

RDA National Business Survey

July 2009 (wave 3) report

South East results

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Executive Summary

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Within the South East:

- There has been some improvement in the business climate since December's survey, particularly with regards to business confidence, suggesting that the pace of decline may be bottoming out.
- However, conditions remain tough, and in all sectors and counties, more businesses expect the business climate to deteriorate between now and mid-2010 than expect it to improve. As such, it is likely too early to begin talking of any sustained recovery.
- Half of businesses report that their business performance has got worse since mid-2008. Currently, 70% of businesses in the South East are reporting output below capacity, up from 65% in December.
- Many firms are fearful of the effects of a 'double dip' recession, particularly in the construction and hospitality sectors.
- All key business areas have suffered in the recession, and predictions for the next year to mid-2010 are generally for a 'slower decline'. While more firms expect output volume, domestic orders and numbers employed to fall than expect them to rise, the difference is now much smaller than previously reported.

- Price competition has been a major feature of this recession, with more than 4 in 5 businesses in manufacturing and construction reporting increased competition.
- Firms in manufacturing and construction are the most likely to have had employees become more willing to accept salary reductions or pay freezes.
- Businesses expect the number of redundancies to be made in the year to mid-2010 to be lower than they have been in the 12 months since mid-2008. Future redundancies are most likely in transport, storage and communications, and in hospitality and catering.
- Investment since mid-2008 has been low, particularly in manufacturing and construction, and seems set to stay low, with similar numbers of firms expecting to increase investment spending between now and mid-2010 as expect to decrease spending.
- However, there is significant variation between sectors and regions, and in different business areas – investment is set to rise significantly in marketing and sales, but the balance of firms expect to decrease spending on buildings, plant and machinery, and training.
- There is some evidence to suggest that the tough business climate may have helped to foster innovation, with more firms than in previous surveys reporting new product or process developments.

- In the 12 months since mid-2008, around 3 in 5 businesses report having had problems accessing finance, though the proportion of firms reporting problems is lower than the average for England.
- More firms expect to raise new sources of finance between now and mid-2010 than already have so in the year since mid-2008.
- Costs have increased in the 12 months since mid-2008, but at a lower rate than previously, and fewer firms than in December's survey expect increases over the next 12 months to mid-2010.
- However, fewer firms than in previous surveys report having passed on these increased costs to consumers, giving an indication of the tougher price competition that firms have been experiencing.
- Firms' first response to pressures is often to expand into new markets. Of firms with output below capacity, almost two thirds of firms report having tried to expand into new markets, compared to one in five having reduced labour costs.

Background and Methodology

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- 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.
- All interviews are carried out by telephone, with someone in the business most knowledgeable about the overall performance of the business.
- Public sector businesses are excluded.
- Data is 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 in May and June 2009 and the final achieved sample size was 949 across the South East.
- In this way, survey questions asking for estimates “over the past year/12 months” refer to activity since May/June 2008, and questions asking for estimates “in the next year/12 months” for predicted activity to May/June 2010.
- This is the third wave of the NBS, with the two previous waves having been released in August and December 2008.

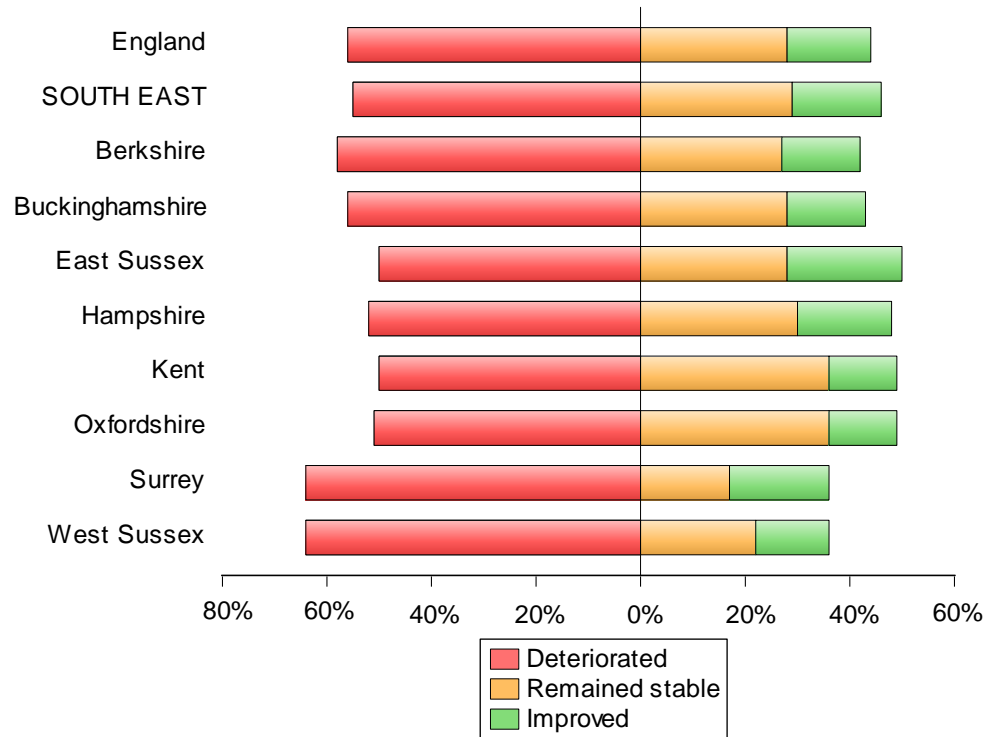
- Some questions were not answered by all firms, and when dividing firms into categories (by size, county or sector) sample sizes are necessarily reduced.
- In general, there are around 100 respondents from each county in the South East (lowest 81 in Buckinghamshire, highest 214 in Hampshire).
- When dividing by industry, the smallest sample sizes are 53 businesses in the hotels & catering sector, and 55 in the transport, storage and communications sector. The highest sample size is 388 firms in the financial services sector.
- While these sample sizes are enough to determine general trends, it should be kept in mind that when firms are divided into these categories, care should be taken not to draw large inferences from small differences in the data, as small samples have less certainty attached and are more subject to error. In general, the smaller the sample size, the larger a difference must be to be statistically significant.

Business performance and outlook

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Tough conditions are reflected in results

Would you say that overall, your business performance in the past 12 months has improved, remained stable or deteriorated?

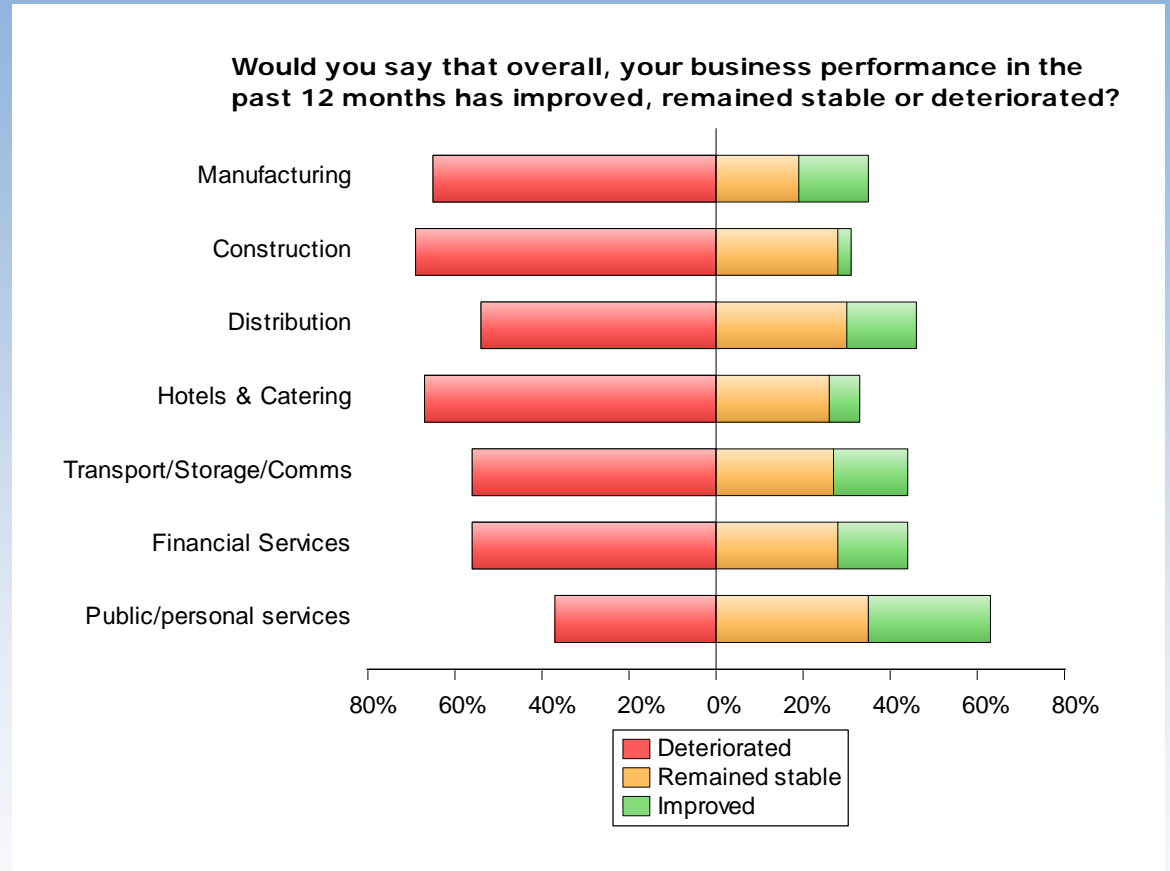


In both the South East and England as a whole, over half of businesses report that their business performance has got worse over the past year.

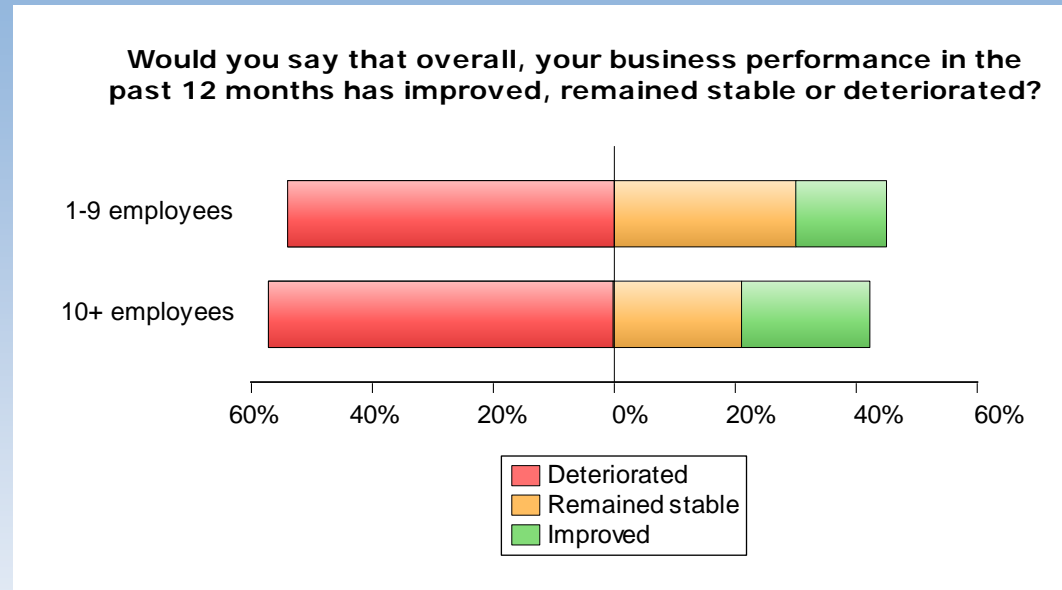
Manufacturing & construction have been badly affected

Within the South East, manufacturing and construction have been particularly hard-hit, along with businesses in the hotels and catering sector.

