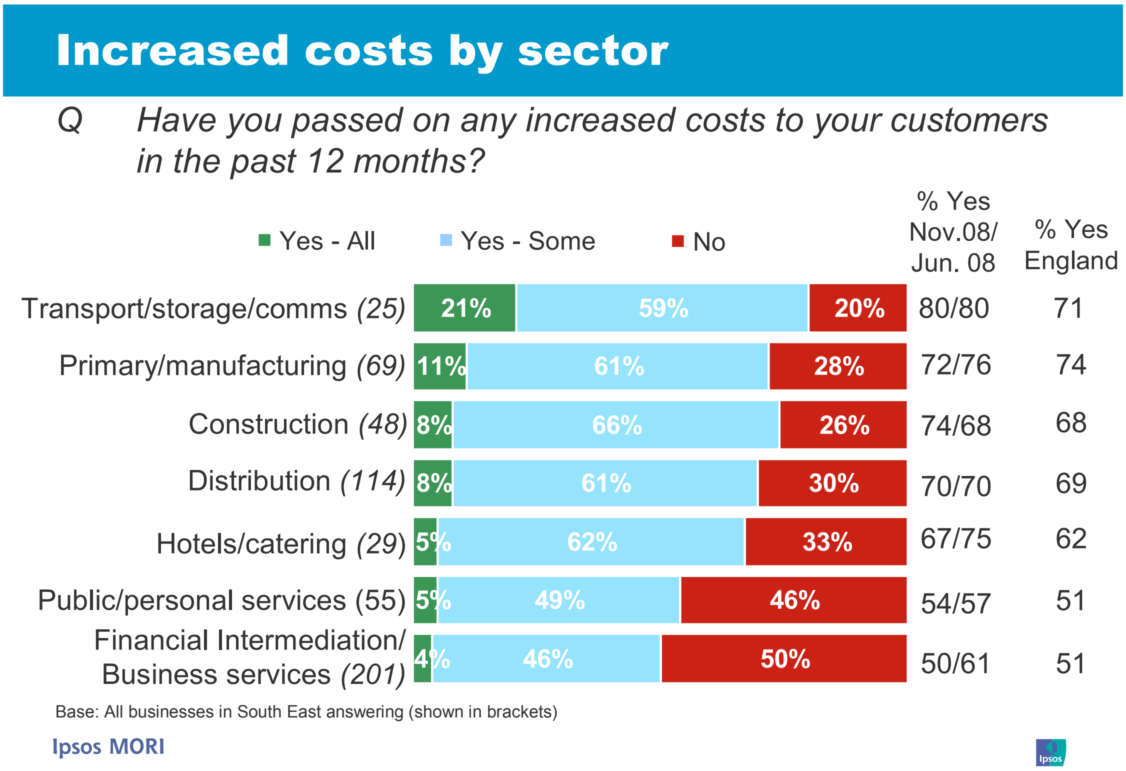
Energy costs are pressurising business sectors unevenly. Hotels/catering businesses are most affected, with over half (54%) saying that energy costs present the main upward pressure on their business. Energy costs are less frequently cited as an upwards pressure however for businesses in the distribution or financial intermediation sectors (25% and 23% citing respectively).

Figure 17



Three in five businesses (60%) have passed on some or all of their increased costs to their customers in the past year. This is in line with the national average (60%), but lower than was the case in June 2008 (66%). Businesses may feel less inclined to pass on increased costs to customers, due to slowing aggregate demand caused by the recession. This in turn will impact on profit margins, which have been in decline between the waves, as discussed in this report.

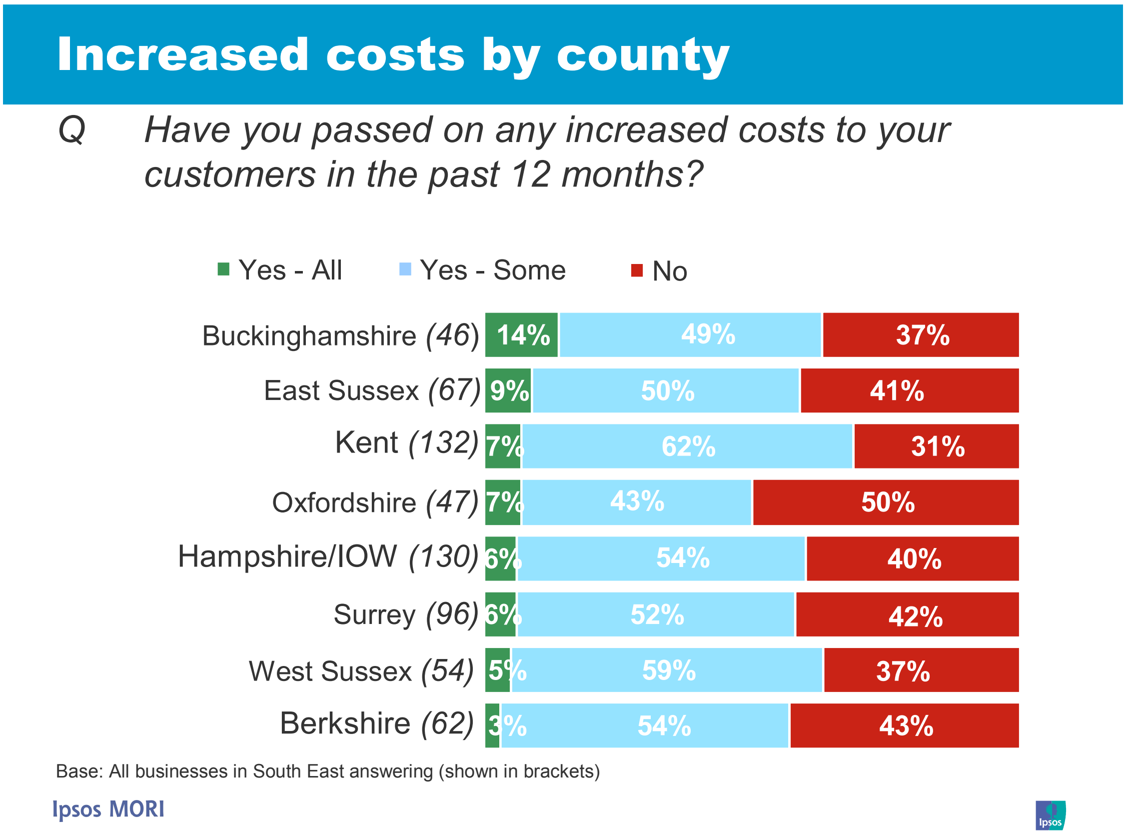
Figure 18



As was the case in June 2008, there is a notable difference between sectors in the extent to which increased costs have transferred into higher costs to customers. The transport/storage/communications sector is most likely to have passed on higher costs, with four in five having done so (80%), compared to seven in ten nationally (71%). This is followed by the primary/manufacturing (72% / 74% nationally) and construction (74% / 68% nationally) sectors.

The public and personal services (54%) and finance intermediation and business services sectors (50%) sectors are again less likely to have passed on increased costs.

Figure 19



At the statistically significant level, businesses in Kent are more likely to pass on increased costs (69%), compared to the regional average (60%).

3. Investment Prospects

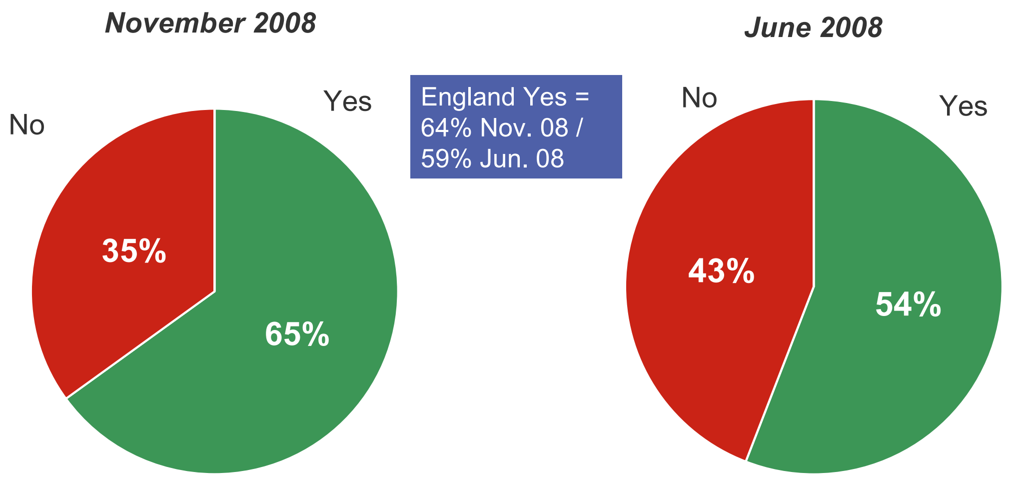
This section assesses future investment prospects for businesses, by comparing the current economic indicators and projections from HM Treasury, with the findings from the National Business Survey which relate to the crucial areas of planned future investment.

NBS Findings: Levels of Output

Figure 20

Level of output

Q Is your present level of output below capacity?

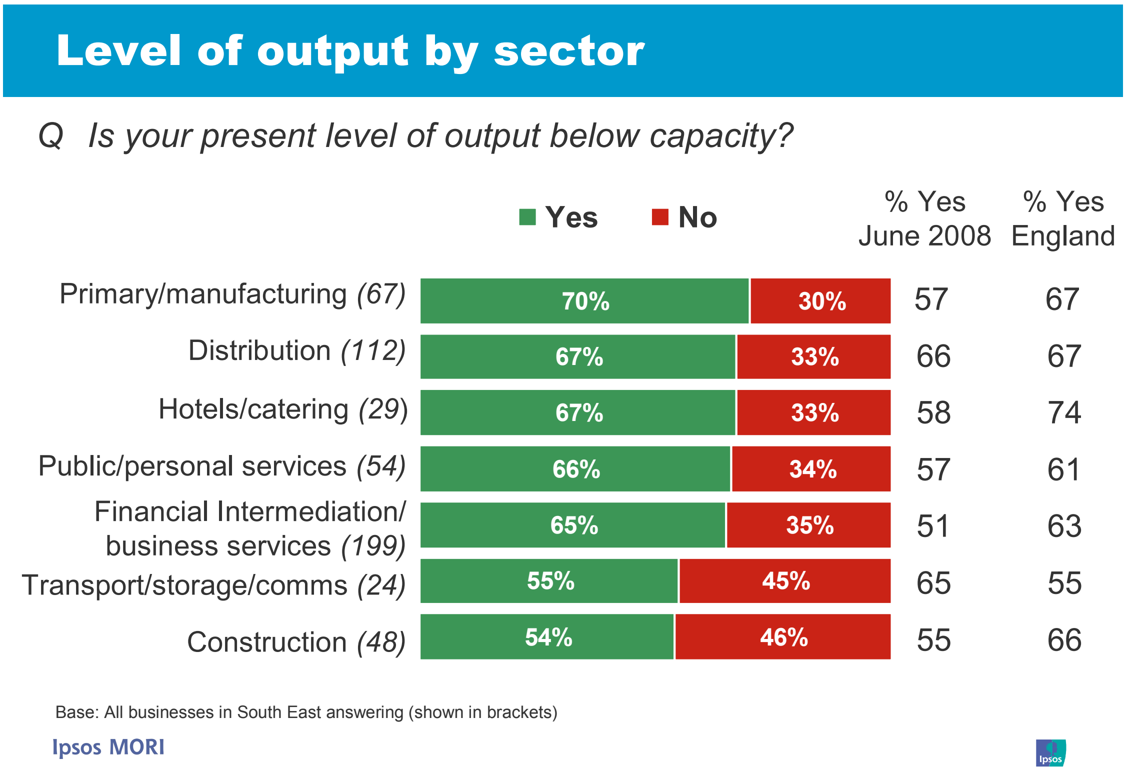


Base: All businesses in South East answering (November 2008 666 / June 2008 503)

Ipsos MORI

Almost two in three businesses in South East England (65%) indicate that their output is currently below capacity (in line with 64% nationally). This is higher than the proportion seen in June 2008 (57%).

Figure 21



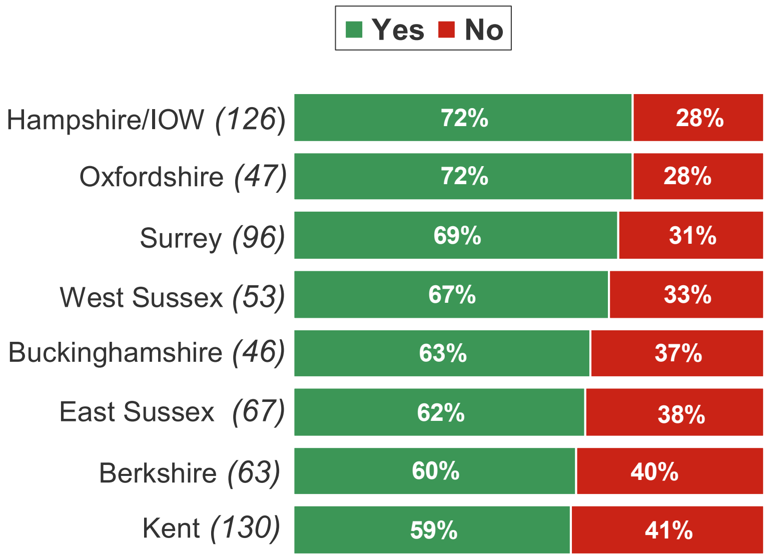
The majority of businesses are operating below capacity industry across all sectors. Businesses in the primary and manufacturing sector are most likely to be operating below capacity (70%), closely followed by the distribution and hotels/catering sectors (67% each), the public/personal services sector (66%), and the financial intermediation and business services sector (65%).

The transport/storage/communications and construction sectors are least likely to be operating below capacity, although the majority of businesses in these sectors are currently working to output levels below capacity (55% and 54% respectively).

Figure 22

Level of output by county

Q Is your present level of output below capacity?



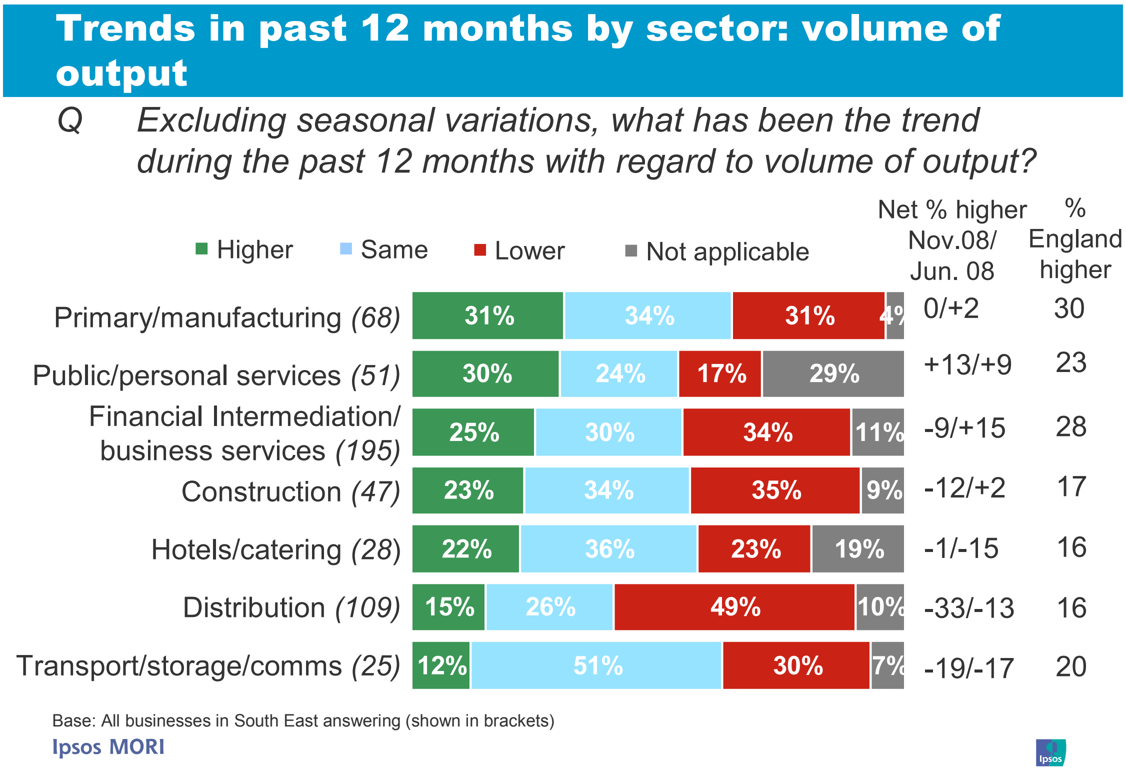
Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

The findings for Hampshire and the Isle of Wight are higher than those for Kent at a statistically significant level. Compared to the figures presented in Figure 21, at the national level two thirds of businesses (67% / 65% regionally) report that their output is below capacity. Therefore to some extent Kent (59%) and Berkshire (60%) are bucking this trend at around six in ten.