However, the effect of the recession on the financial sector has perhaps not been as bad as feared.

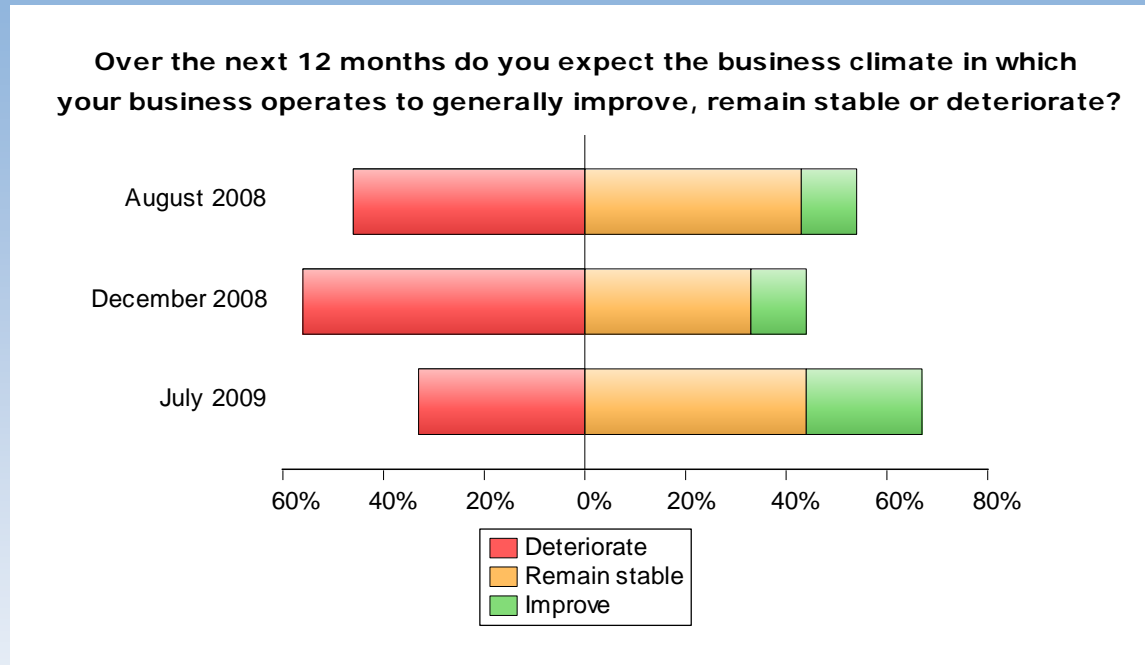


The recession has affected large and small firms alike



Over half of firms, both large and small, reported deteriorating conditions over the past 12 months, with around 4 in 10 reporting that performance remained stable or improved.

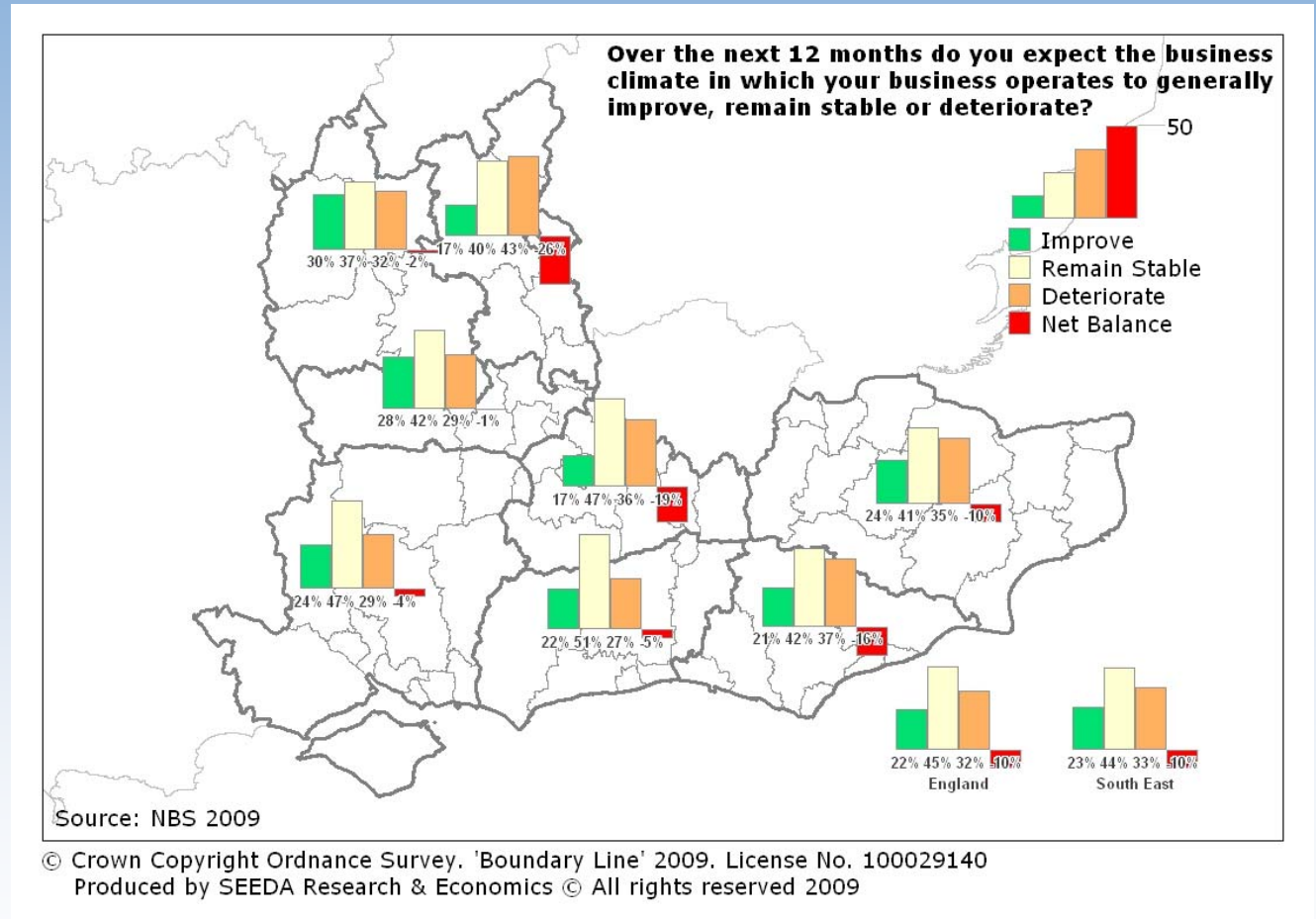
Indications of an upturn in business confidence...



Around two thirds of businesses in the South East now expect the business climate to either improve or remain stable over the next 12 months, up from less than half in December's survey. However, firms expecting the business climate to get worse still outweigh those expecting it to improve (33% to 23%)

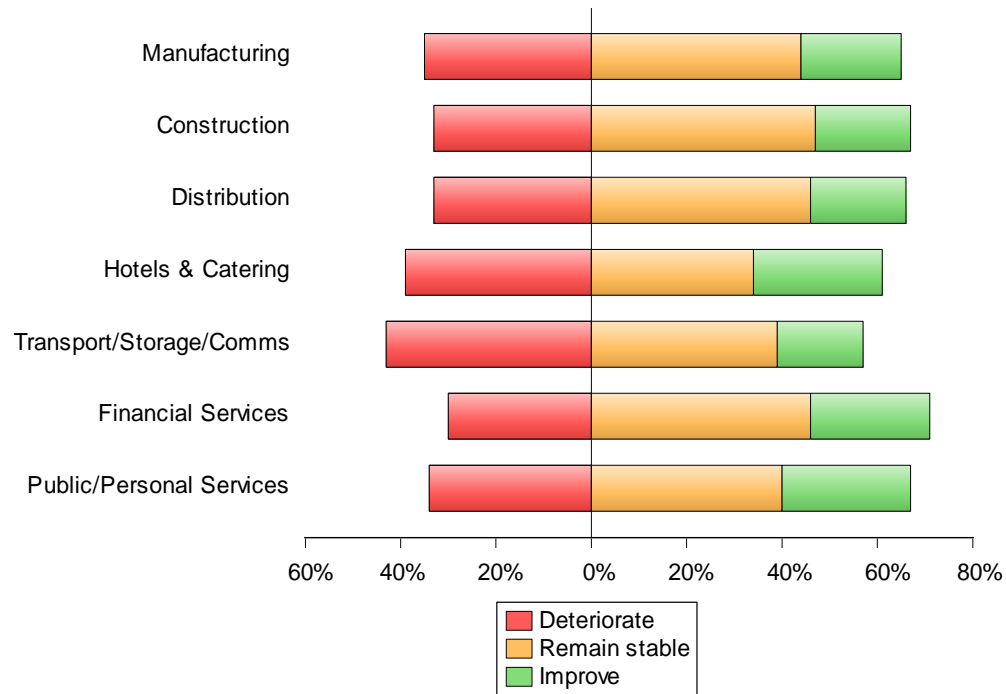
...but confidence is still low in all counties

In all counties, businesses expecting the business climate to get worse outnumber those expecting it to improve.



...and in all sectors

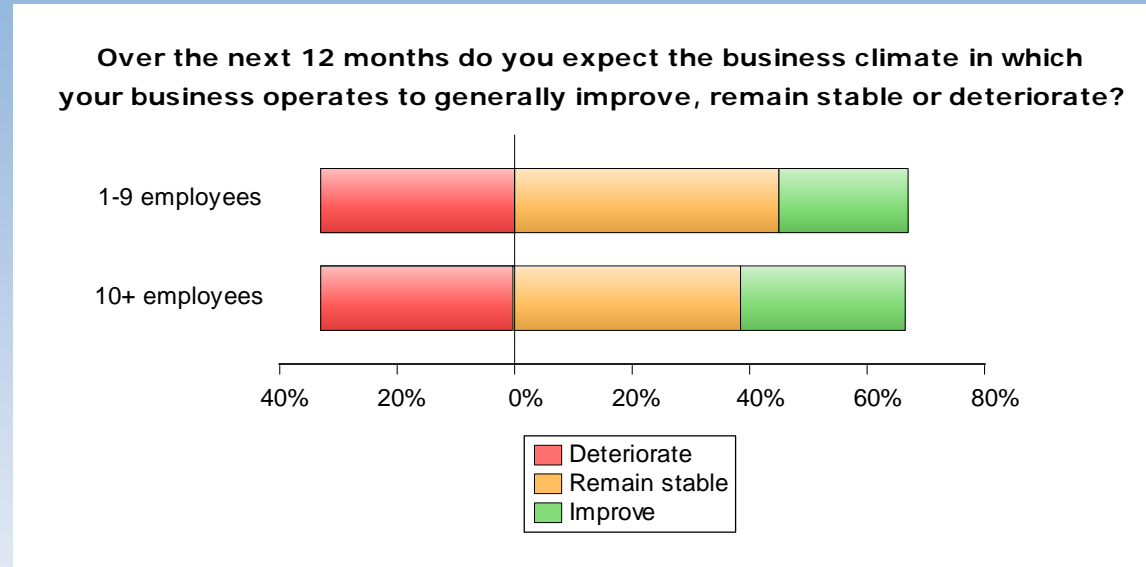
Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable or deteriorate?



Similarly, in all sectors, businesses expecting the climate to get worse outnumber those expecting it to improve.

Businesses in the hotels and catering sector, and those involved in transport, storage or communications, are the most pessimistic.

Larger firms more confident?

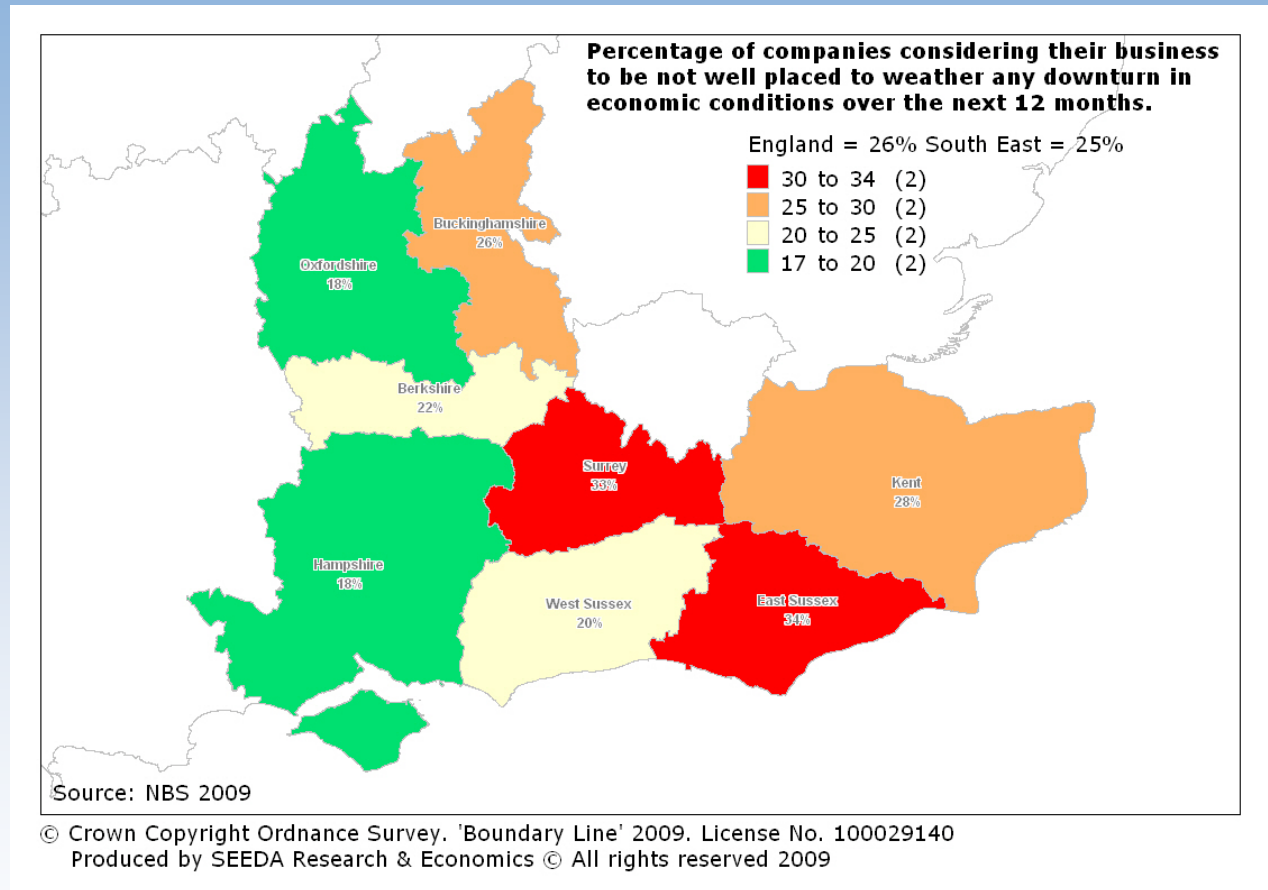


While there is not a great degree of difference between small and large businesses, firms with 10 or more employees are more likely to expect the business climate in which they operate to improve over the next 12 months.

'Double dip' recession could have major effects

Around a quarter of businesses, both in the South East and England more generally, report being badly placed to deal with any further downturn.

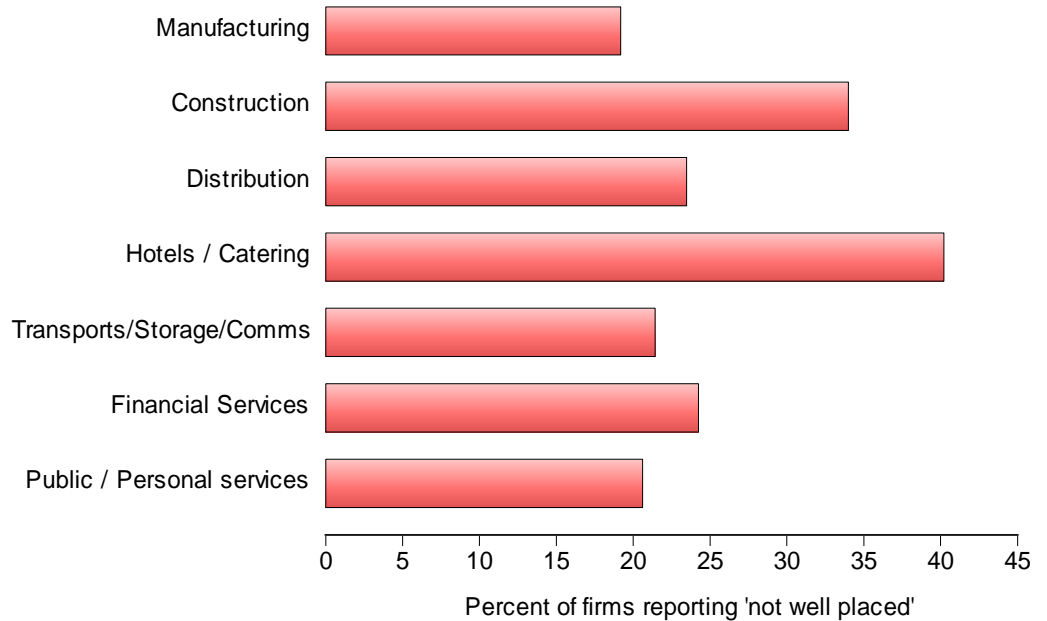
However, the fact that three quarters of firms report being well placed, despite the difficult business climate, means that this could be seen in a more positive light.



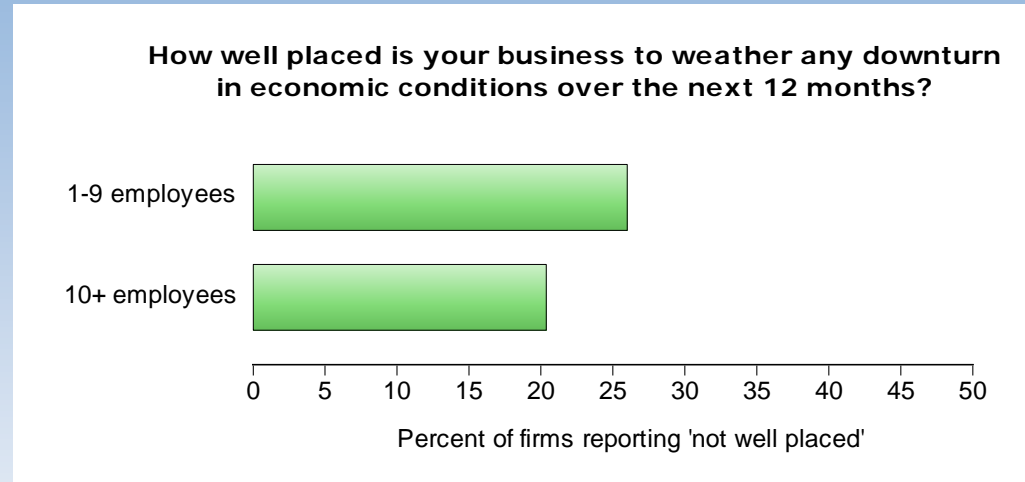
Many firms will suffer if conditions worsen

Firms in construction and those in the hotels and catering sector, both of which have been badly affected by the recession to date, are the most fearful of the effects of any further downturn.

How well placed is your business to weather any downturn in economic conditions over the next 12 months?