NBS Findings: Output Trends

Figure 23



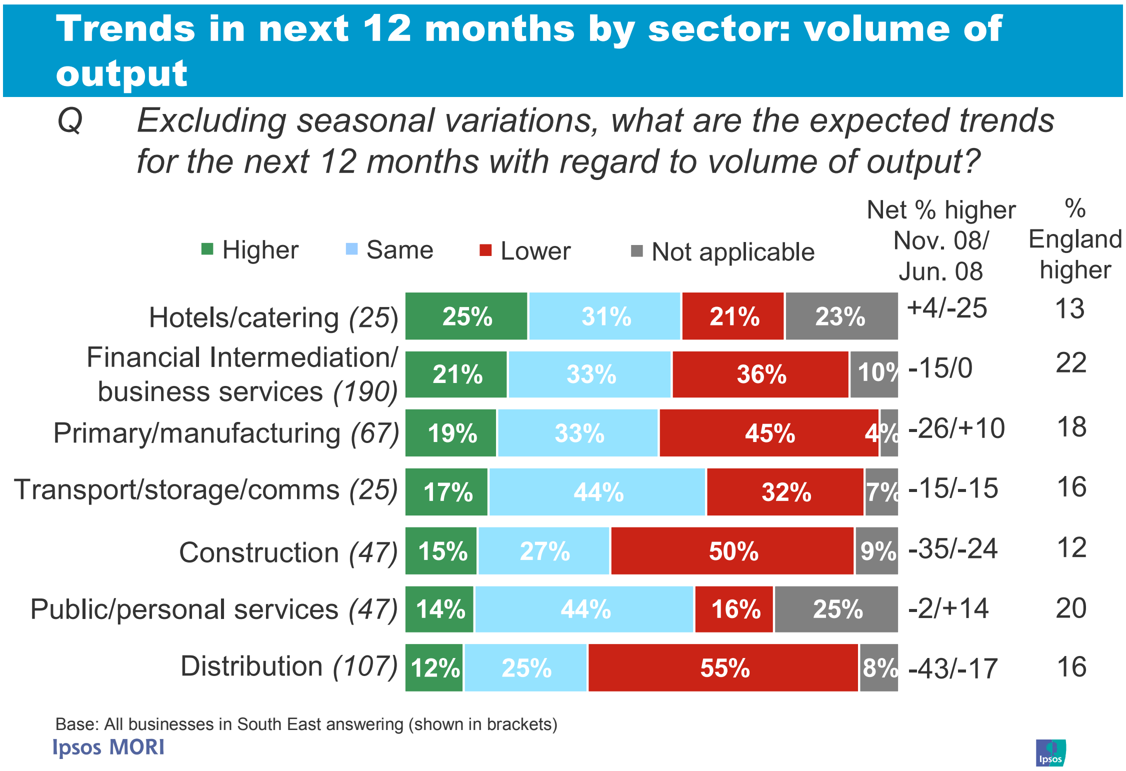
The charts in this section present the National Business Survey findings on volume of output, when businesses were asked about past trends over the last 12 months and expected trends for the next 12 months.

Over the past 12 months the volume of output has fallen for businesses in South East England. One in four businesses (24%) say that output volumes have risen, compared to one in three (33%) who say they have fallen. This mirrors the pattern evidenced for the national as a whole (25% have seen volumes rising, 32% falling).

By sector, output trends have been positive only for public/personal services. Three in ten businesses in this sector have seen output volumes rise, compared to 17% who have seen them fall (net score of +13). For the primary/manufacturing and hotels/catering sectors, roughly equal proportions have seen output rise as have seen it fall (net scores of 0 and -1 respectively).

Output trends have been poorest for the distribution sector: 15% have seen output rise over the past 12 months, compared to half (49%) who have seen output fall (net of -33).

Figure 24

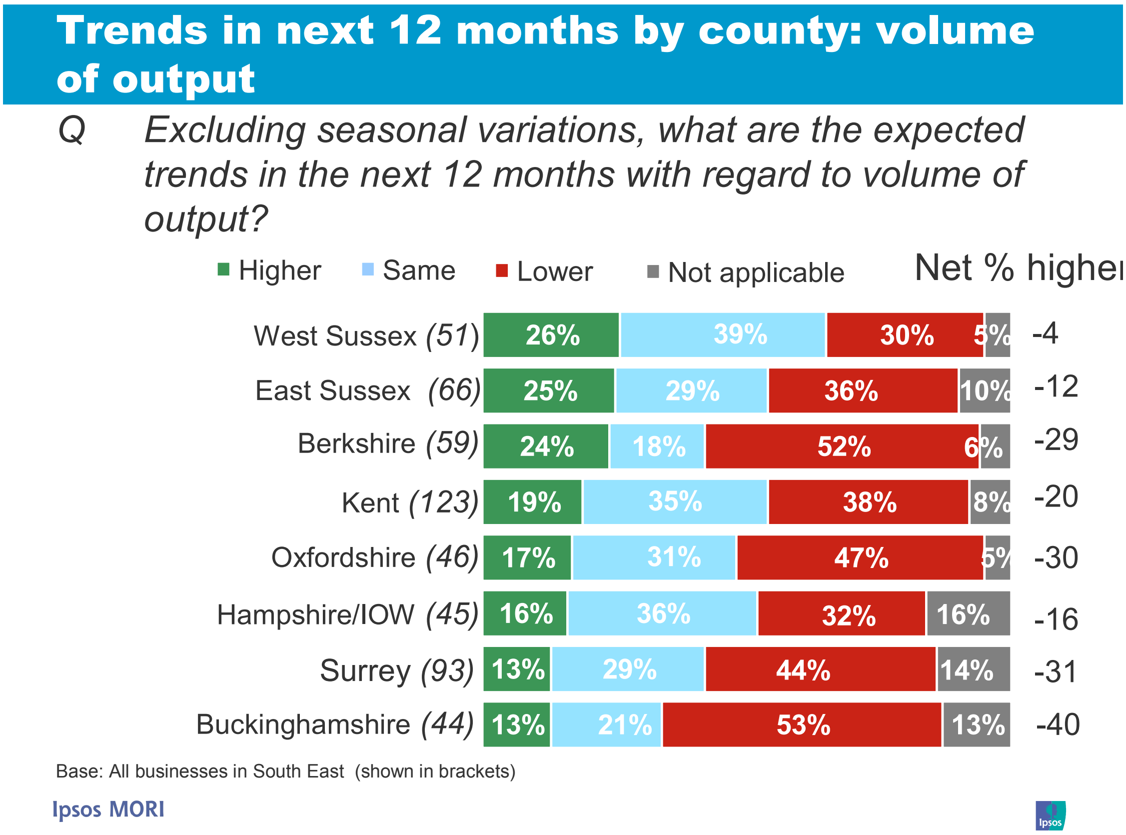


Looking forward to the next 12 months, businesses feel that output volumes will fall. Just one in five businesses expect output volumes to rise, compared to half who feel it will fall (39%). This mirrors the national trend (20% expecting volumes to rise, 38% expecting them to fall).

Across sectors, only hotels/catering anticipate the volume of output to increase over the next 12 months (25% feel they will be higher, versus 21% feeling they will be lower). This differs from the national picture where only one in eight (13%) businesses in this sector expect higher volumes of output. For the public/personal services sector roughly equal proportions expect output volumes to rise as to fall (net score of -2). All other industry sectors feel that, on balance, output volumes will fall over the next 12 months. This prediction is most marked among the primary/manufacturing sector (net score of -26), the construction sector (-35), and the distribution sector (-43).

Across all sectors with the exception of hotels/catering and transport, businesses are more pessimistic about the next 12 months than they were in June 2008.

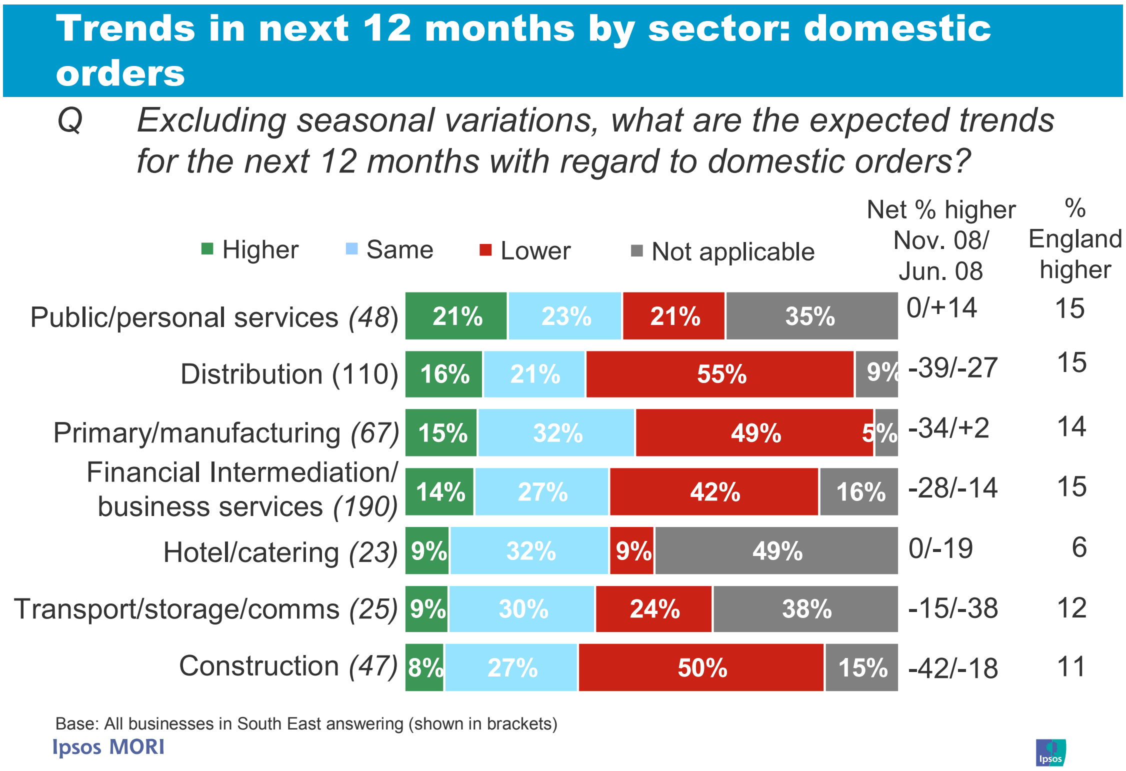
Figure 25



In Berkshire and Buckinghamshire more than a half of businesses expect lower volumes of output over the next 12 months. The difference between these levels and the reported levels in West Sussex (30%) and Hampshire/Isle of Wight are the only statistically significant findings. There is a wide variation in net scores from -4 in West Sussex to -40 in Buckinghamshire.

National Business Survey Findings: Domestic Orders

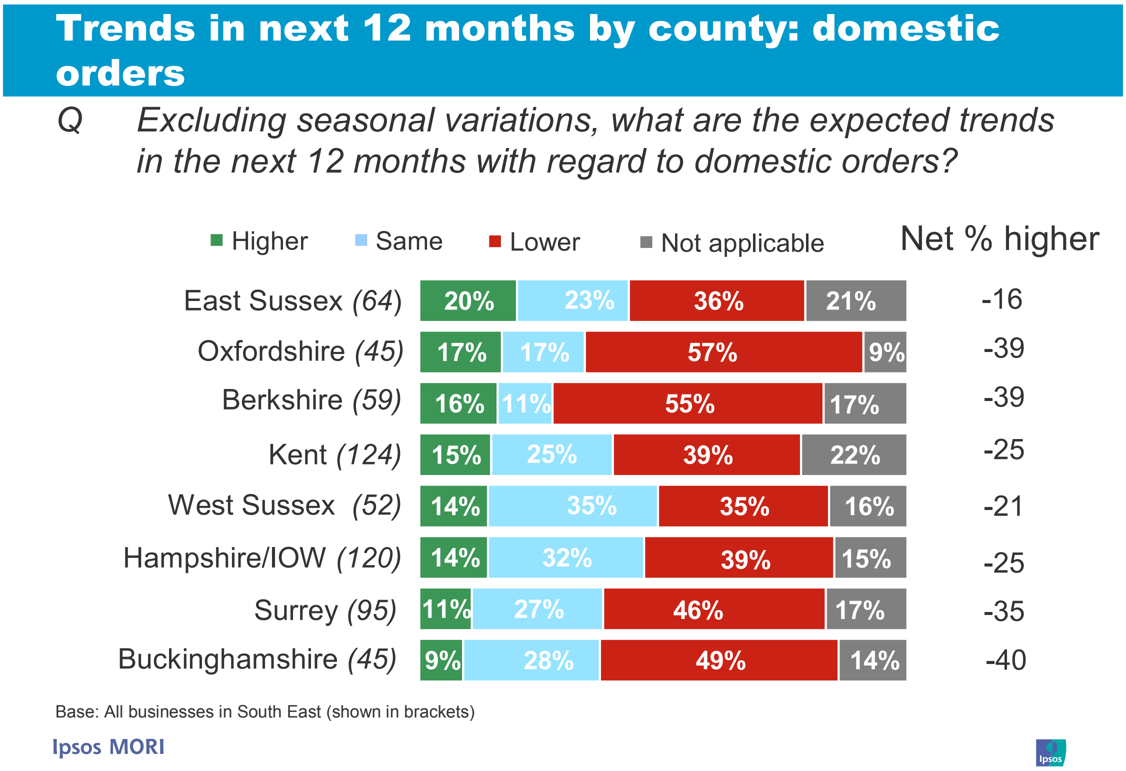
Figure 26



Just 15% of businesses in South East England expect domestic orders to increase in the next 12 months, compared to almost three times this proportion who think they will fall (42%). This is in line with the national trend, and marks a deterioration in confidence from June 2008, at which point one in five though orders would rise (19%), and three in ten (31%) felt they would fall.

Businesses in the public/personal services sector and the hotels/catering sector are equally likely to anticipate domestic orders rising as falling over the next 12 months. For all other sectors, the balance of opinion is that domestic orders are more likely to fall than to rise. The outlook is gloomiest among the construction sector, where a majority of three in five businesses (60%) expect domestic orders to fall, the primary/manufacturing sector (49%), and the financial intermediation sector (42%).

Figure 27



In Berkshire (55%) and Oxfordshire (57%) more than a half of businesses expect lower domestic orders in the next 12 months, and for Berkshire this is higher than the regional average (42%) at a statistically significant level.

At the regional level only 15% expect domestic orders to be higher in the next 12 months, ranging from 9% in Buckinghamshire to 20% in East Sussex.

National Statistics: Investment Levels

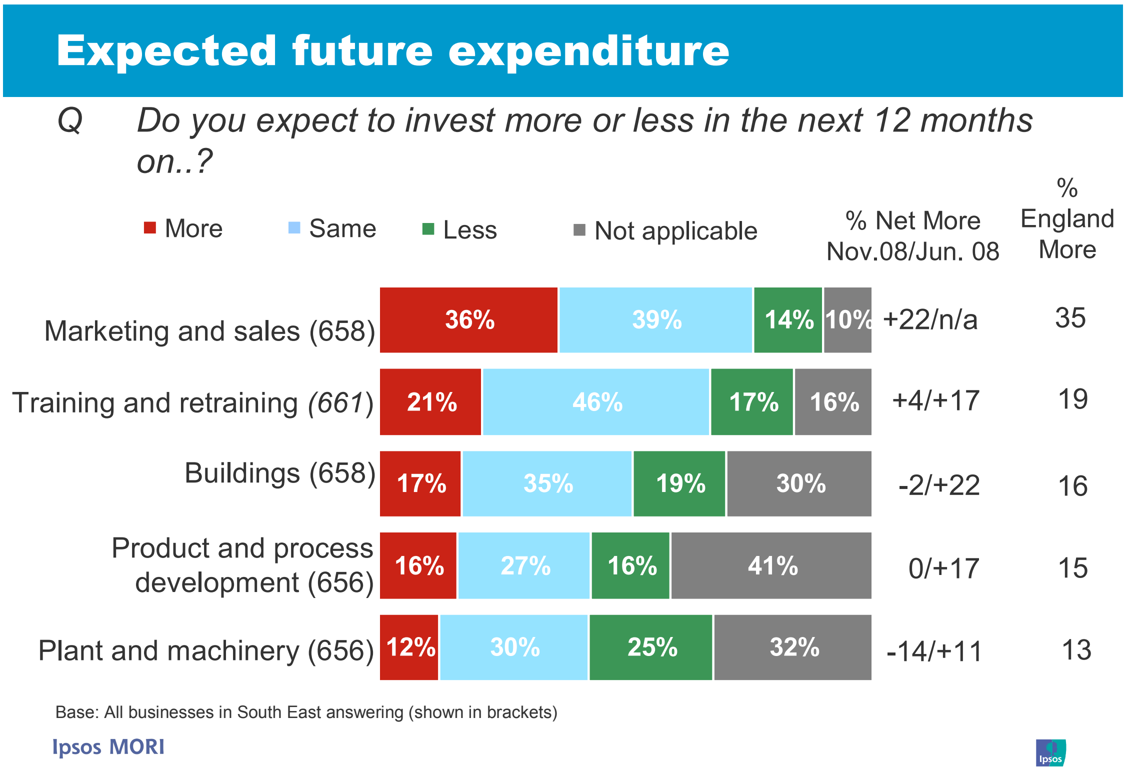
HM Treasury has reported that business investment levels have been falling steadily for the last six quarters, from 12.9% in Q.1 2007 to the latest available level of 1.2% for Q.2 2008[11]. Most worrying though is the fall in whole economy investment levels from 11.3% in Q.1 2007 to -2.1% in Q.2 2008 and -5.4% in Q.3 2008. Manufacturing investment has been in negative territory for the last two quarters, standing at -3.7% for Q.2 2008.

[11] Defined as percentage change on a year earlier.

The service sector is at a positive level of 1.0%, but has fallen from 15.1% in Q.1 2007, whilst the general government investment levels is at the very high level of 22.6%. This may reflect the policy of the government, which favours an increase in public spending aimed at reviving the economy elsewhere.