Small firms less confident in ability to withstand further downturn



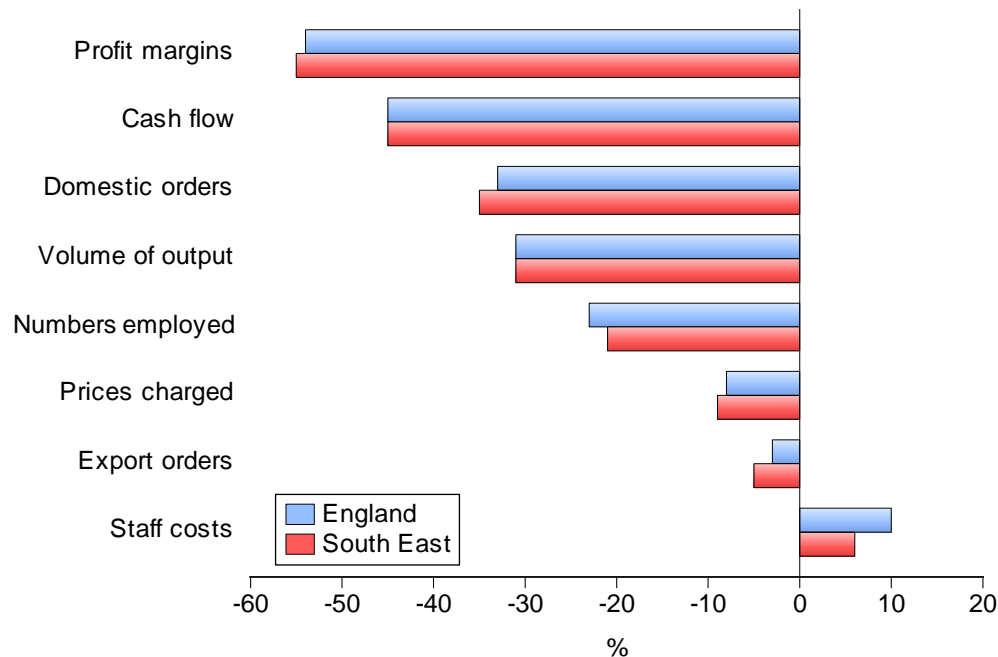
Smaller firms may be in a worse position to weather any further downturn – while the difference is not huge, a higher proportion of businesses with less than 10 employees report being badly placed to weather any further downturn over the next 12 months. More than 1 in 4 businesses with fewer than 10 employees report being badly placed, compared to around 1 in 5 of larger firms.

Areas of business activity and employment trends

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All business areas have suffered

Excluding seasonal variations, what has been the trend during the past 12 months with respect to...*

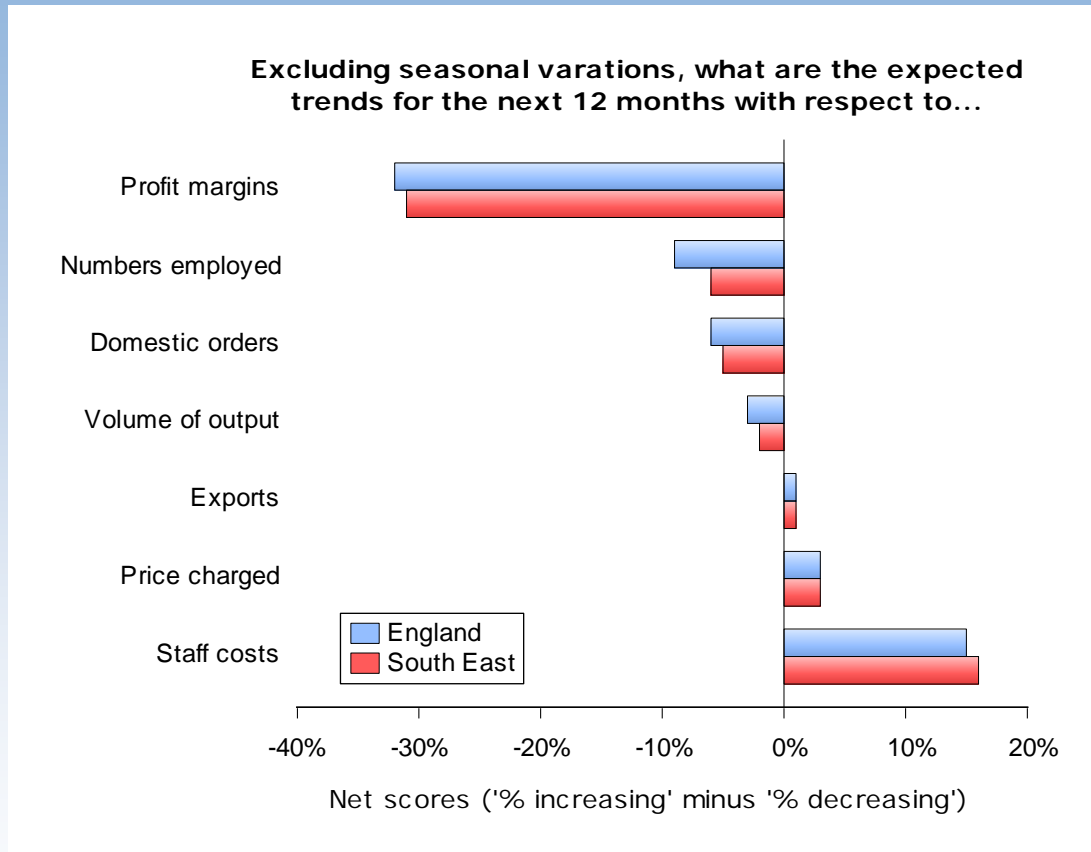


* net scores - calculated by subtracting the % of firms reporting decreases from the % of firms reporting increases

Over the past year the South East economy has performed broadly similarly to England more generally, with firms reporting orders, output, numbers employed, prices charged and profit margins to be lower significantly outnumbering those reporting increases. Profit margins have been particularly badly affected.

Notably, despite the recession, a net balance of firms report that staff costs have risen.

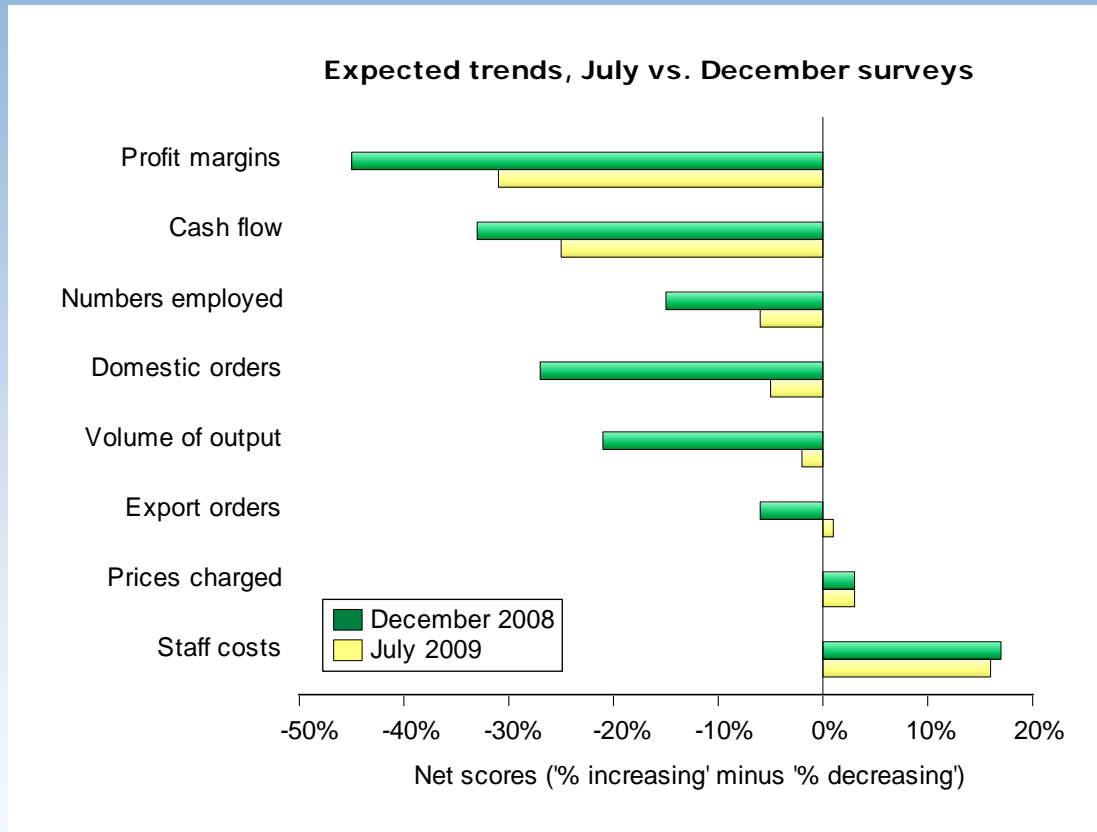
And may continue to suffer...



Over the next 12 months, businesses predict that their key business areas will continue to suffer, though the outlook is significantly more balanced than what has been the trend over the past 12 months. Exports are a small 'bright spot', though profit margins look set to continue to fall.

There are some indications from the data that the outlook in the South East is slightly more positive than the outlook in the rest of England.

...though at a 'slower rate of decline'



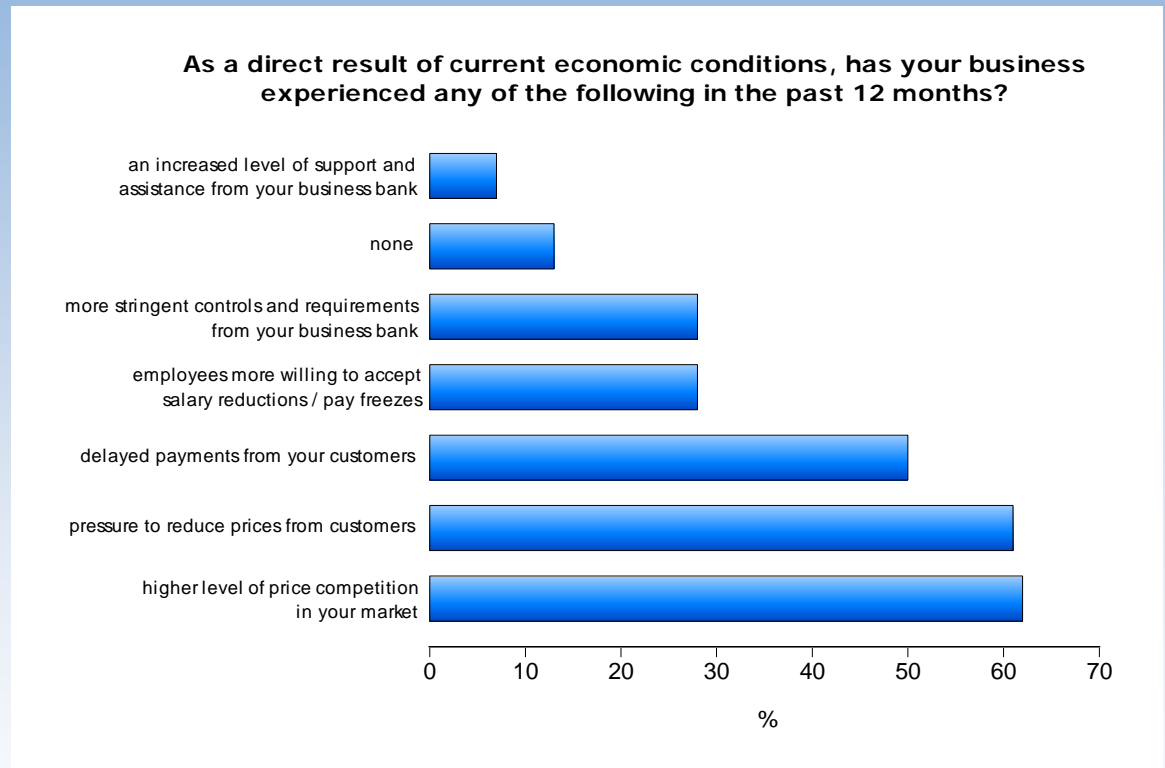
While predictions are still for further declines, they are in general more positive than in the December 2008 survey, suggesting that the pace of decline in the South East, and England more generally, may be bottoming out.