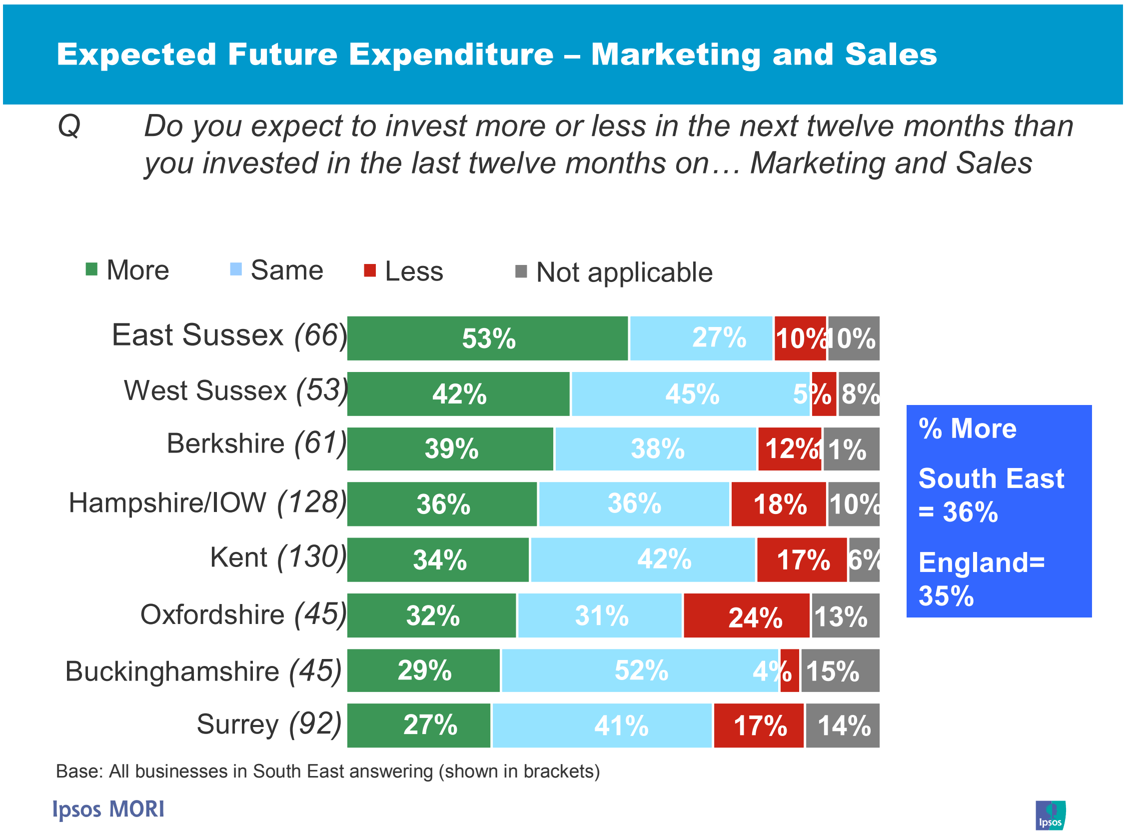
NBS Findings

Figure 28



Businesses in South East England expect to increase their level of investment in marketing and sales (net of +22) and training and retraining (+4) over the next 12 months. While similar proportions expect to raise as to lower their investment in product and process development, and in buildings, investment in plant and machinery is on the decline (net of -14). These patterns are closely aligned to the national trends.

Figure 29



More than a third of businesses at the regional (36%) and national level (35%) expect to invest more on marketing and sales in the next twelve months, compared to the past 12 months. Businesses in East Sussex are most likely to report this (53%), at a level that is double the level in Surrey (27%).

4. Labour Market in the Region

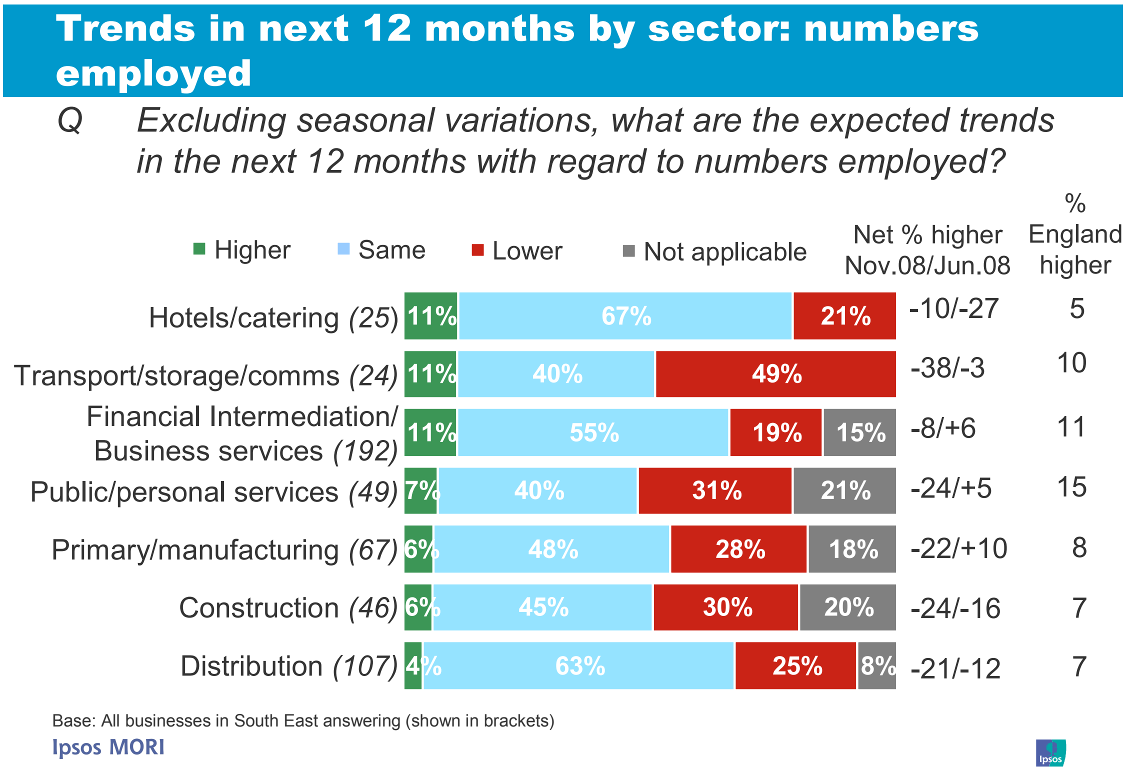
This section will review the national and regional statistics on the labour market, before presenting the National Business Survey findings across Wave One and Two on the following topics: skills gaps and needs affecting businesses; staff vacancies; and the provision of training.

Unemployment: National Context

The ILO unemployment rate was 6.1 per cent for the three months to November 2008, up 0.4 over the previous quarter and up 0.9 over the year. The last time the rate was higher was in the three months to April 1999 (when it was 6.2 per cent). The number of unemployed people increased by 131,000 over the quarter and by 290,000 over the year, to reach 1.92 million (the highest figure since the three months to September 1997).

In the South East region the unemployment rate was at 4.7% in the three months to November 2008, compared to 4.5% in the three months to August to 2008 and 3.9% in the three months to May 2008.

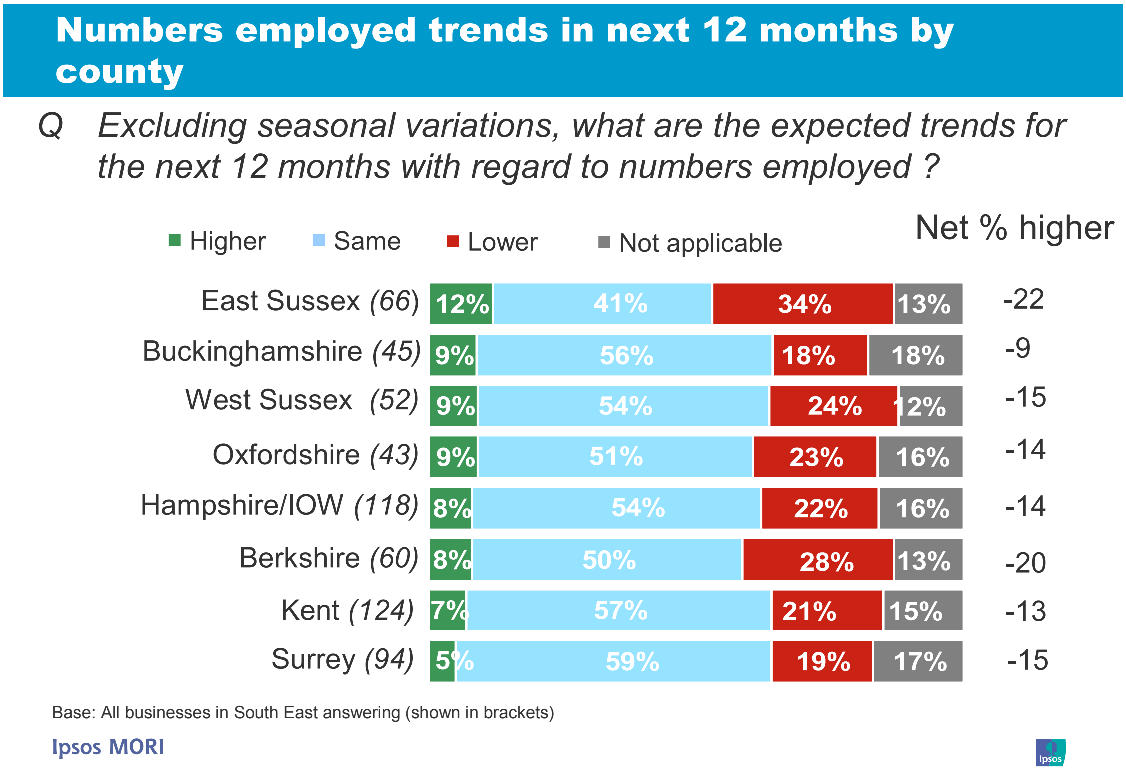
Figure 30



The NBS shows that just 8% of businesses in South East England expect numbers employed to rise over the next 12 months, compared to 23% who are expecting falls. This is a gloomier outlook than in June 2008, when roughly equal proportions of businesses expected the numbers employed to rise (16%) as to fall (17%).

Businesses across all industry sectors think that falls in the numbers employed is more likely than rises over the next 12 months. The transport sector is most likely to anticipate lower numbers employed (49%).

Figure 31



In East Sussex, a third of businesses (34%) expect a lower trend in numbers employed, compared to a quarter regionally (23%) and this is statistically significant at the 5% chosen level.

National Business Survey Findings: Staff Vacancies

Figure 32

The National Business Survey asked businesses about whether they found that staff vacancies were hard to fill or could not be filled; the results are presented in Figure 27.

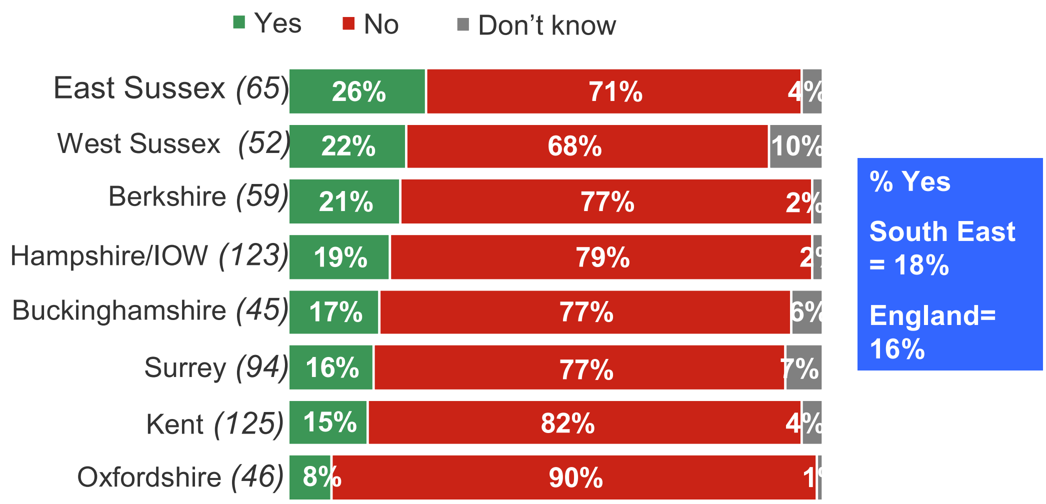
Just under one in five businesses (18%) say they have found it hard to fill staff vacancies over the past 12 months, similar to the national average (17%). This is a fall from June 2008, when one in four had difficulties filling staff vacancies (24%). Businesses in East Sussex have found it hardest to fill vacancies (26%).

Looking forward to the next 12 months, businesses anticipate fewer problems in filling staff vacancies, with just one in eight (12%) expecting there to be difficulties, in line with the national average. Again, businesses are more optimistic than was the case in June 2008, when one in five (20%) expected to encounter problems in filling staff vacancies over the coming year.

Figure 33

Staff Vacancies – Past 12 months

Q *Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months?*

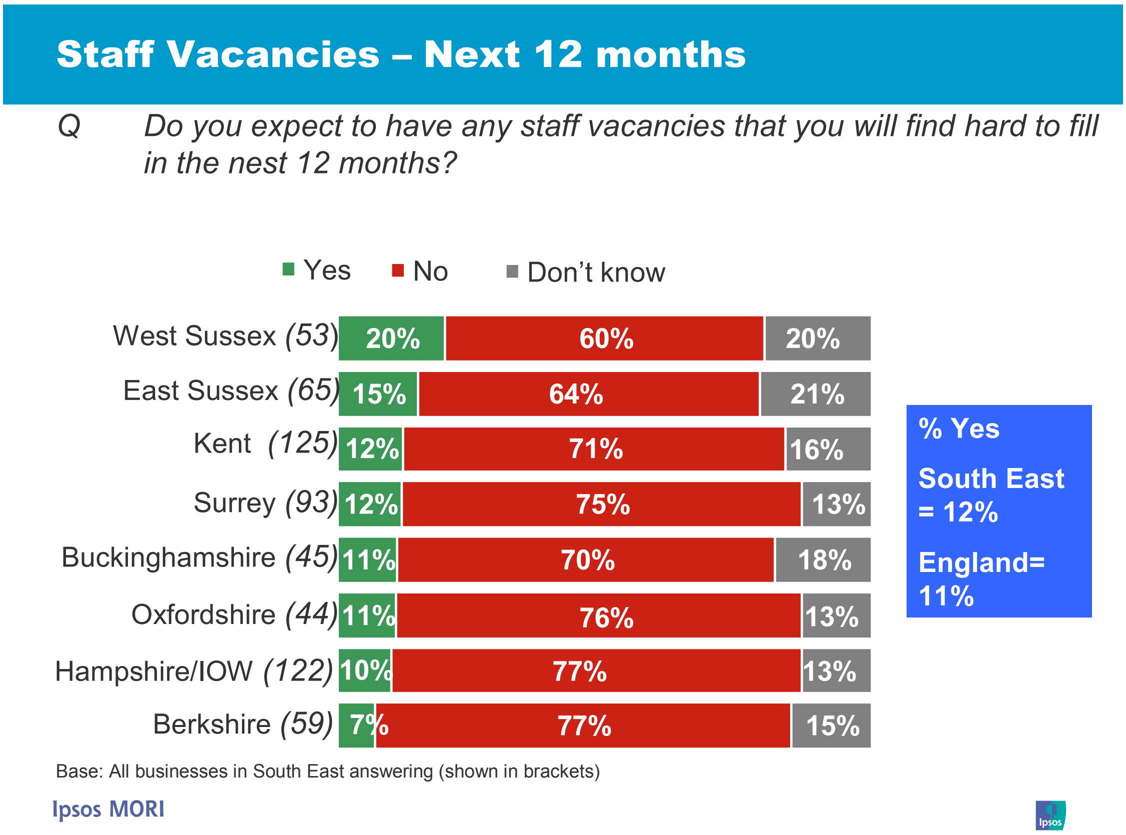


Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

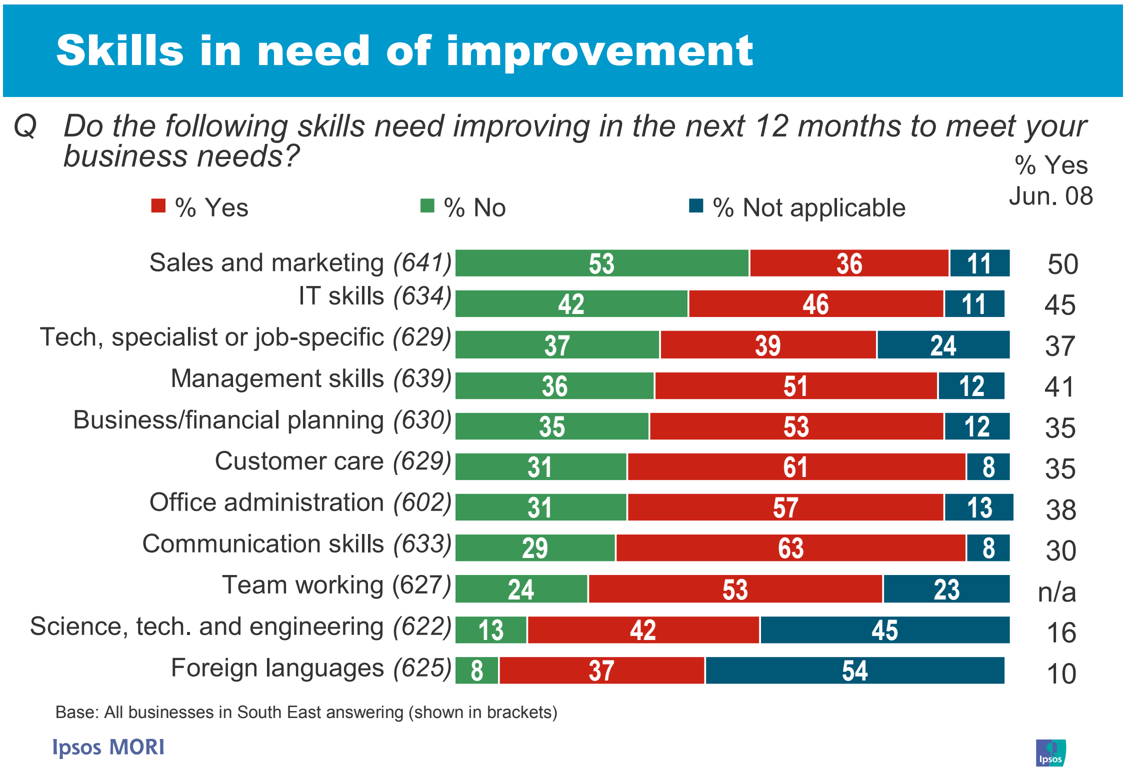
Over the past 12 months, staff vacancy levels in East and West Sussex were well above the regional and national average. In these counties seven out of ten businesses do not have vacancies that are hard to fill or could not be filled, compared to just one in ten in Oxfordshire.