While more firms expect output volume, domestic orders and numbers employed to fall than expect them to rise, the difference is now much smaller than previously reported.

Increased price competition and financial pressure

Increased price competition has clearly been a major feature of the recession to date. Additionally, half of firms report that customers have been delaying payments, squeezing firms' cash flow.

Four times as many businesses report more stringent controls from their business bank than report increased support.

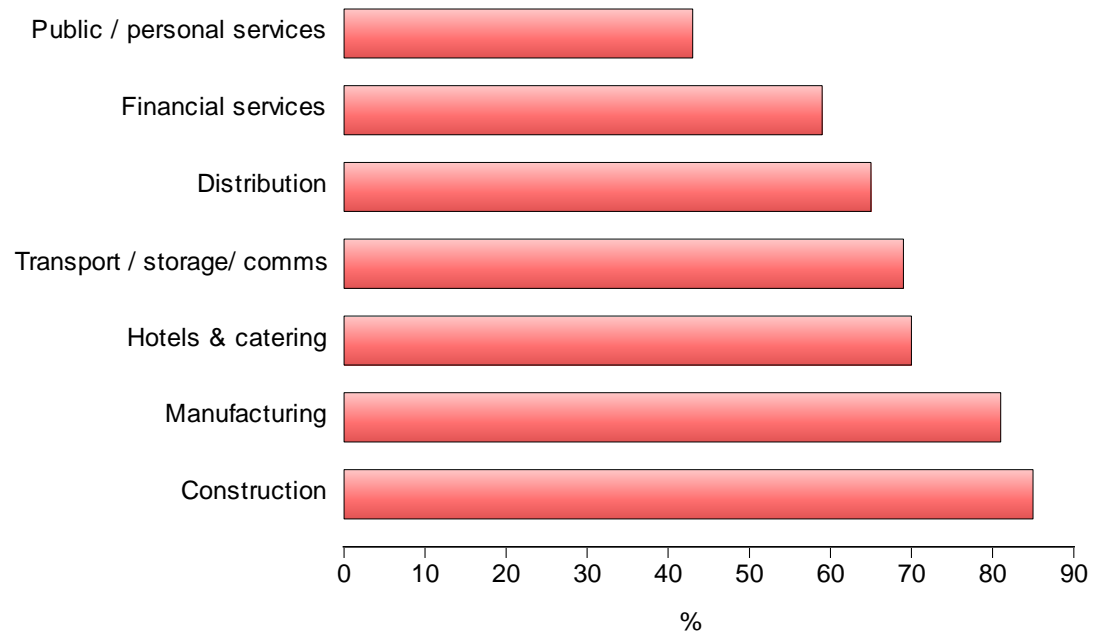


Significant price competition in manufacturing and construction

More than half of businesses in all sectors apart from personal services report that price competition has increased in the past 12 months.

Firms in the manufacturing and construction sectors have been particularly badly affected, with more than 4 in 5 reporting increased price competition.

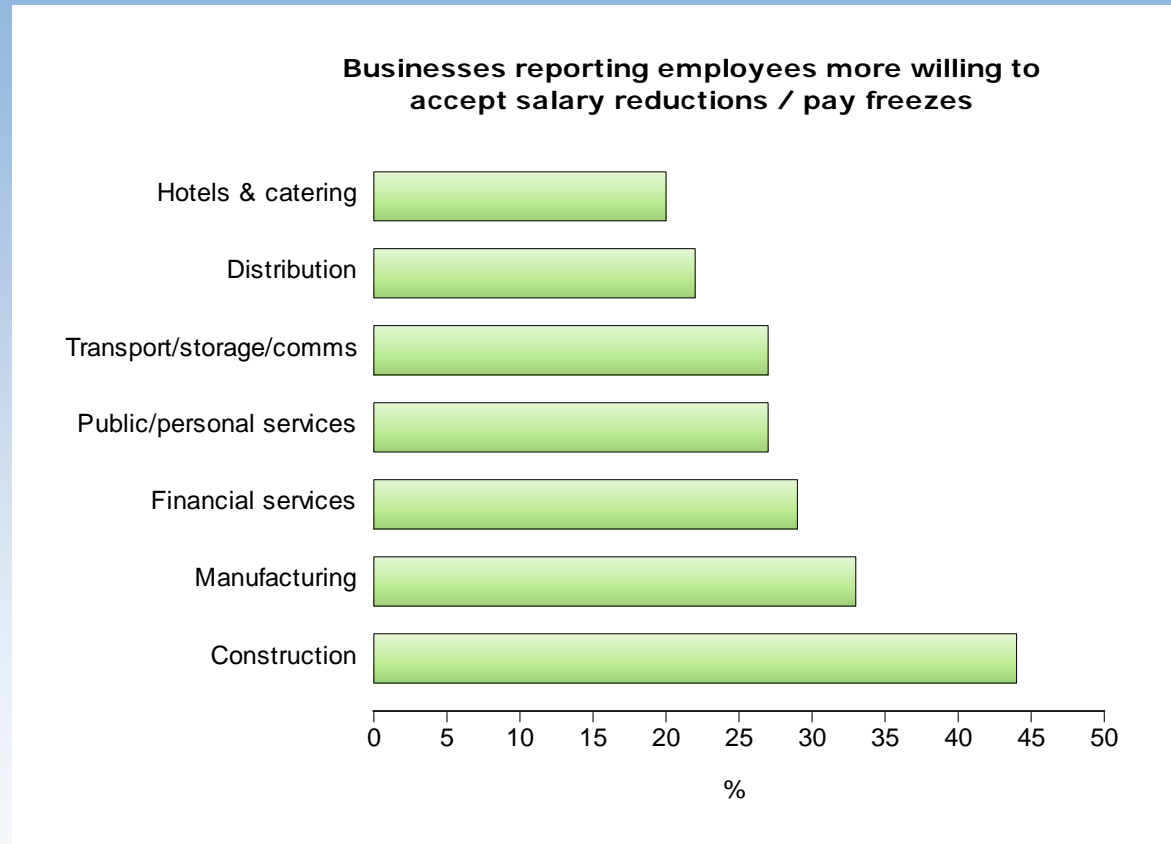
Businesses reporting higher level of price competition in the past 12 months, by sector



More employees willing to accept salary freezes and reductions

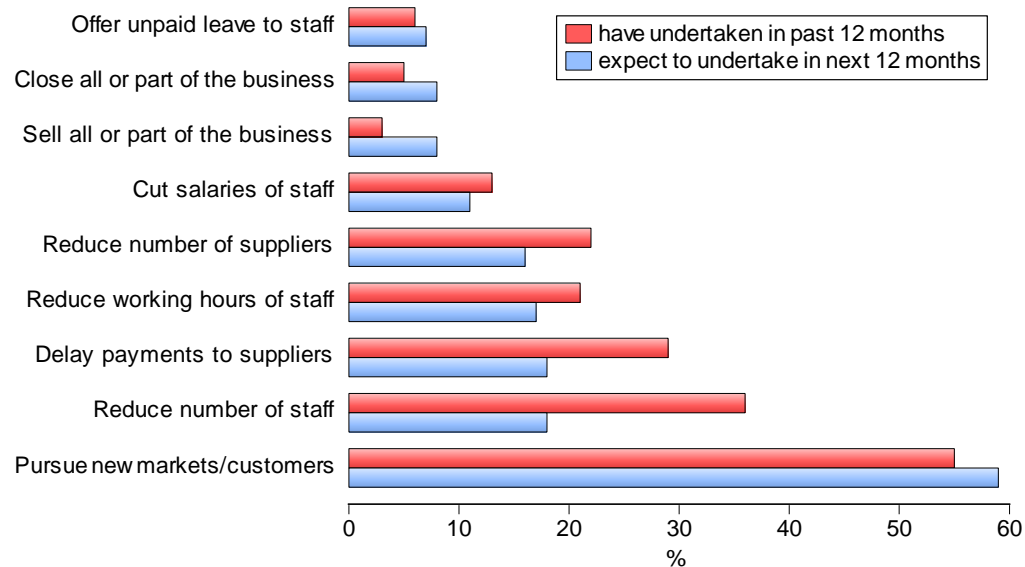
Again, firms in manufacturing and construction are the most likely to have had employees become more willing to accept salary reductions or pay freezes, due to the major challenges facing many firms in these sectors.

Least likely are businesses in hotels and catering, due to the structure of their workforce, with lower-paid employees likely more unwilling to take pay cuts.



Many businesses pursuing new markets and reducing staff

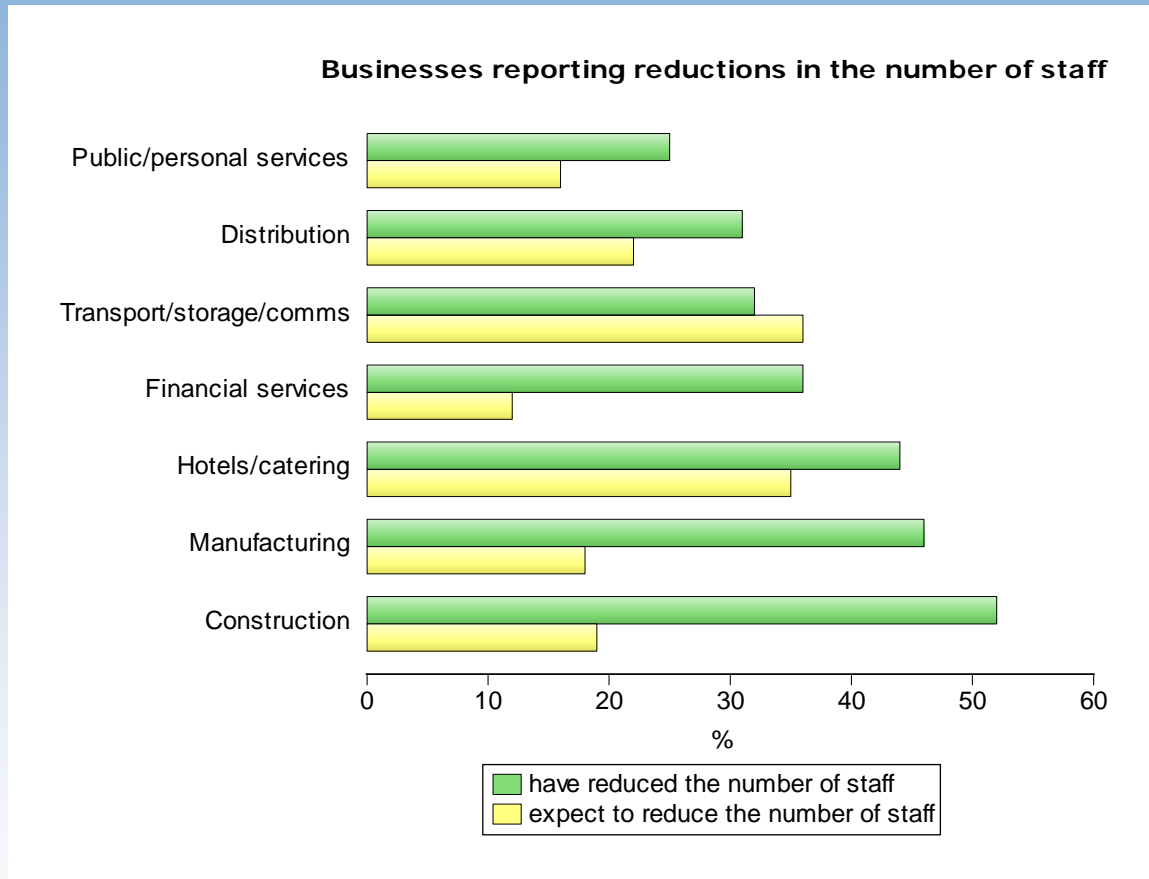
As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months / does your business expect to undertake in the next 12 months?



Over the next 12 months, fewer businesses in the South East expect to take measures to reduce staff and supplier costs than in the last 12 months, though cost cutting will of course remain a primary focus for many firms.

The majority of businesses will aim to expand into new markets in the coming year to improve their situation.

Fewer redundancies expected, but variation by sector

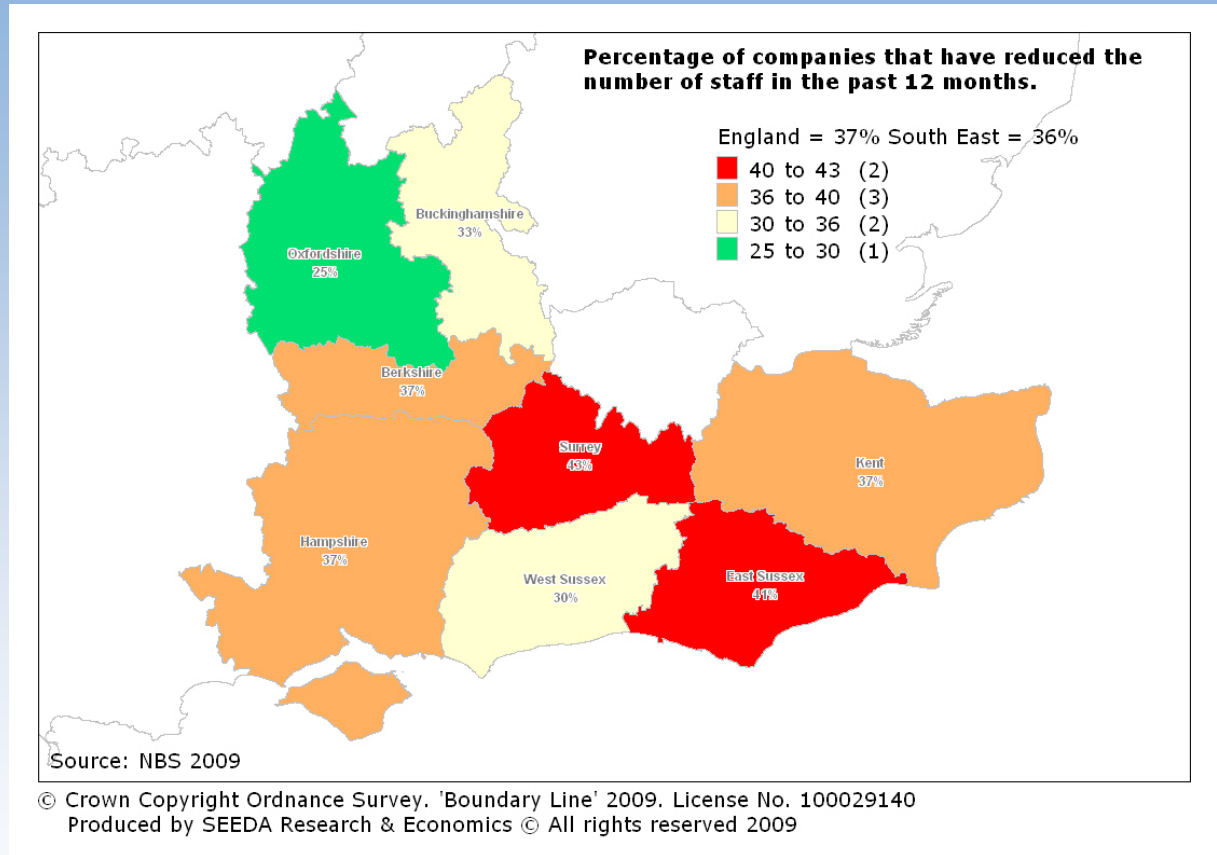


Businesses in manufacturing and construction are most likely to have made redundancies in the past 12 months, though far fewer expect to make redundancies in the coming year.

The number of redundancies, while still significant, should be lower in most sectors in the next 12 months. Results suggest that businesses in transport, storage and communications, and in hospitality and catering, are most likely to make future redundancies.

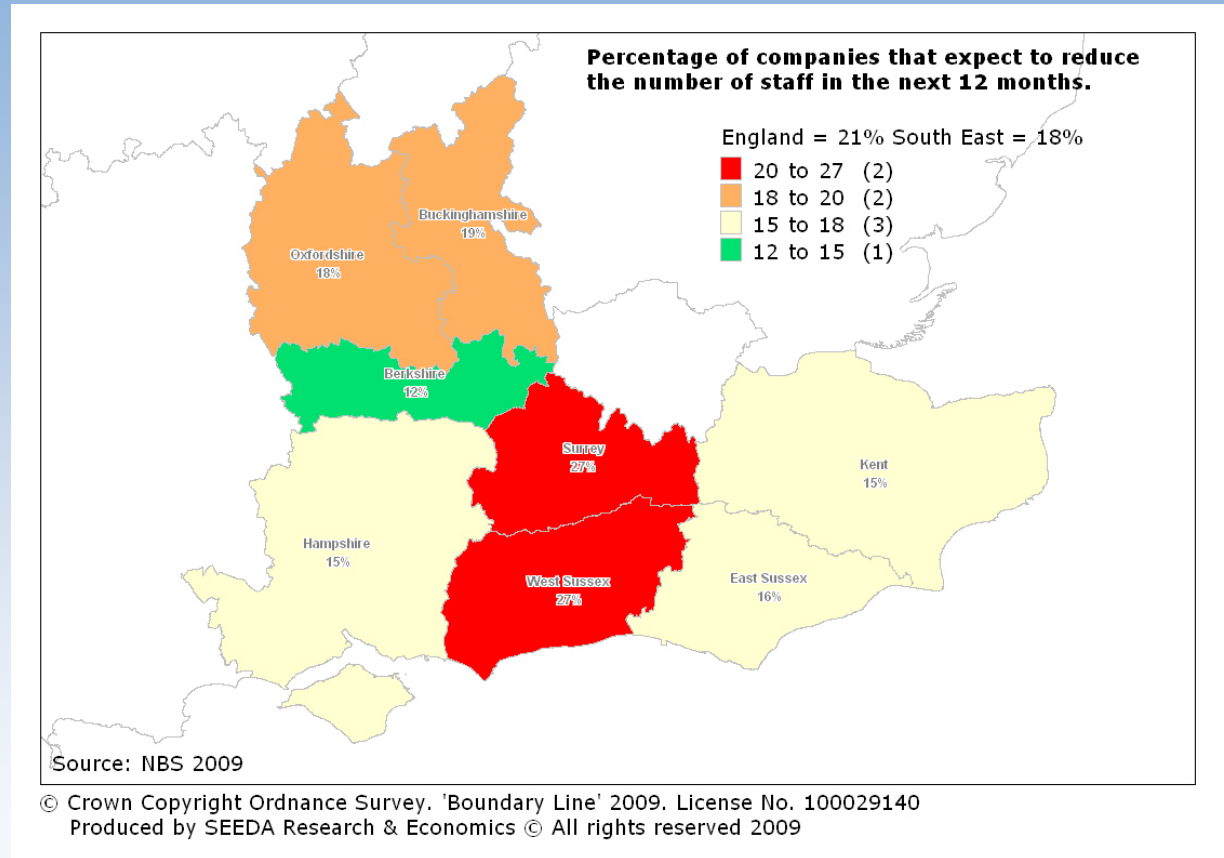
Over a third of businesses report having made redundancies

Over a third of businesses surveyed in the South East report having made staff redundant.



Possibly fewer redundancies to come, but sub-regional variation

Redundancies in the next 12 months are expected to be lower, with under 1 in 5 businesses expecting to cut jobs. This is better than the average for England (18% compared to 21%).

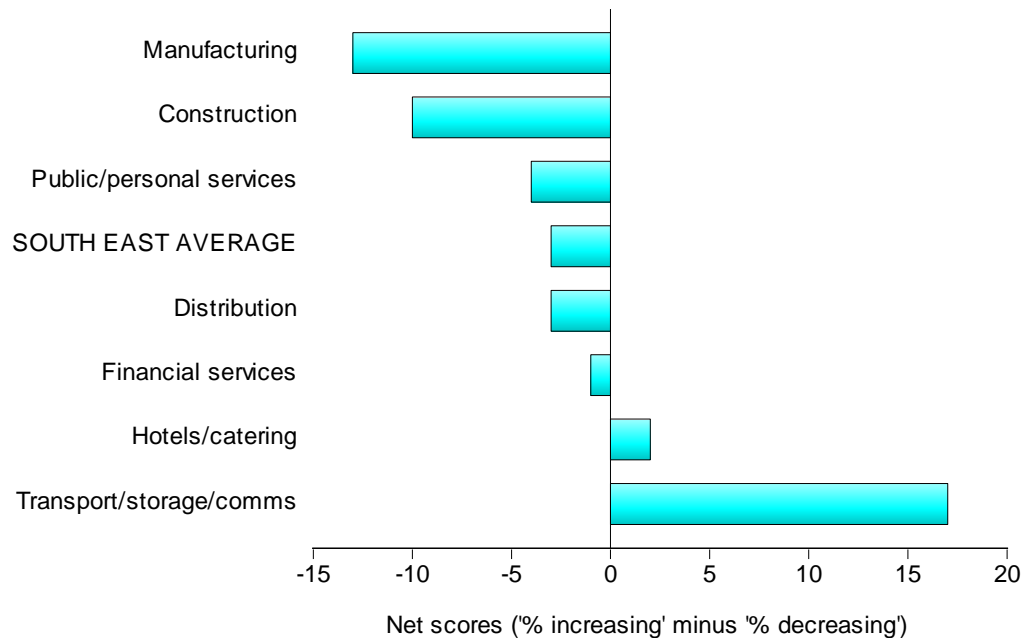


Investment and innovation

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Low investment in the past year

On balance, how has the overall level of investment you have made in your business over the past 12 months changed?