Figure 34



In the region and nationally one in eight businesses expect to have vacancies that will find hard to fill in the next 12 months. At the sub regional level this varies from one in five (20%) in West Sussex to less than one in ten (7%) in Berkshire.

Figure 35

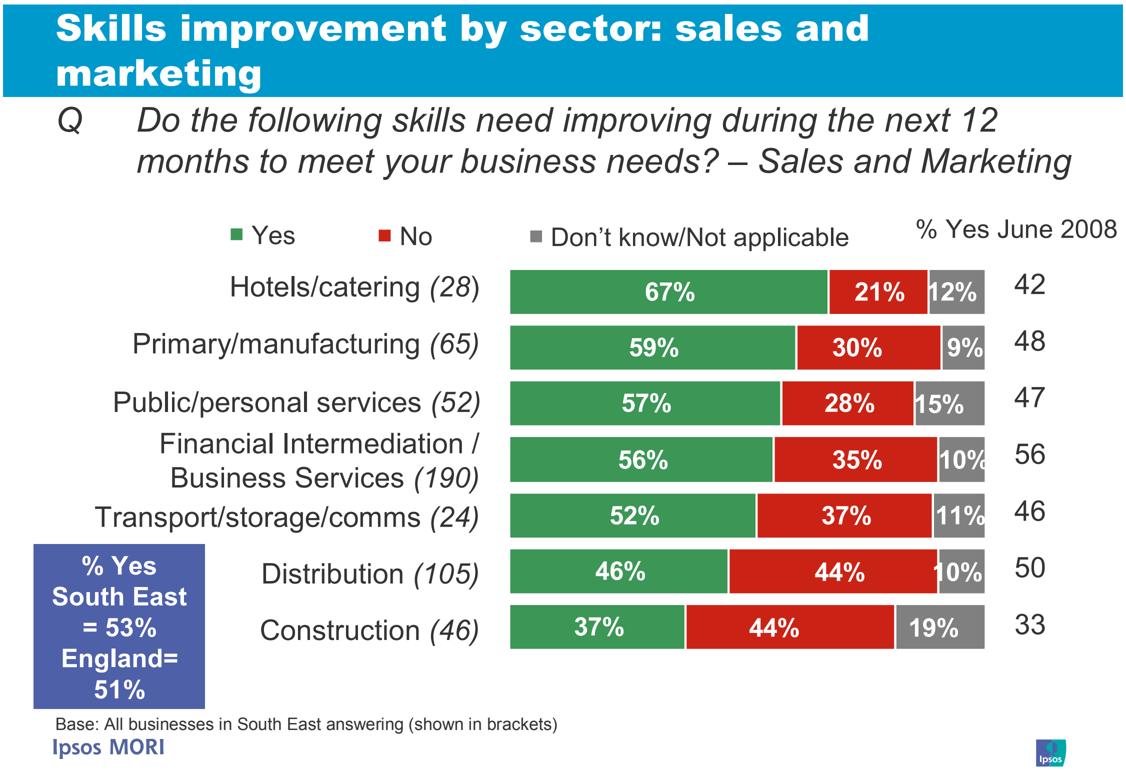


Businesses in South East England feel that sales and marketing skills are in need of the greatest improvement to meet their business needs over the next 12 months – the majority of businesses (53%) believe these skills need improving. IT skills (42%), technical, specialist or job-specific skills (37%), and management skills (36%) are the next most important skills to improve.

Businesses are less likely to emphasise the ‘softer’ skills of customer care (31%), office administration (31%), communication (29%) and team working (24%) when thinking of what improvements need to be made over the coming year. By county, IT skills are felt to be particularly in need of improvement in Oxfordshire (56%) and Kent (49%).

Compared to June 2008, the pattern of skills marked for improvement is similar, with sales and marketing skills and IT skills still seen as most important, and the softer skill sets seen as relatively less important.

Figure 36



Considering how the anticipated need for improved sales and marketing skills over the coming year varied by sector, businesses in the hotels/catering sector are most likely to say they need to improve these skills (67%). The majority of businesses in the primary/manufacturing, public/personal services, financial intermediation, and transport/storage/communications sectors also feel they need to improve these skills.

Turning to IT skills, it is businesses within the financial intermediation and the transport/storage/communications sector which are most likely to seek improvements (53% and 43% respectively). Improvements to IT skills are seen as relatively less important for businesses in the construction and hotels/catering sectors (30% and 29% respectively).

Figure 37

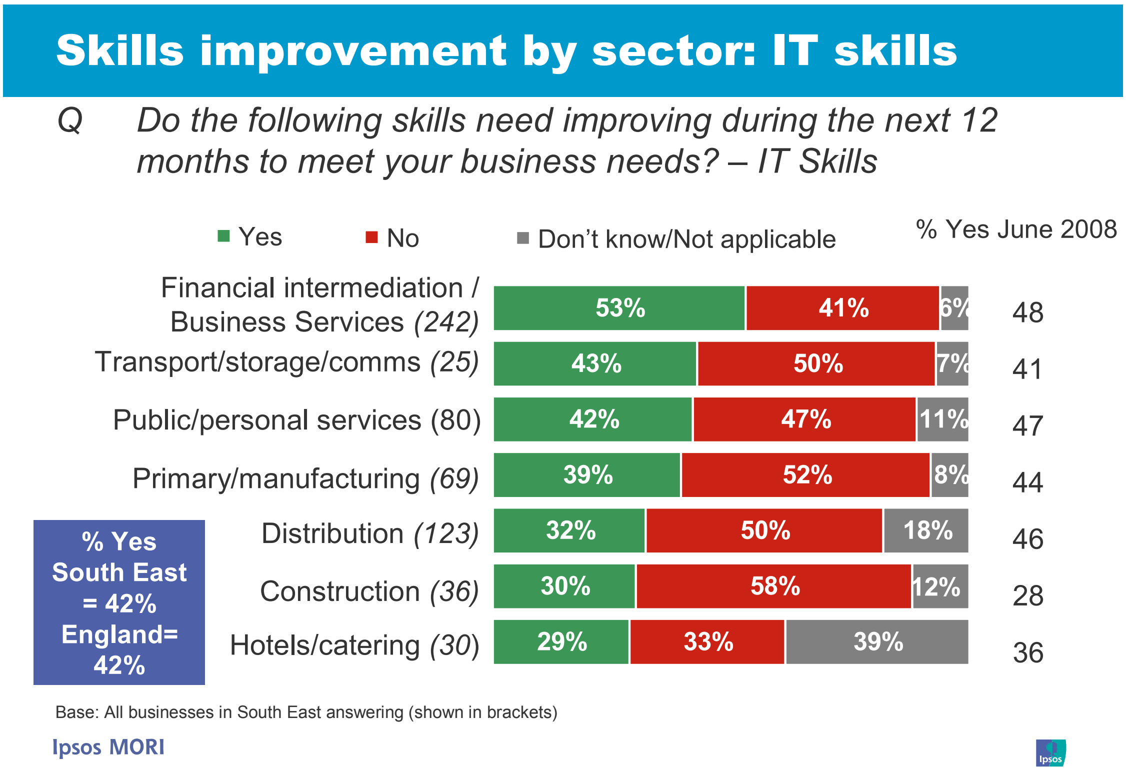


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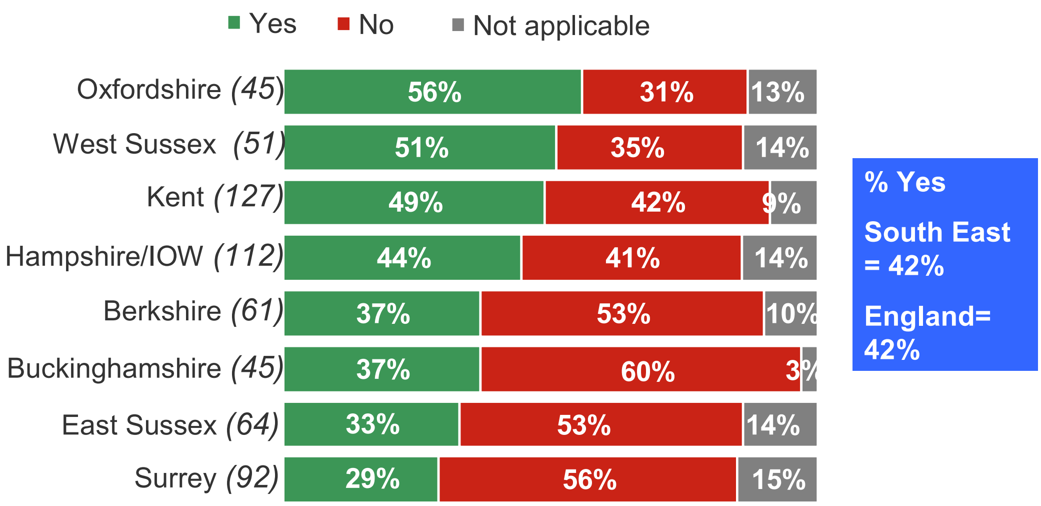
Figure 38

Skills improvement– IT Skills

Q *Do the following skills need improving during the next twelve months to meet your business needs? IT Skills*



Base: All businesses in South East answering (shown in brackets)

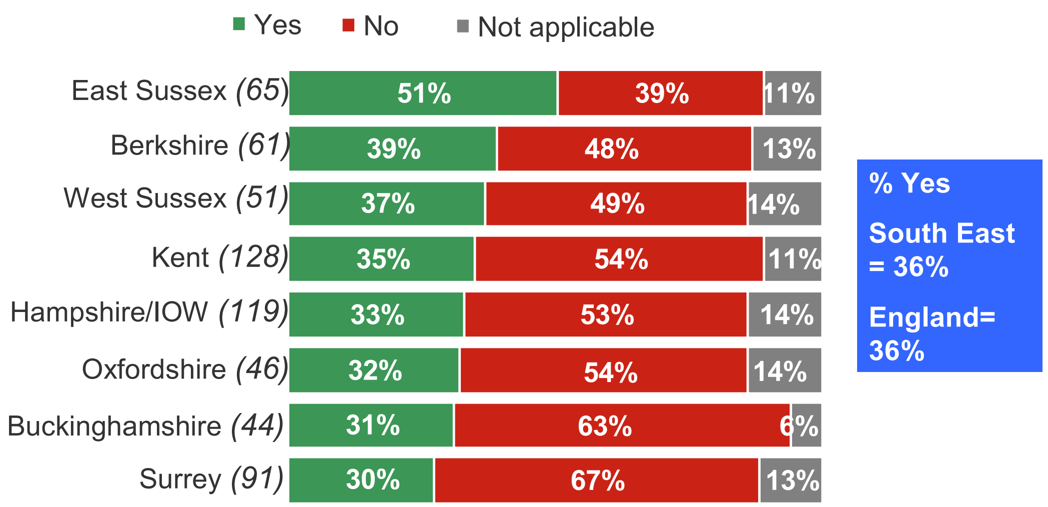
Ipsos MORI

More than a half of businesses in Oxfordshire report that IT skills need improving over the next 12 months, compared to four in ten regionally and nationally. These skills gaps are at the lowest level in Surrey and East Sussex, where only three in ten businesses report this.

Figure 39

Skills improvement – Management Skills

Q *Do the following skills need improving during the next twelve months to meet your business needs? Management Skills*

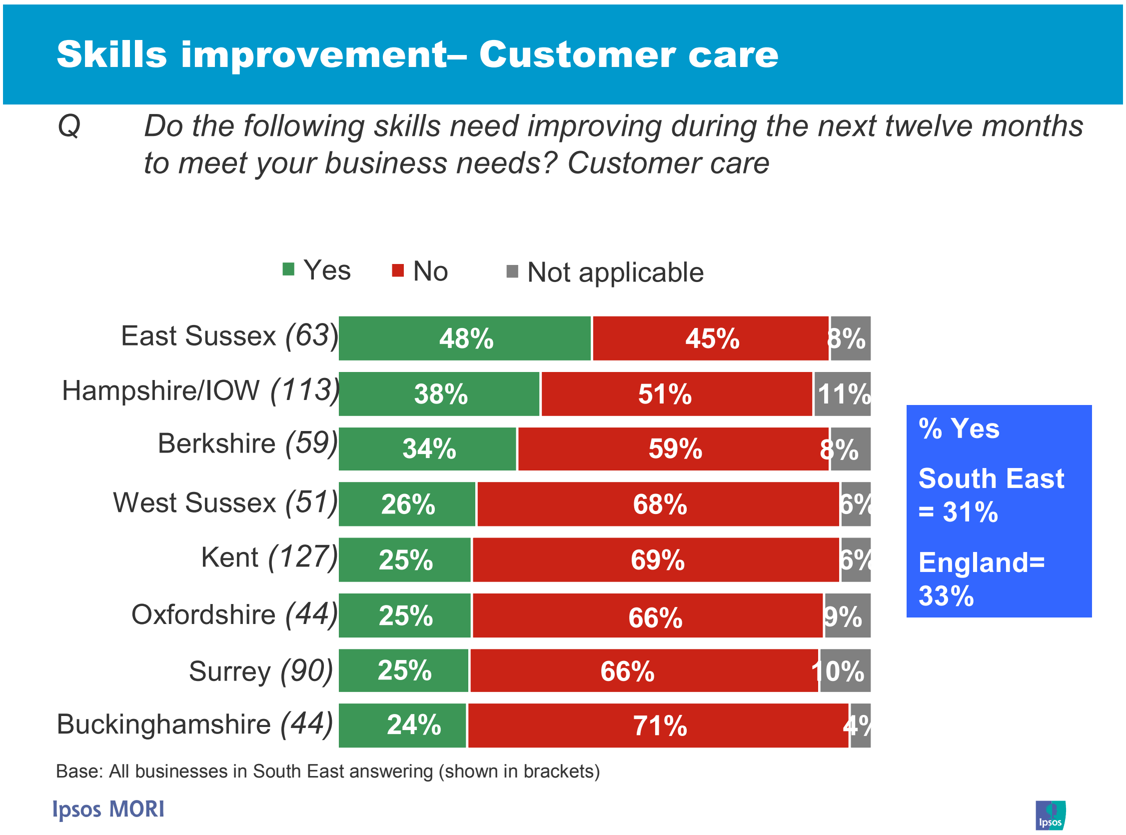


Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

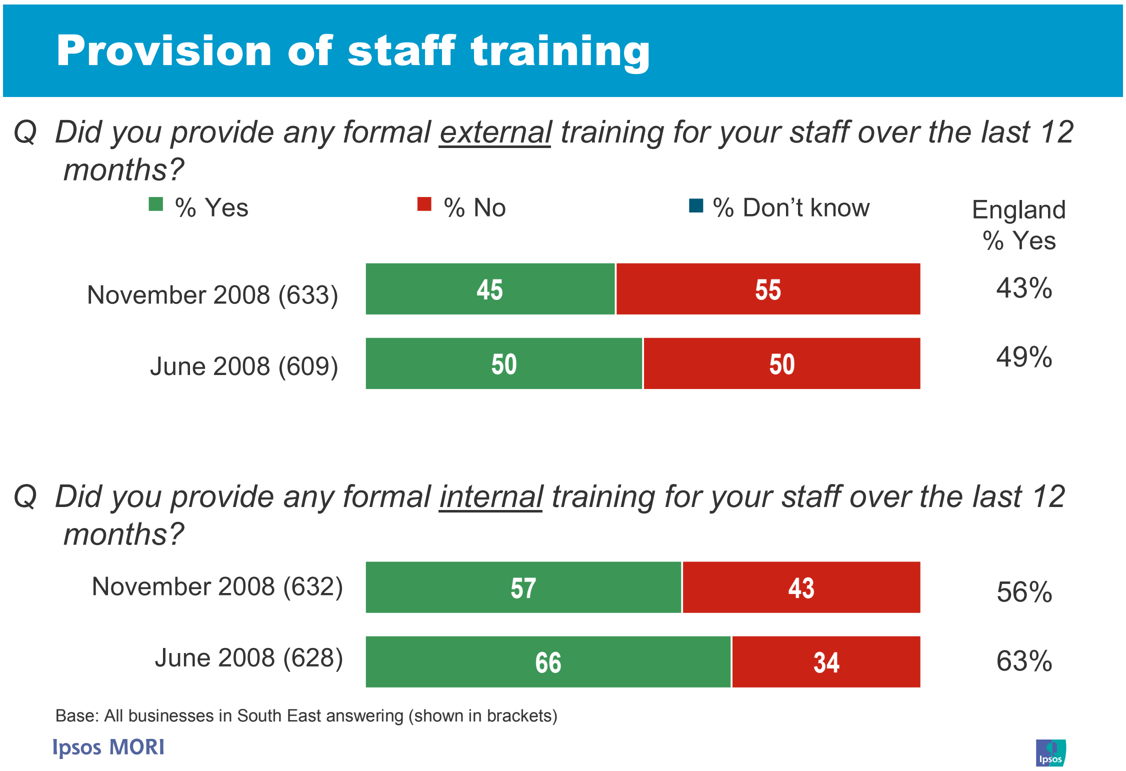
At the regional and national level, close to four in ten of businesses report that management skills need improving over the next twelve months. At the sub regional level, this varies from three in ten in Surrey (30%), Buckinghamshire (31%) and Oxfordshire (32%) to a half of businesses in East Sussex (51%)

Figure 40



At the regional and national level, around a third of businesses report that customer care skills need improving over the next 12 months. At the sub regional level this varies from a quarter in Buckinghamshire, Surrey, Oxfordshire, Kent and West Sussex to almost a half in East Sussex (48%).

Figure 41



Just under half of businesses in South East England (45%) have provided external training for their staff over the past 12 months, slightly (but not significantly) down on levels in June 2008, and in line with the national average. Businesses are more likely to have provided internal training for staff (57%, in line with the national average but down from 66% in June 2008).

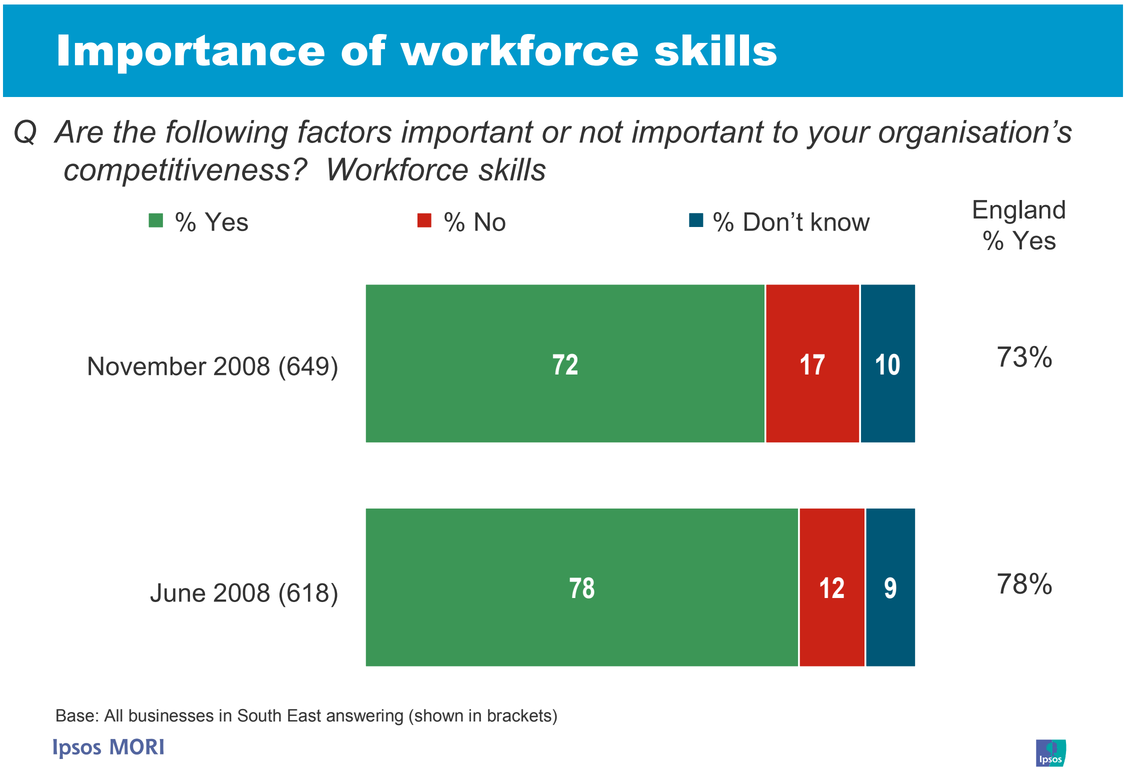
Provision of training, whether external or internal, is again dependent on the size of a business. For instance, among businesses with between one and nine employees around half (51%) provided internal training; this rises to 81% among businesses with 50+ employees.

The public/personal services sector is most likely to have provided external training for staff (69%), while the distribution sector is least likely to have (33%).

5. Other Key Business Metrics

In June and November 2008, the NBS asked businesses about those factors which are important to their competitiveness.

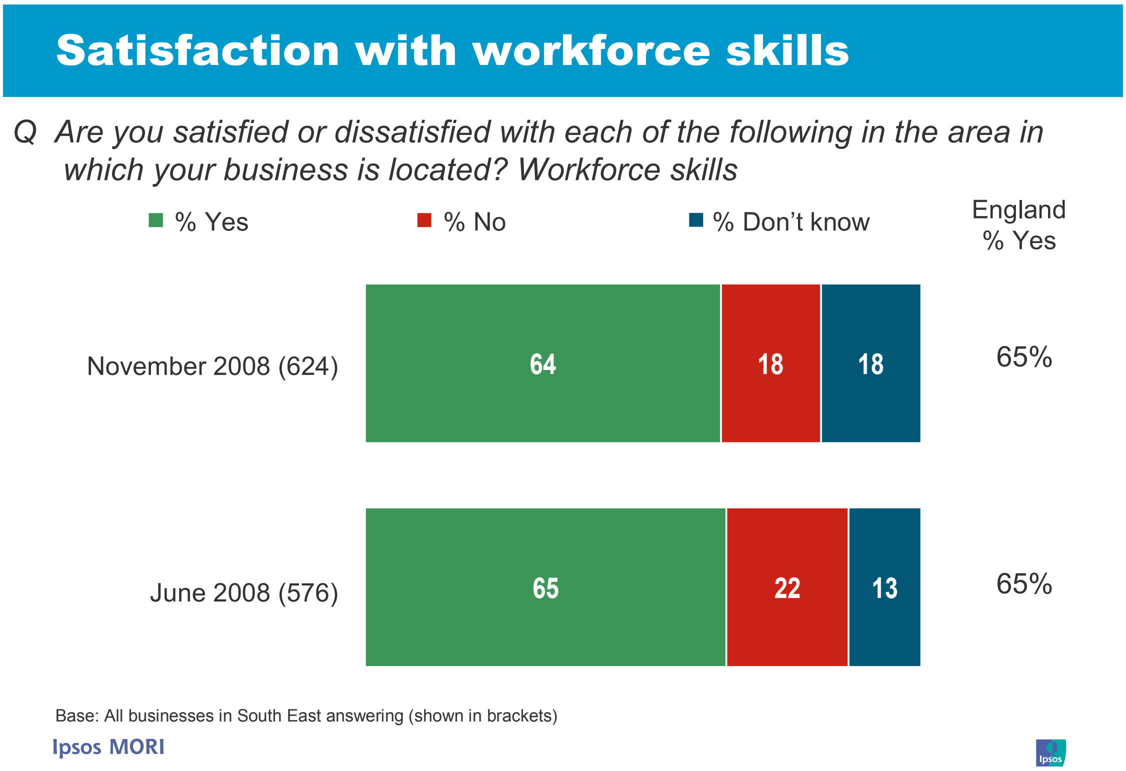
Figure 42



In both June and November 2008, workforce skills and management skills were thought to be the most important factors to businesses' competitiveness. In November 2008, labour costs were felt to be the next most important factor (this area was not asked about in June 2008). Across both surveys, Government regulations and ICT and broadband infrastructure were felt to be the next most important factors. The levels of importance attached to these factors have been assessed alongside satisfaction with them.

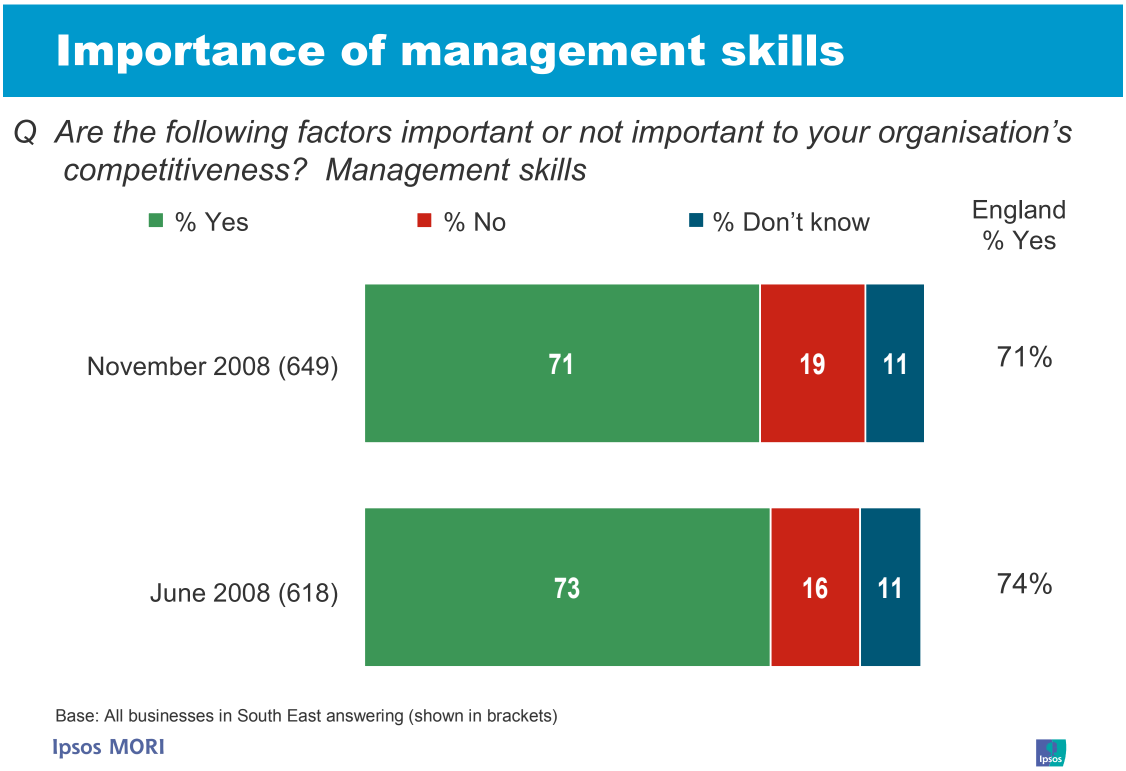
In November 2008 workforce skills were most frequently cited, mentioned by almost three in four businesses (72%). This is closely in line with the national average (73%), although slightly down from June 2008 levels (78%). Workforce skills are felt to be highly important across all counties in South East England.

Figure 43



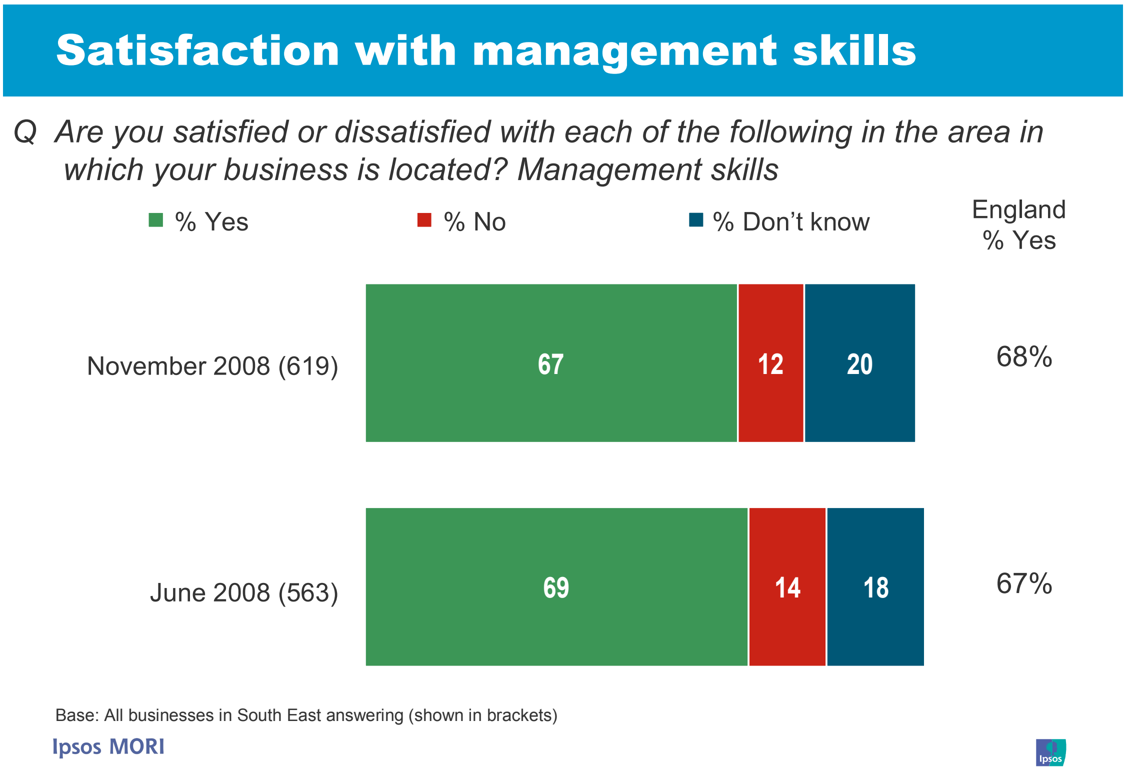
Satisfaction with workforce skills is unchanged from June 2008, with almost two in three businesses in South East England expressing satisfaction (64%). Businesses in West Sussex are least likely to be satisfied with workforce skills (47%).

Figure 44



Seven in ten businesses (71%) in South East England say that management skills are important to their competitiveness, slightly down from June 2008 levels (73%), and in line with the national average (71%).

Figure 45

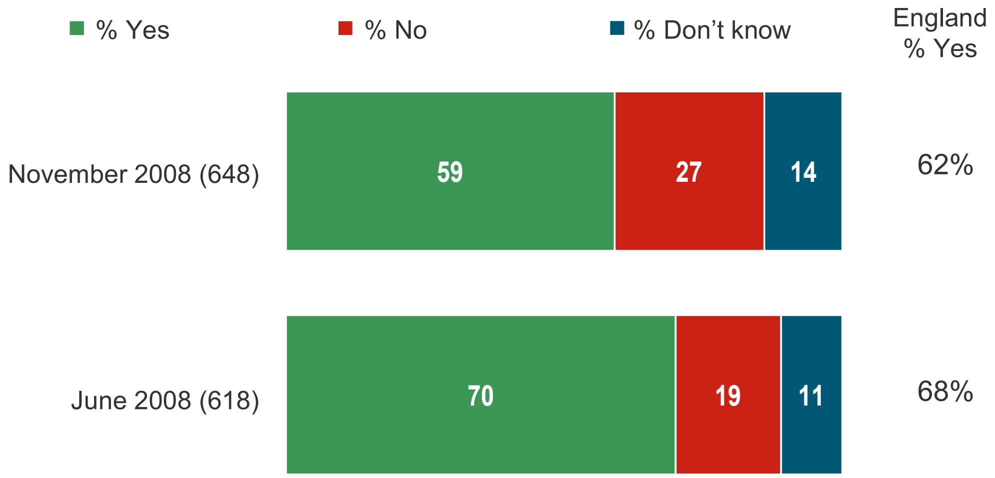


Satisfaction with management skills remains high, with two in three businesses (67%) in South East England expressing satisfaction, in line with both June 2008 levels (69%), and the current national levels (68%).

Figure 46

Importance of government regulations

Q Are the following factors important or not important to your organisation's competitiveness? Government regulations

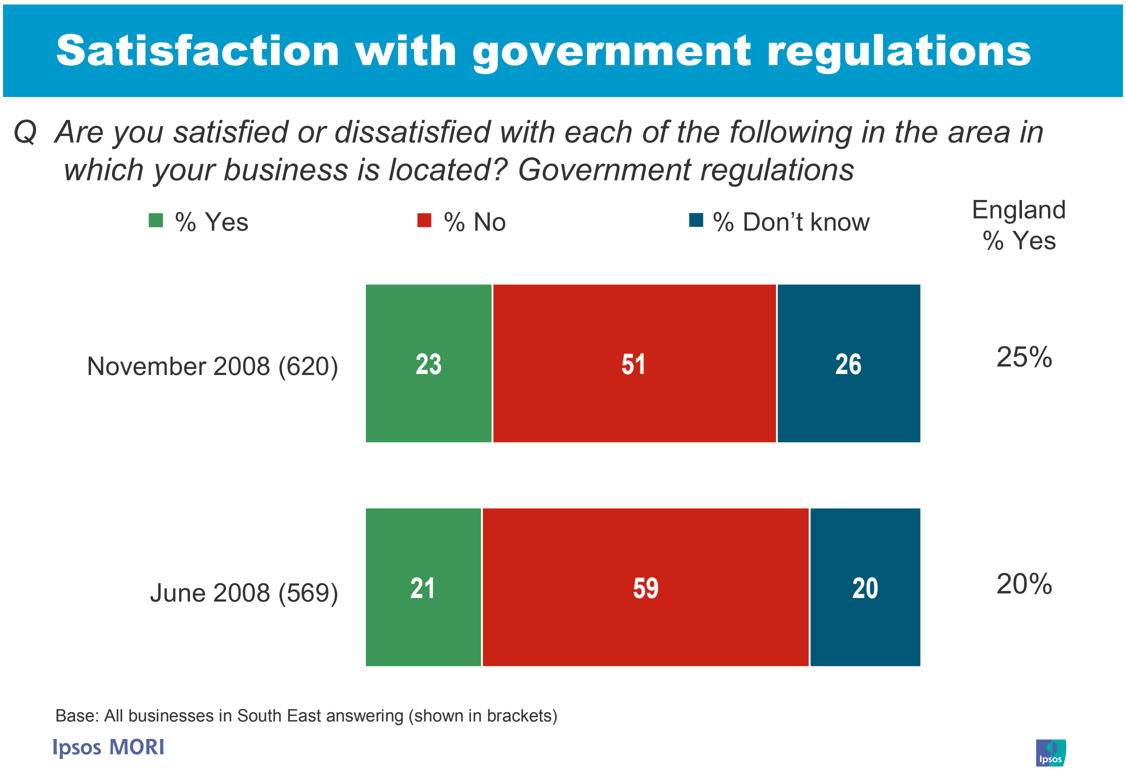


Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

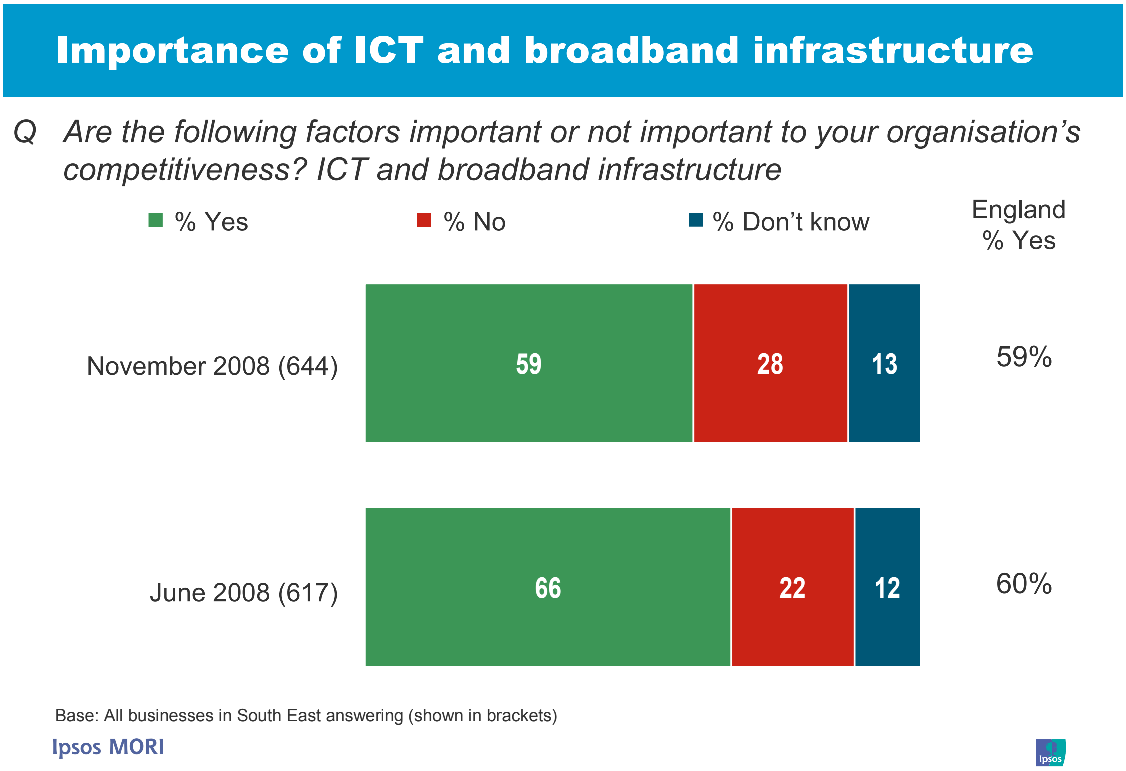
Three in five businesses in South East England (59%) feel that government regulations are important to organisations' competitiveness, a fall from June 2008 levels (70%), and slightly (but not significantly) down from the national level (62%). Government regulations are felt to be particularly important by financial intermediation companies (66%).