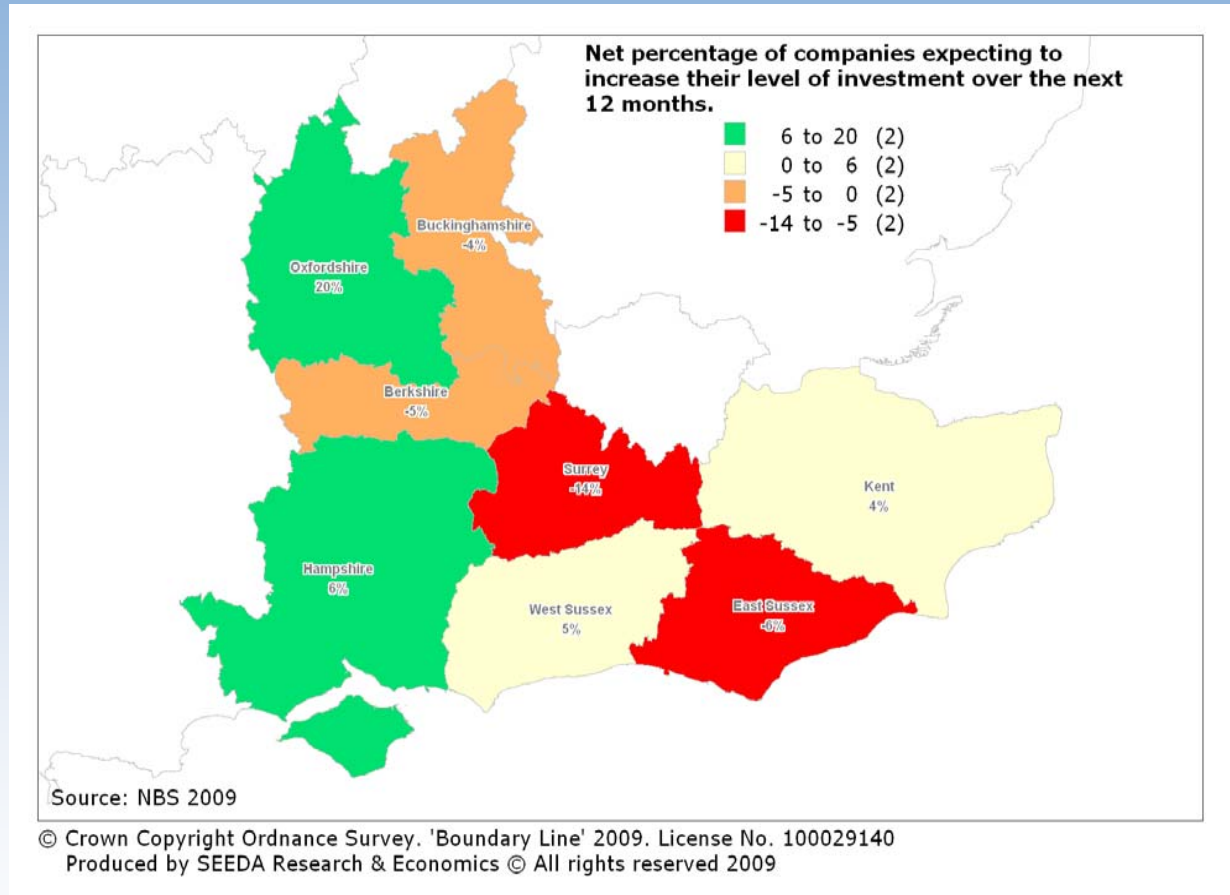


In general, investment has been low over the past 12 months, particularly in the manufacturing and construction sectors.

Businesses in transport, storage and communications report being most likely to have increased levels of investment. While reasons for this are not completely clear, the difference may be exaggerated by a small sample size.

Investment set to stay low, with sub-regional variation

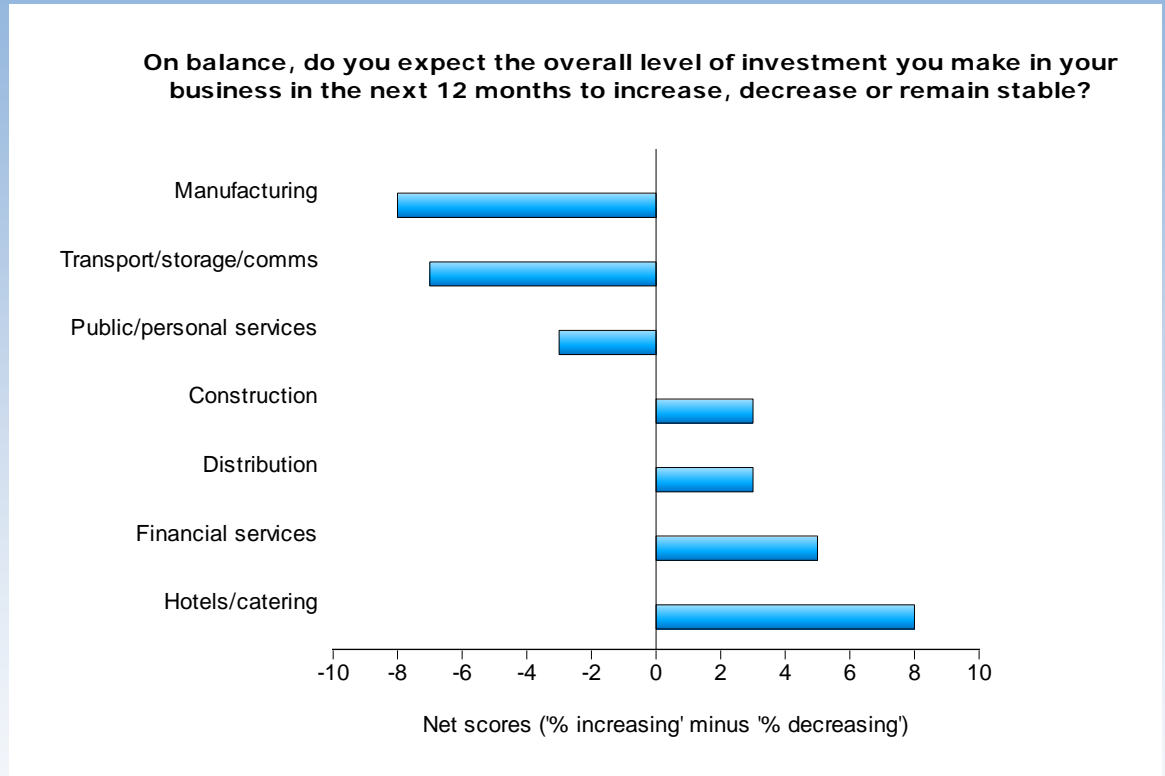
Investment seems set to stay at relatively low levels, with similar numbers of firms in the South East as a whole expecting to increase spending over the next 12 months as expect to decrease spending, and half anticipating no change.



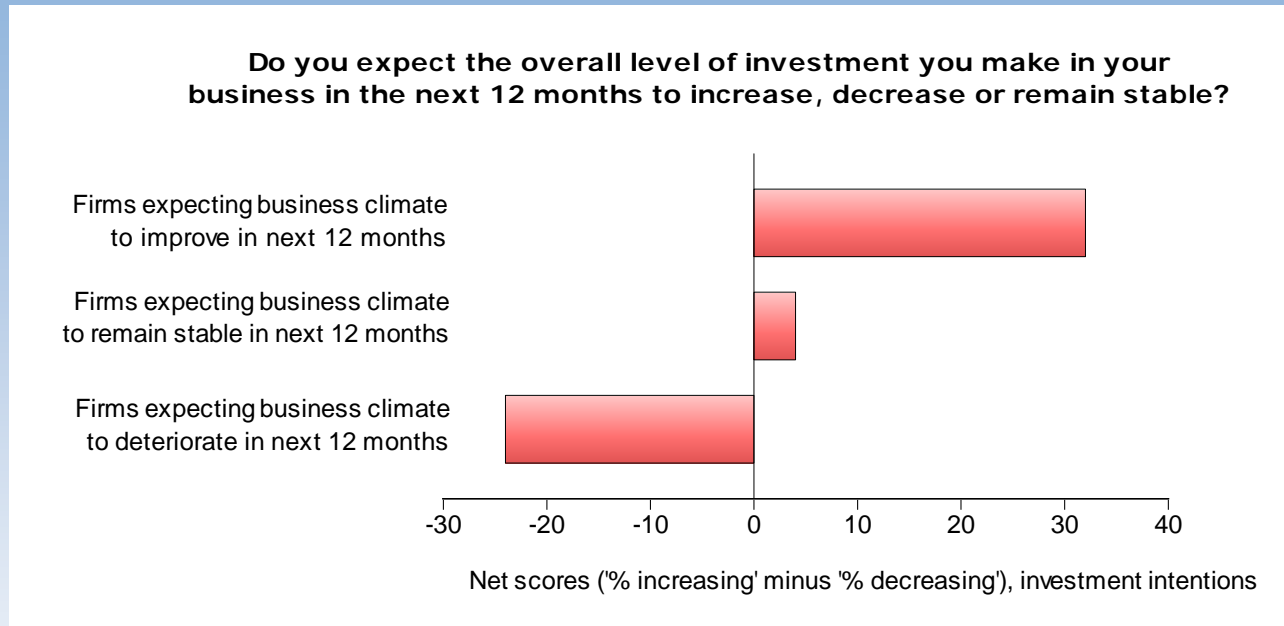
Mixed picture in different sectors

Different sectors show markedly different investment intentions. Interestingly, there is a contrast between firms in manufacturing and firms in hotels/catering, both of which have been hard-hit by the recession but show markedly different investment intentions.

This is perhaps due to firms in manufacturing focusing more on cost savings to stay afloat.