Figure 47



In spite of the importance businesses in South East England attach to government regulations, less than a quarter are satisfied with them (23%). This feeling is unchanged from June 2008, when 21% expressed satisfaction, and in line with the mood nationally (25%). Businesses in the public/personal services sector are most likely to be satisfied with government regulations (44%), while those in the manufacturing sector are least satisfied (15%).

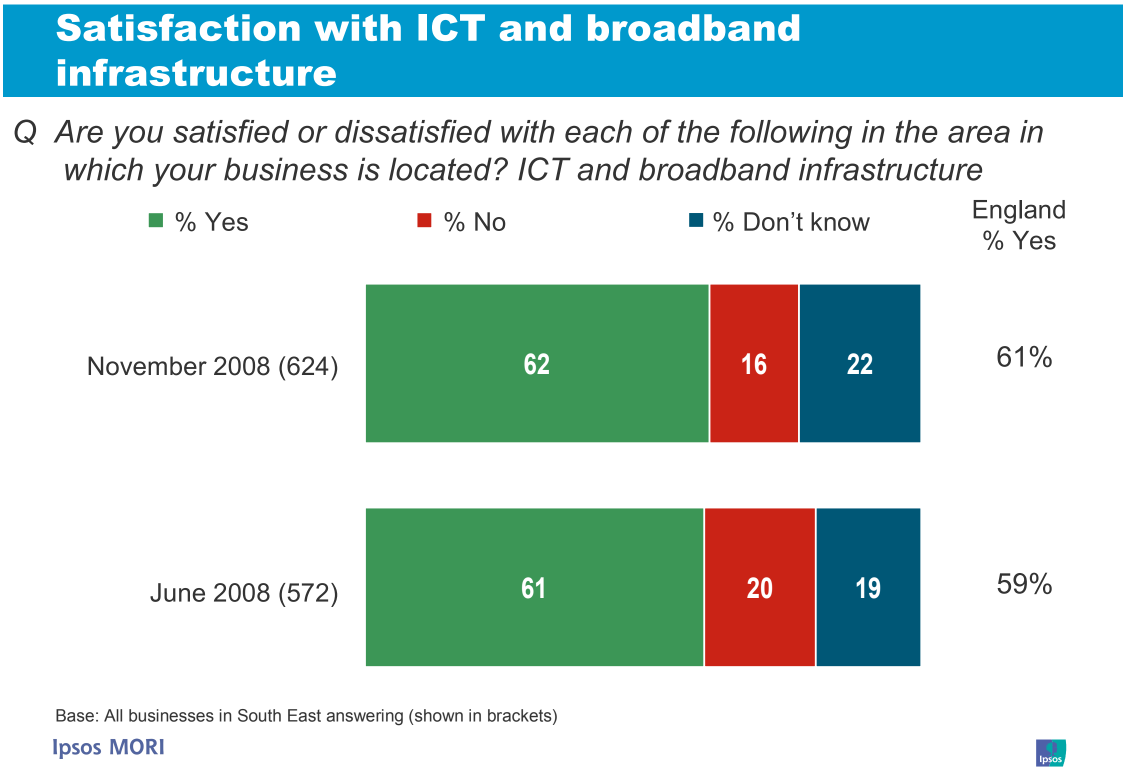
Figure 48



Three in five businesses in South East England (59%) feel that ICT and broadband infrastructure are important to their organisation's competitiveness, in line with the national average (60%), but down from June 2008, when two in three businesses (66%) said this was important.

ICT and broadband infrastructure is most important for financial intermediation businesses (75% deeming it important), and less important for businesses in the distribution sector (36%).

Figure 49



The majority of businesses in South East England (63%) are satisfied with ICT and Broadband infrastructure. Satisfactions levels are unchanged since June 2008 (61%), and mirror the national sentiment (61%). As well as being the sector most likely to view ICT and broadband infrastructure as important, businesses in the financial intermediation sector are also the most likely to be satisfied.

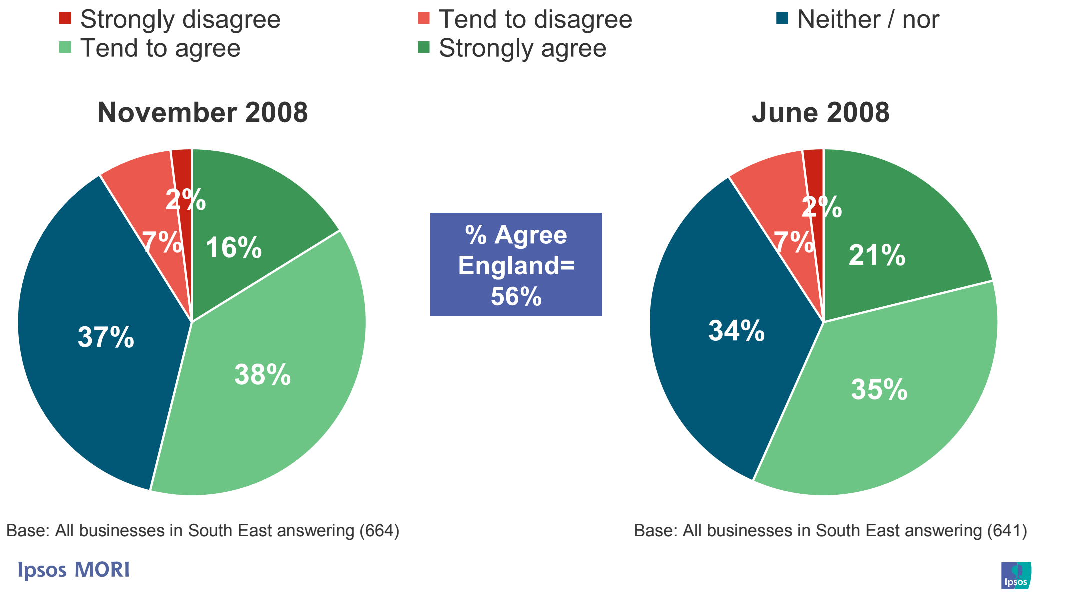
6. Location Drivers

The Regional Market: attitudes to the area

Figure 50

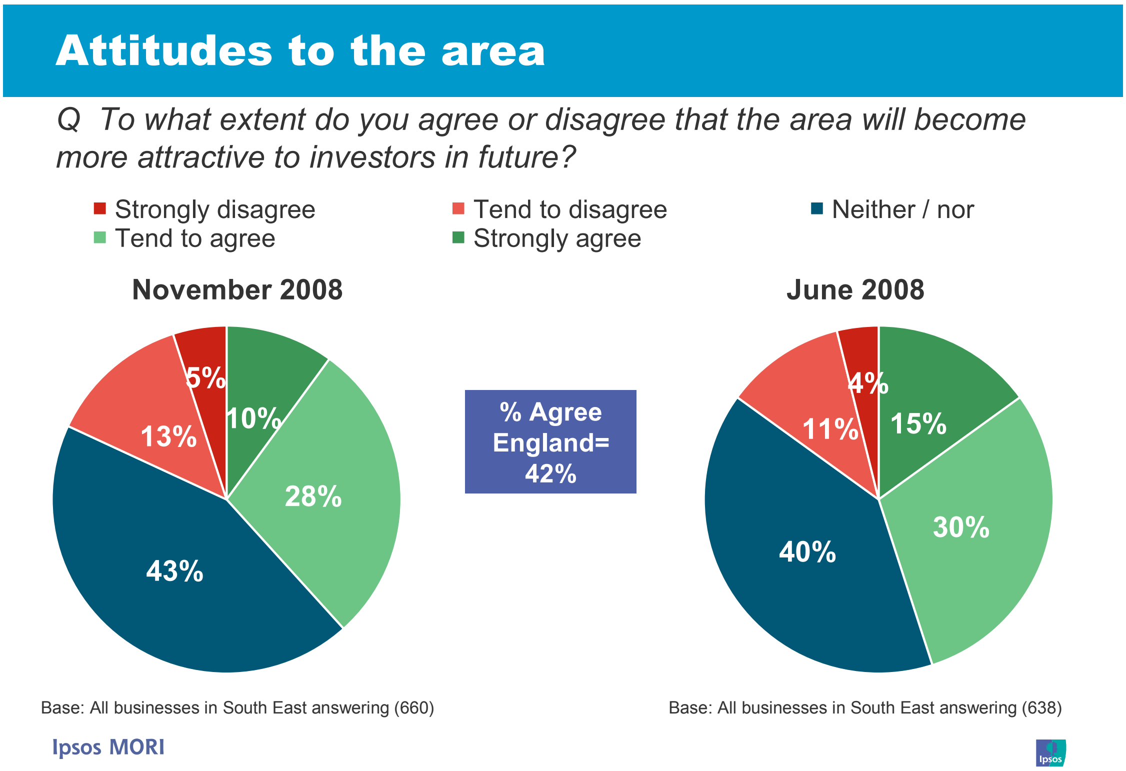
Attitudes to the area

Q To what extent do you agree or disagree that this location is a good place for business to invest?



Over half of businesses in South East England (54%) agree that the location is a good place for business to invest, similar to the national average (56%) and June 2008 levels (57%). Perceptions do not vary significantly by sector, although by region, businesses based in Oxfordshire are particularly likely to agree (69%).

Figure 51

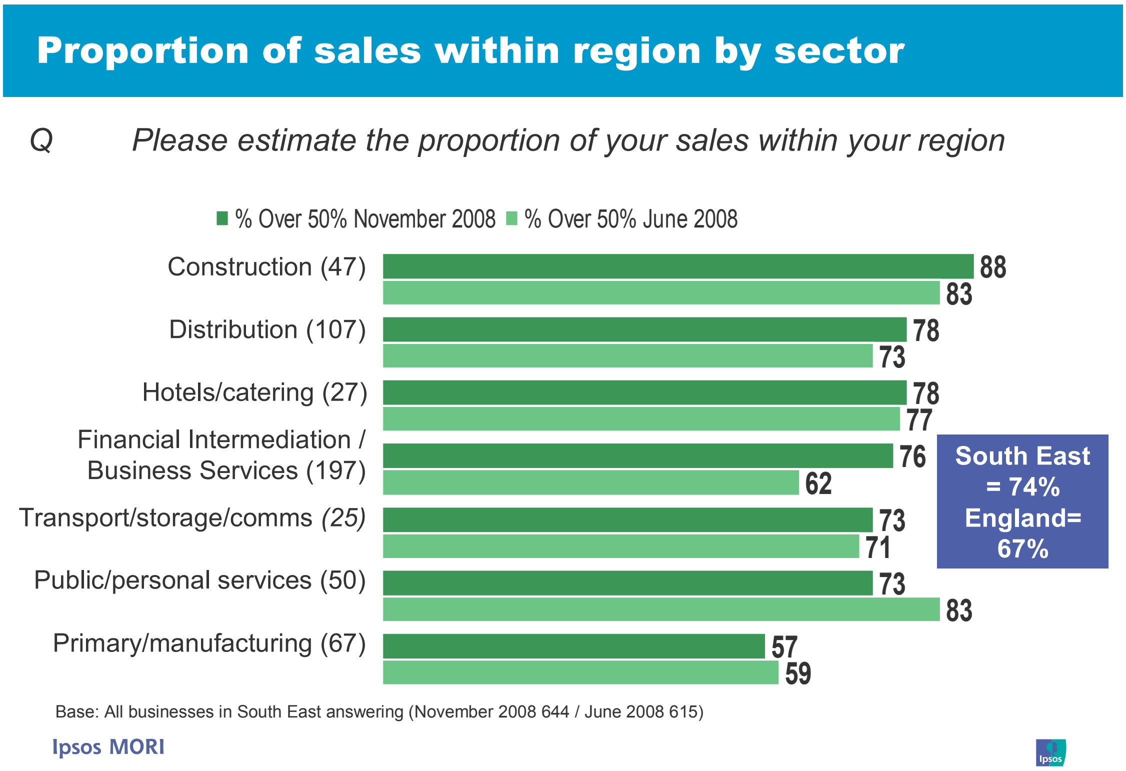


Businesses in South East England are on balance optimistic that the area in which their business in based will become more attractive to investors in the future (38% feeling it will, versus 18% who think it won't). This is however slightly less optimistic than the feeling across the country as a whole (42% feeling the area will become more attractive), and is also a decline of June 2008 levels, when 45% felt that their area would become more attractive to investors.

Perceptions do not vary significantly by sector. By region, businesses in West Sussex are least likely to feel their region will increase in attractiveness for investments – indeed West Sussex is the only country where businesses are more likely to feel that the regional attractiveness will decline (34%) than improve (22%).

The Regional Market: Sales and Purchases

Figure 52



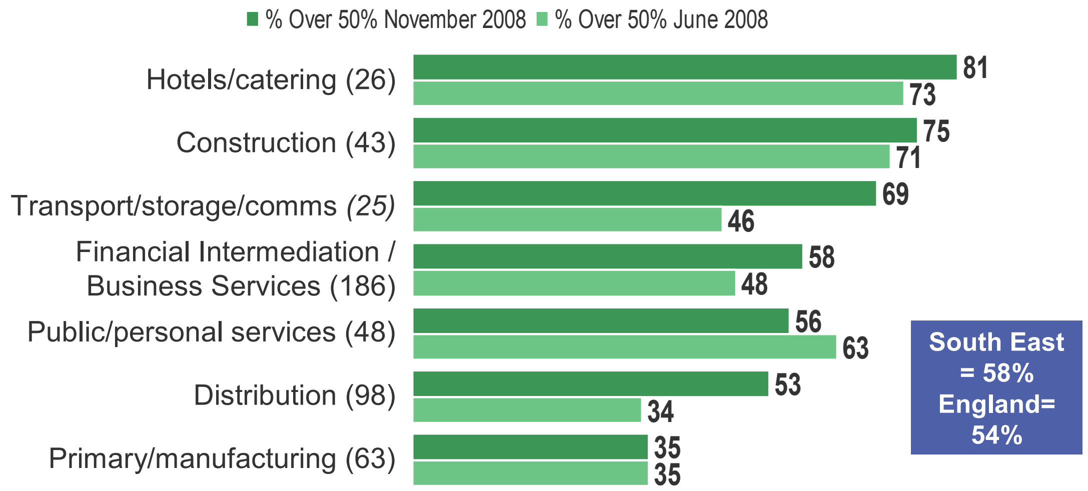
The NBS asked businesses about the proportion of their sales and purchases conducted at the regional, national and international level. The findings presented below demonstrate the importance of the regional market for many businesses.

The majority of businesses (74%) conduct more than half of their sales within the region, rising to almost nine in ten (88%) for the construction sector. This is a higher proportion than nationally – across the country as a whole, 65% of businesses say that over half of their sales are within the region.

Figure 53

Proportion of purchases within region by sector

Q *Please estimate the proportion of your purchases within your region*



Base: All businesses in South East answering (November 2008 612 / June 2008 615)

Ipsos MORI

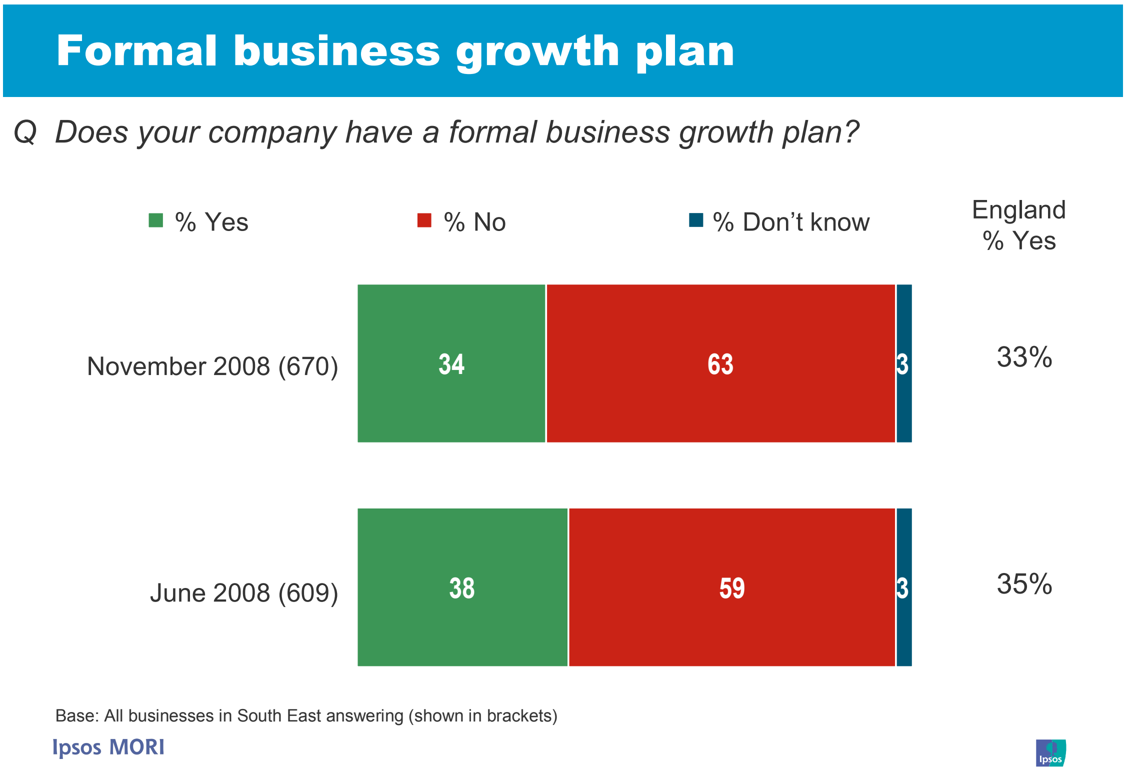
Most businesses in South East England (58%) also make most of their purchases within their region, higher than the national average (53%). The hotel/catering and construction sectors are most likely to make their purchases within their region (81% and 75% respectively). The distribution sector is more likely to make purchases within the region than was the case in June 2008 (53% currently vs. 34% in June 2008).

7. Strategic Business Planning

This section considers the National Business Survey findings that relate to strategic business planning and assesses the awareness and usage of business support services, along with the level of co operation with universities and specialist industrial networks.

The use of these resources can be a crucial support for planning business development and future investment, and the National Business Survey is an important resource for measuring take up and usage over time.

Figure 54

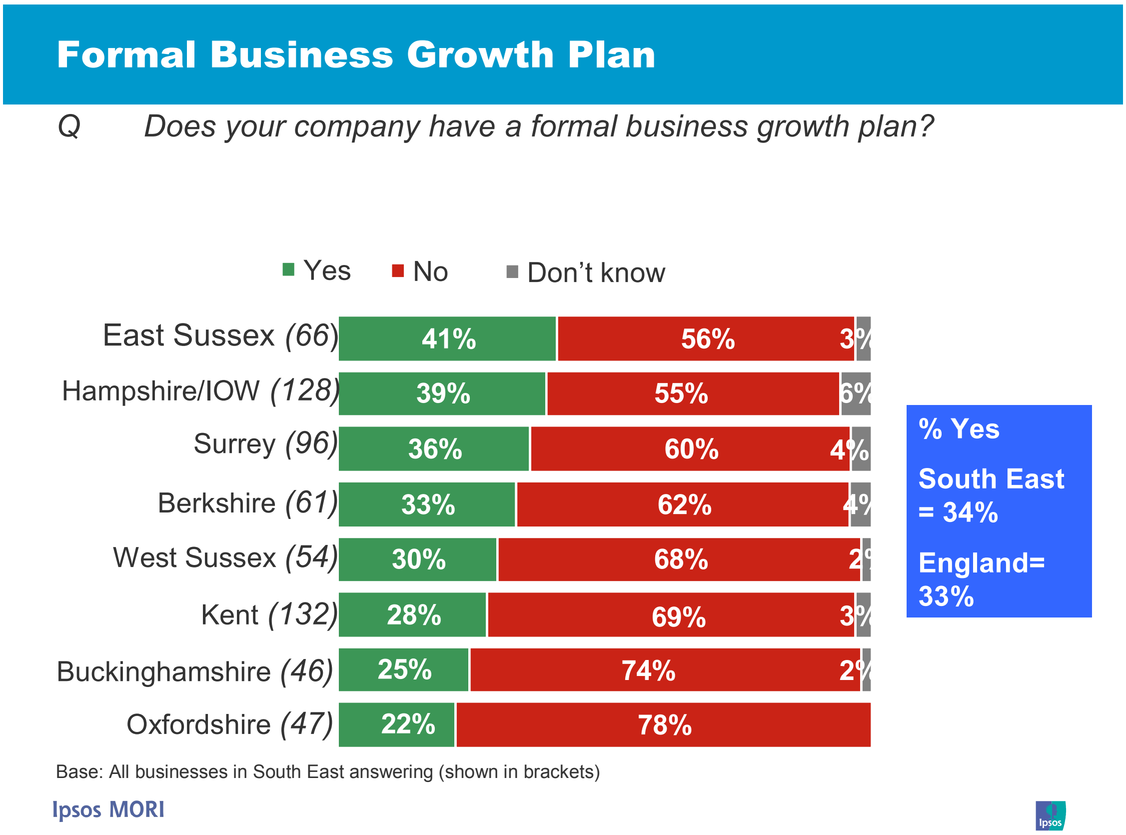


To shed further light on this, the National Business Survey asked businesses if they have a formal business growth plan. One in three businesses in South East England say they have such a plan, similar to the level recorded in June 2008 (38%), as well as the national average (35%). The implementation of a formal business growth plan does not vary significantly by sector, however it is more common in larger businesses:

three in ten businesses (29%) with fewer than 10 employees have a plan, compared to over half (57%) among businesses with 50 or more employees. By county, businesses in East Sussex are most likely to have a formal business growth plan.

Those companies which have found it difficult to fill staff vacancies over the past 12 months are more likely to have a formal business growth plan than those companies who do not anticipate problems (48% vs. 32%), suggesting that staffing difficulties may be a catalyst for implementing such formalised plans.

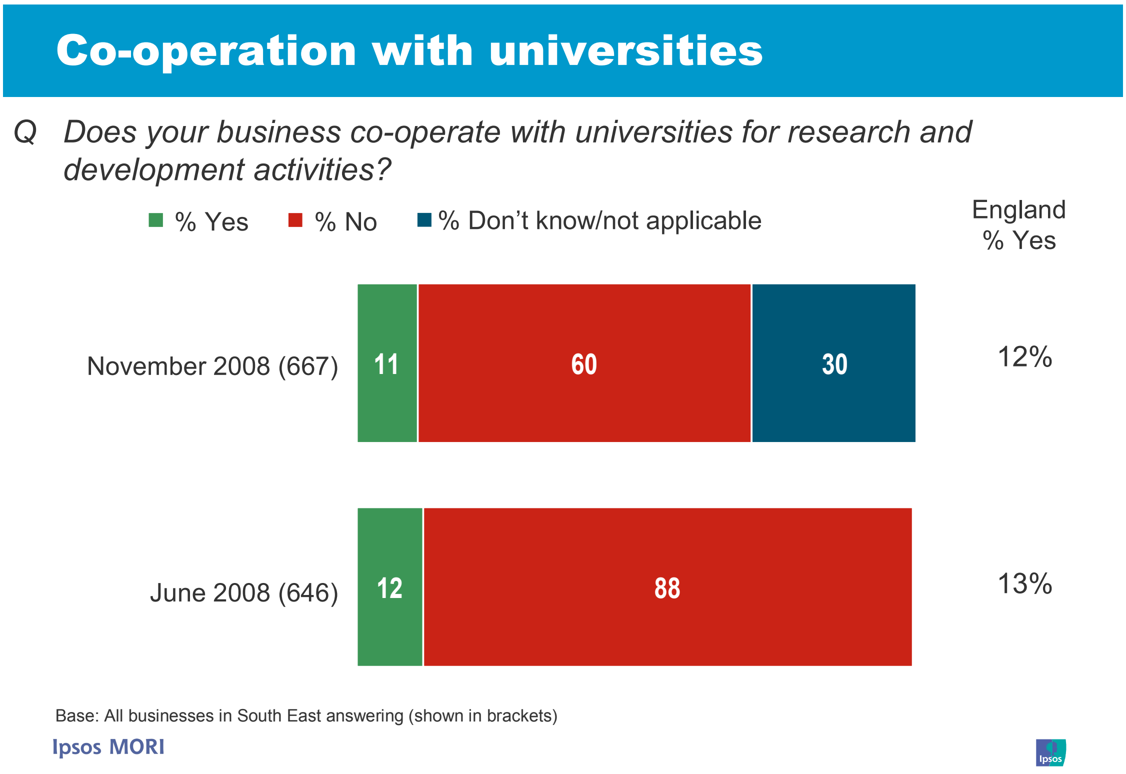
Figure 55



In Oxfordshire and Buckinghamshire only around a quarter of businesses have formal growth business plans, compared to four in ten in East Sussex and Hampshire/Isle of Wight.

Business networks: University and Industry

Figure 56

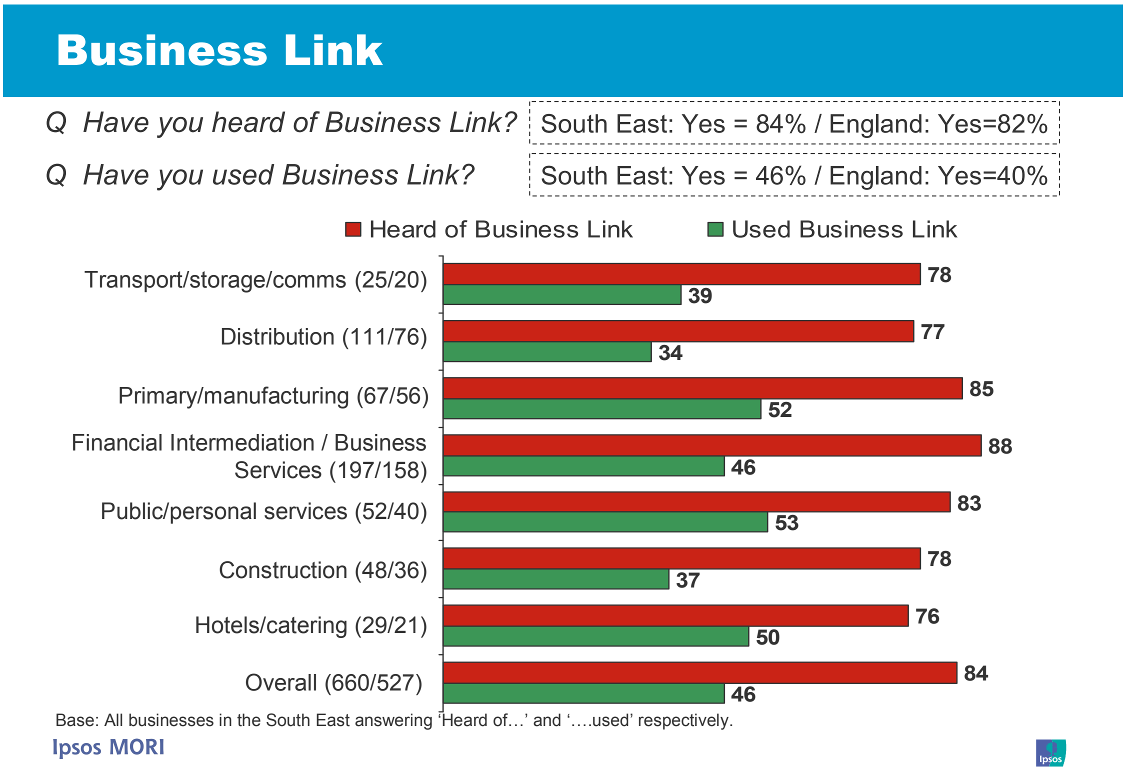


One in nine businesses in South East England (11%) co-operate with universities for research and development activities, unchanged from June 2008, but lower than the proportion nationally (14%).

Businesses in the manufacturing and public/personal services sector are most likely to work with universities (19% and 17% respectively). By county, businesses in Berkshire are most likely to co-operate with universities (15%), while those in Kent are least likely to (4%).

Larger businesses are also more likely to co-operate with universities for research and development activities, with almost two in five businesses with 50 or more employees (36%) co-operating.

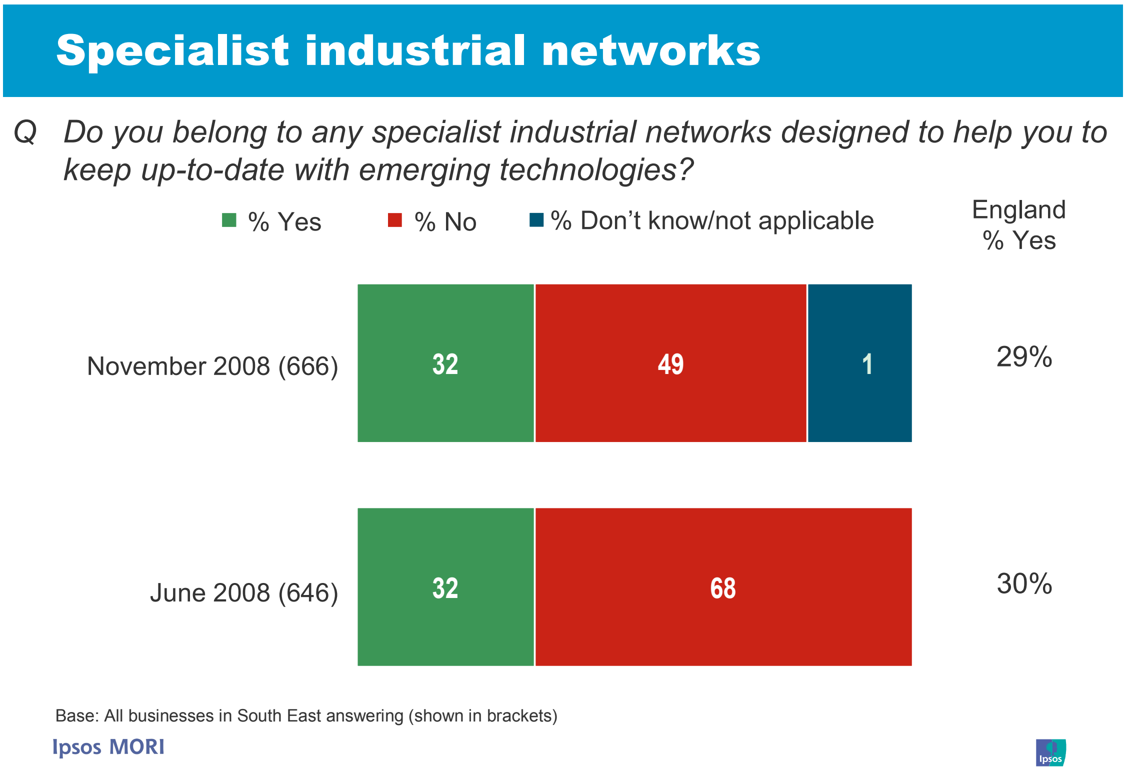
Figure 57



Businesses were asked about their awareness and usage of Business Link services. Overall four in five (80%) businesses have heard of these services and four in ten have used them (38%). The highest levels of awareness are in the primary/manufacturing sector (91%) and the finance sector (87%). In both these sectors just around a half of businesses use the service, whereas this applies to less than one in five in the construction and transport sectors.

Specialist industrial networks

Figure 58



Just over three in ten of businesses belong to a specialist industrial network that is designed to help them keep up to date with emerging technologies (32%), unchanged from June 2008, and similar to the national average (30%). Businesses in the construction sector are most likely to belong to a network of this type (44%), and by county, businesses based in Berkshire are most likely to be members (39%).

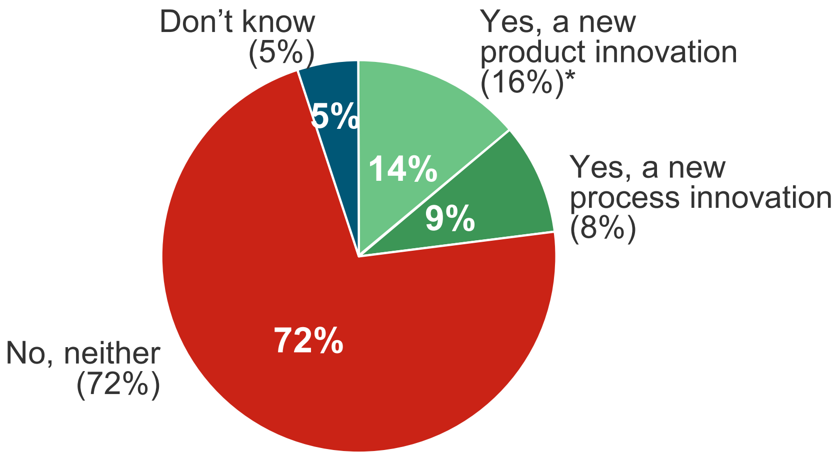
Product process innovation

This question was asked in November 2008 for the first time, revealing that just over one in five businesses in South East England have introduced a new product or process innovation in the past year.

Figure 59

Product/process innovation

Q Has your business introduced a new product or process innovation in the past year?



Base: All businesses in South East answering (640)

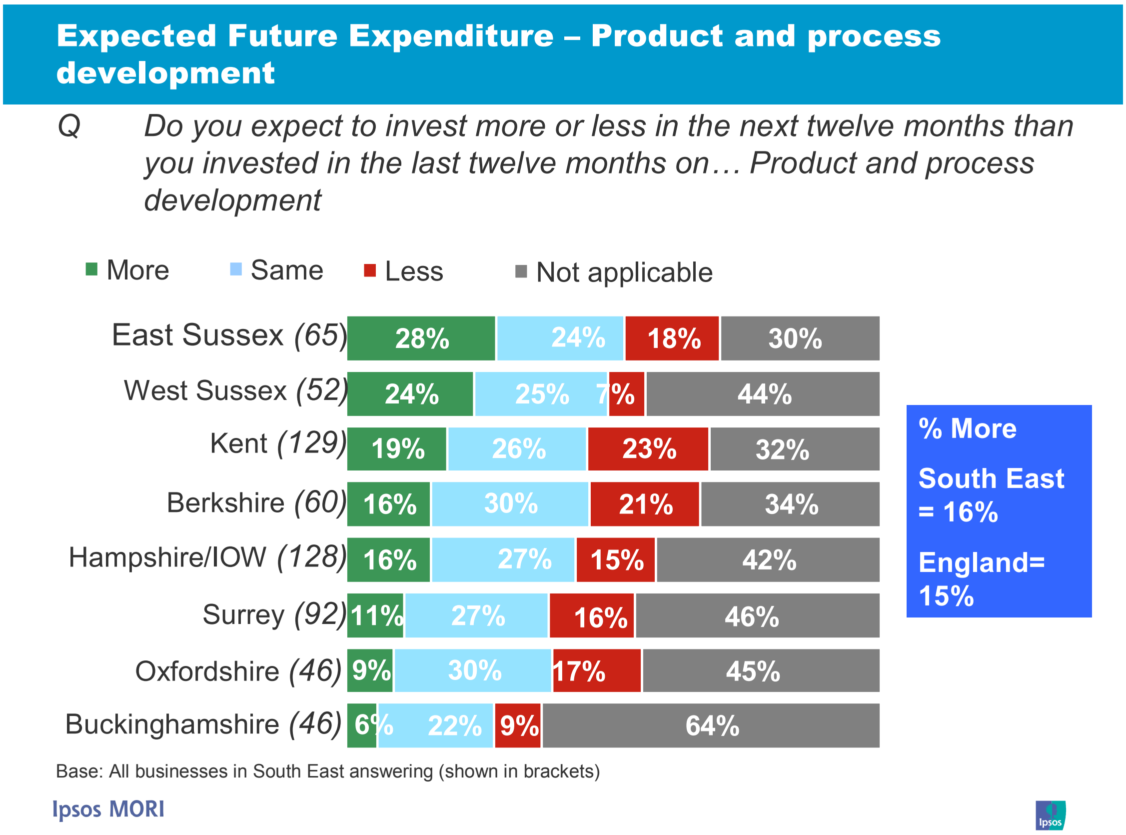
* England figures in brackets

Ipsos MORI

Businesses in the manufacturing sector are most likely to have introduces such an innovation (39%).

Large businesses are more likely to have introduced a new product or process innovation, with two in five of those with 50 or more employees having done so (41%), compared to half this proportion (21%) among businesses with less than 10 employees. Those businesses which are optimistic about the business climate in the coming year are also more likely to have done so (36% among those who think the business climate will improve vs. 21% among those who think it will get worse).

Figure 60

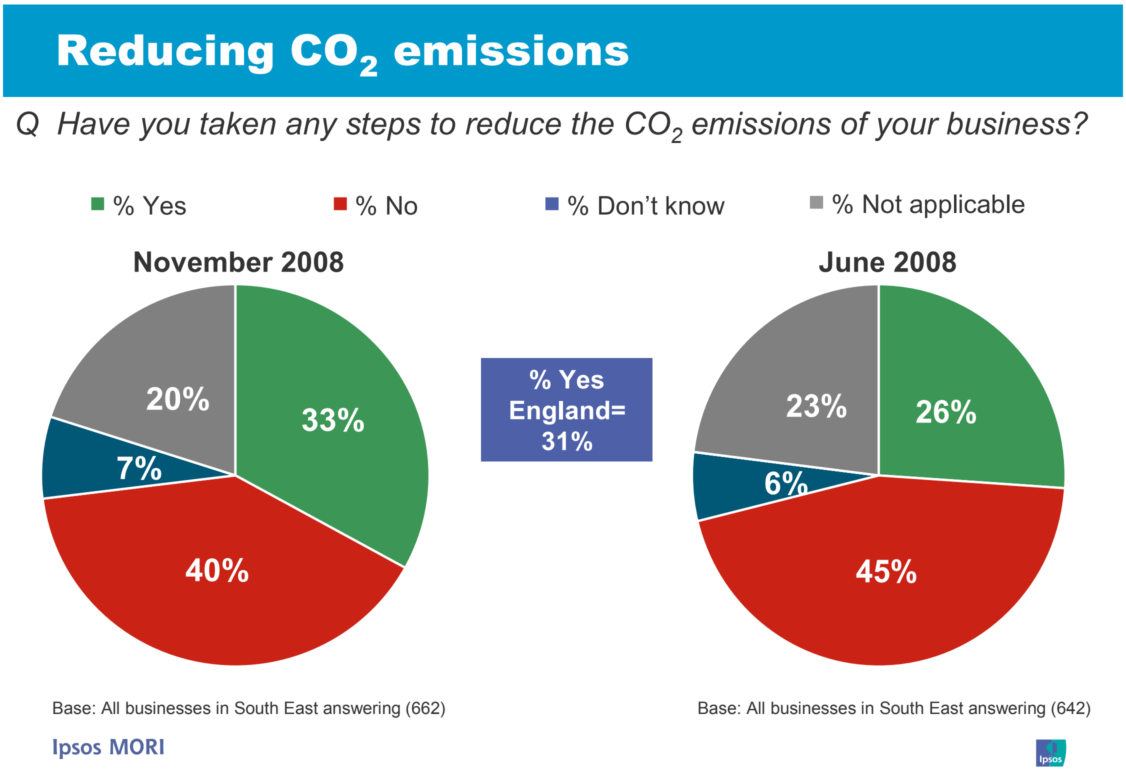


When asked about expected spending in product and process development, more than a quarter of businesses (28%) in East Sussex expect to be spending more in the next 12 months, compared to less than one in ten in Buckinghamshire (6%).

8. Environmental Performance

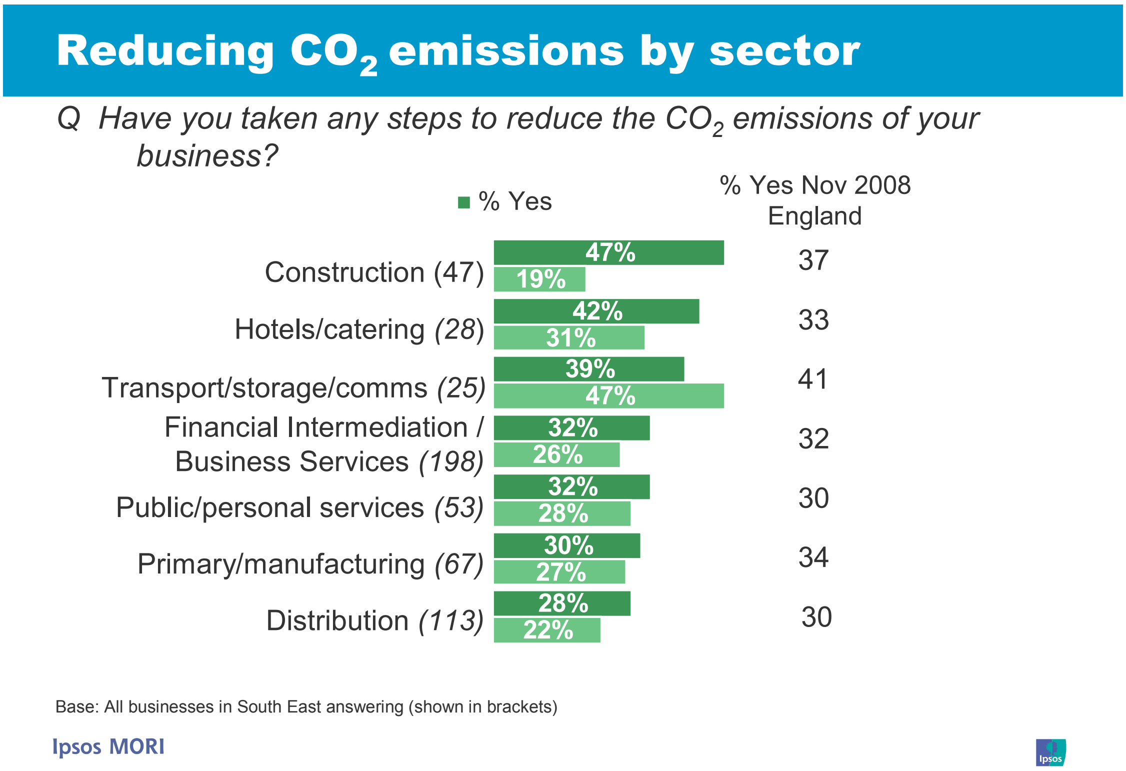
Businesses have a major role to play in reducing CO_2 emissions, and this can be achieved by the implementation of a wide range of initiatives. Across both waves in 2008, the National Business Survey asked businesses about whether they have undertaken some of the most well known actions aimed at improving their environmental performance, such as adopting a recycling scheme or an energy saving scheme.

Figure 61



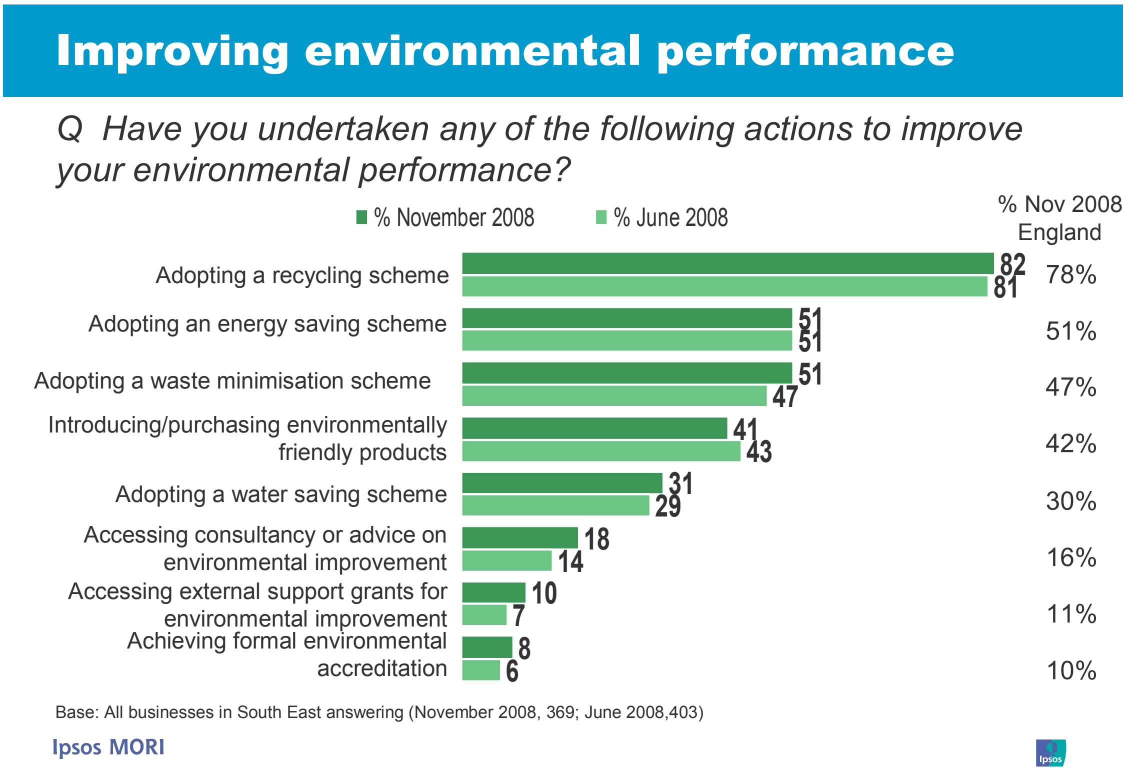
One in three businesses in South East England have taken steps to reduce CO_2 emissions, in line with the national average (32%), and up from 26% in June 2008. There is evidence that strong and varied businesses links are associated with measures to reduce CO_2 emissions: over half of those businesses which co-operate with universities for research and development have taken such steps, and two in five of those businesses which belong to specialist industrial networks have done so (39%).

Figure 62



By sector, those businesses in the construction and hotels/catering sectors are most likely to have taken steps to reduce CO_2 emissions (47% and 42% respectively). Those working in the primary/manufacturing and distribution sectors are least likely to have done so (30% and 28% respectively).

Figure 63

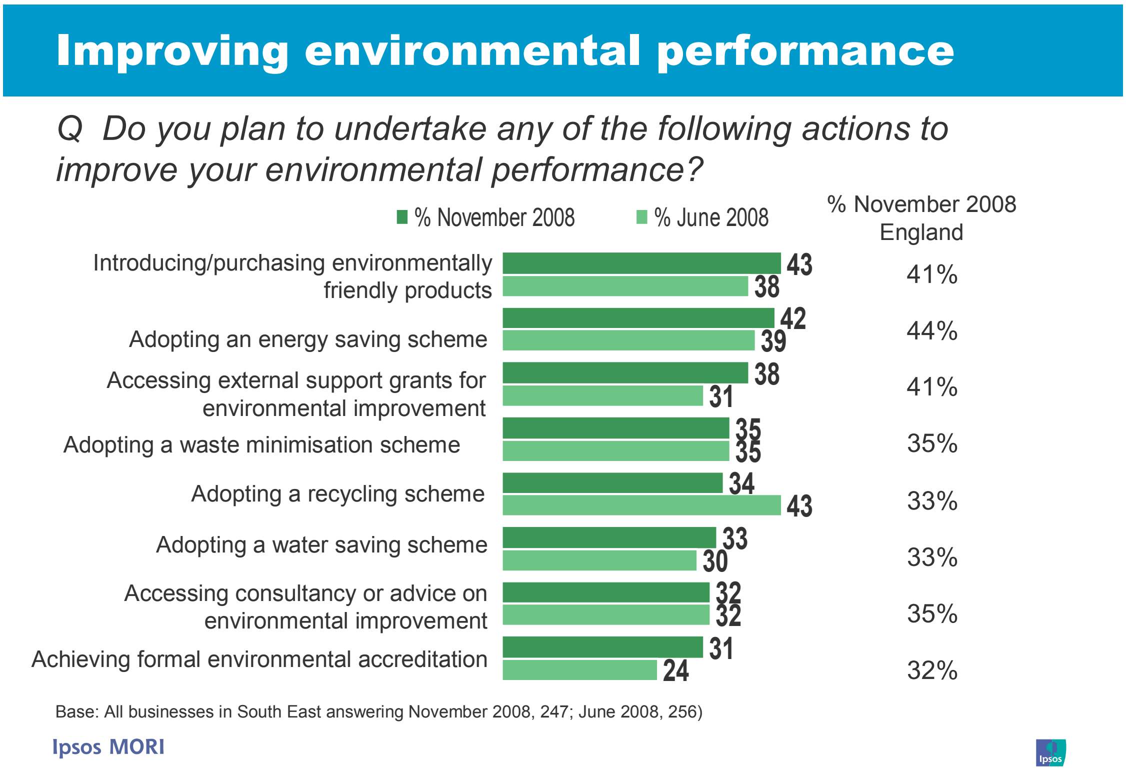


When asked what steps they have taken to improve the environmental performance of their organisation, businesses in South East England are most likely to cite the adoption of a recycling scheme (82%). This is in line with June 2008 levels, and higher than the national average (78%).

Half of businesses in South East England (51%) say they have adopted an energy saving scheme, the same as June 2008 levels, and similar to the national average (53%). Larger businesses are more likely to have adopted such a scheme, with 72% of businesses with 50 or more employees having done so.

Waste minimisation schemes have also been adopted by around half of businesses (51%), similar to both the June 2008 (47%), and national levels (48%). Again, these schemes are more likely to have been implemented by larger businesses, with 66% of businesses with 50 or more employees having done so.

Figure 64



Looking forward to the next 12 months, businesses in South East England are most likely to say they will introduce or purchase environmentally friendly products (43%), and adopt an energy saving scheme (42%). This is in line with both June 2008 levels, and the national trend. Businesses are less likely to say they plan to adopt a recycling scheme than was the case in June 2008 (43% in June 2008 compared to 34% currently).

Appendices

Appendix A: Guide to Statistical Reliability

The variation between the sample results and the “true” values can be predicted from knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the “true” value will fall within a specified range, based on a random ‘pure’ sample of the population.

The table below illustrates the predicted ranges for different sample sizes and percentage results at the “95% confidence interval”.

Sample size	**Approximate sampling tolerances applicable to percentages at or near these levels**		
	10% or 90%	30% or 70%	50%
	$\pm$	$\pm$	$\pm$
1,000	2	3	3
800	2	3	4
500	3	4	4
400	3	5	5
300	3	5	6
200	4	6	7
100	6	9	10

Therefore, with a total sample size of 1,000 completed interviews, where 50% give a particular answer, the chances are 19 in 20 that the “true” value (which would have been obtained if the whole population had been interviewed) will fall within the range of $\pm$3 percentage points from the sample result; in fact the actual result is proportionately more likely to be closer to the centre (50%) than the extremes of the range (47% or 53%).

When the results are compared between separate sub-groups within a sample, different results may be obtained. The difference may be “real,” or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is “statistically significant” - it is again necessary to know the total population, the size of the samples, the percentage giving a certain answer, and the degree of confidence chosen. Assuming the “95% confidence interval”, the differences between the two sub-sample results must be greater than the values given in the table below:

Sample size	**Differences required for significance at or near these percentage levels**		
	10% or 90%	30% or 70%	50%
	±	±	±
890 and 500 (Total vs sub-group)	5	6	6
890 and 200 (Total vs sub-group	6	8	9
500 and 300 (Sub-group vs sub-group)	3	4	4
500 and 100 (Sub-group vs sub-group)	6	9	9
300 and 200 (Sub-group vs sub-group)	7	9	9
300 and 100 (Sub-group vs sub-group)	9	11	12
100 and 100 (Sub-group vs sub-group)	10	14	14