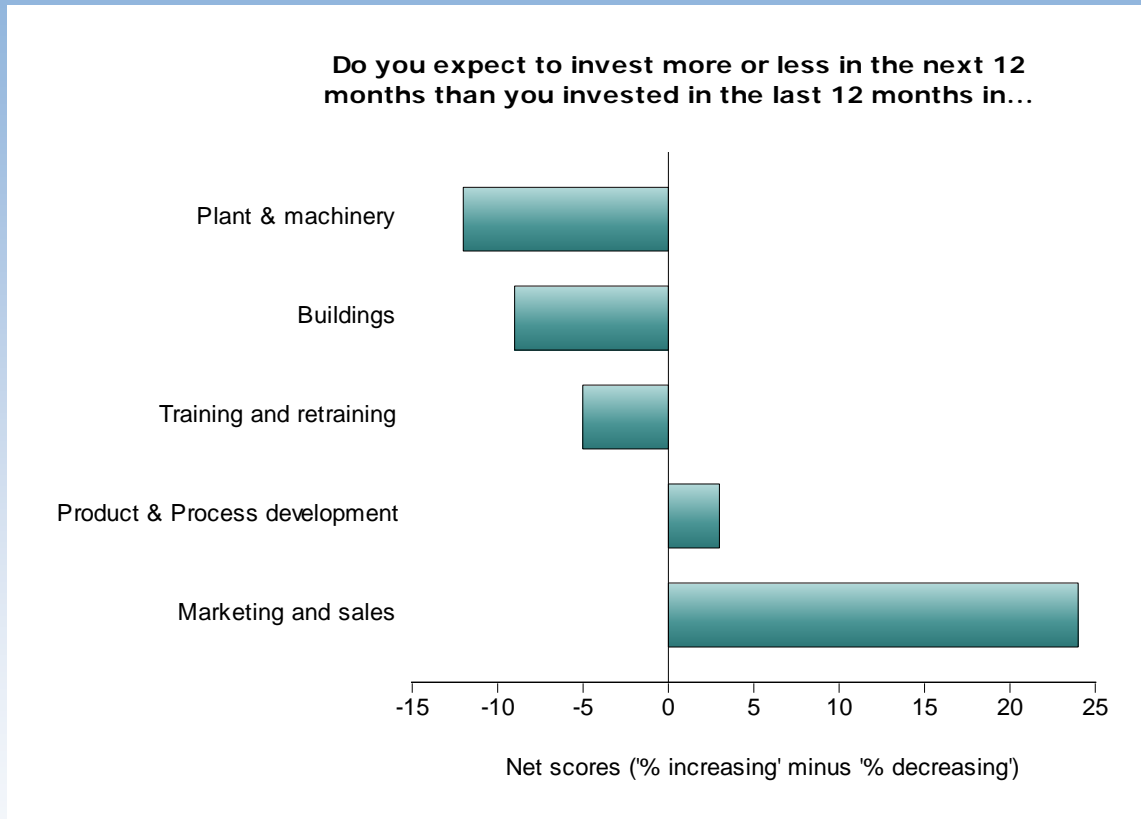


Close links between investment intentions and confidence



Business climate expectations are closely correlated with investment intentions – firms expecting the business climate to improve are much more likely to intend to increase investment in the next 12 months.

Investment set to rise in marketing & sales



Investment in buildings, plant and machinery, and training and retraining seem set to fall, while investment in product and process development should remain relatively stable.

Only in marketing and sales do firms expecting to increase spending greatly outweigh those expecting decreases, as firms seek to promote their products to maximise revenue while reducing costs elsewhere.

Mixed picture across the South East

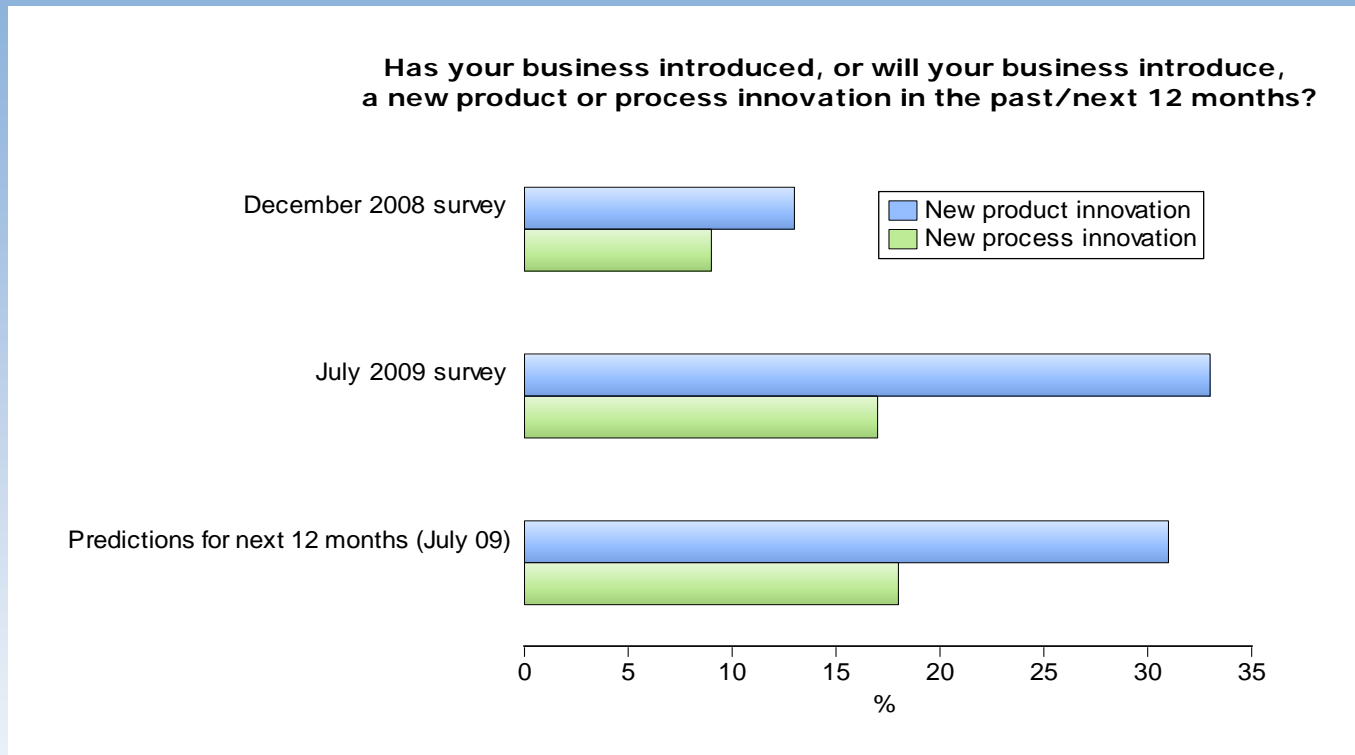
Net scores – Percentage of firms expecting increases minus the percentage of firms expecting decreases

Do you expect to invest more or less in the next 12 months than you invested in the last 12 months in...

	England	South East	South East Dec 08 survey	Berkshire	Buckinghamshire	East Sussex	Hampshire and IOW	Kent	Oxfordshire	Surrey	West Sussex
Buildings	-5%	-9%	-1%	-12%	-15%	-9%	-6%	-9%	3%	-13%	-9%
Plant & machinery	-14%	-12%	-14%	-11%	-9%	-7%	-15%	-11%	-2%	-17%	-15%
Product & process development	1%	3%	0%	11%	9%	6%	3%	-3%	17%	-17%	5%
Marketing and sales	23%	24%	20%	34%	13%	22%	25%	23%	26%	25%	20%
Training and retraining	-4%	-5%	3%	-3%	-16%	0%	-8%	-3%	6%	-14%	-3%

Overall, these results show that there is a great deal of sub-regional variation. However, while informative, care should be taking when making inferences from these results, as sample sizes are often relatively low (e.g. fewer than 80 businesses in Buckinghamshire responded to this question) .

Recession fostering innovation?

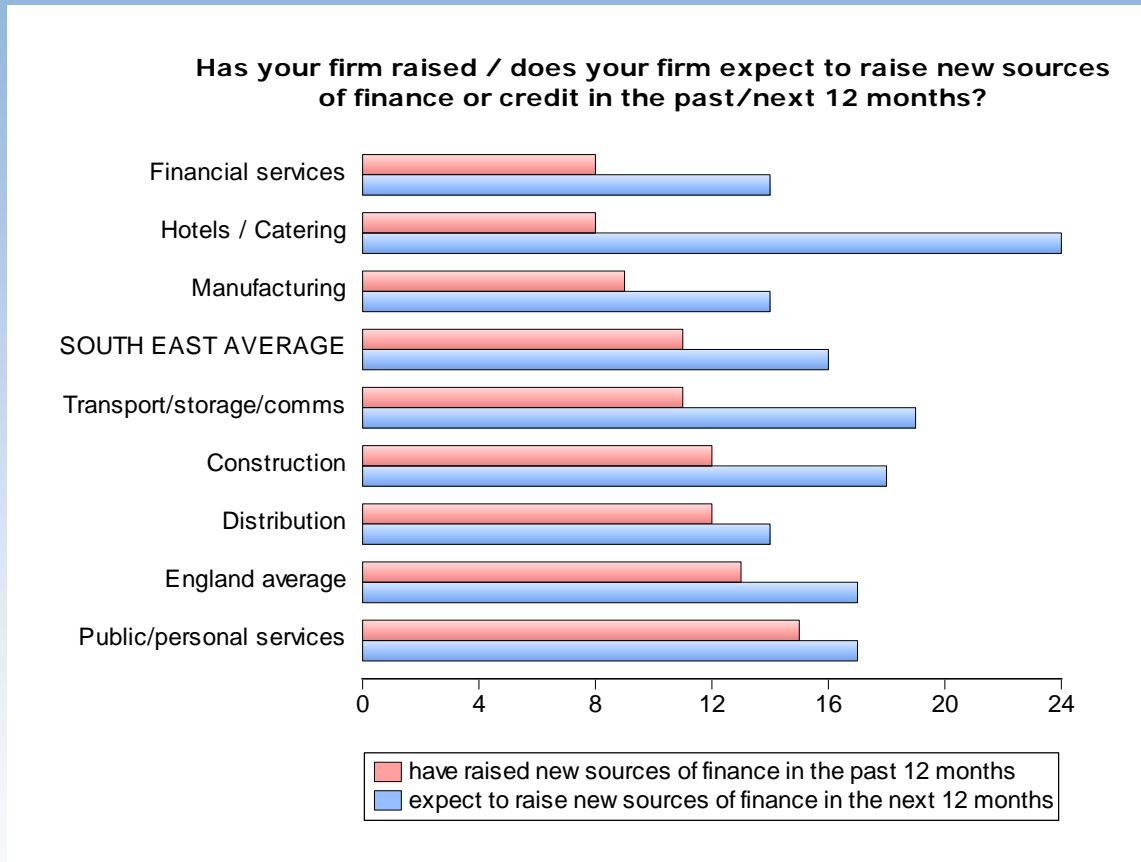


There is some evidence to suggest that the tough business climate may have given a boost to innovation, with significantly more firms than in December's survey reporting that they have introduced, or will introduce, a new product or process innovation.

Finance and costs

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More firms set to raise finance or credit

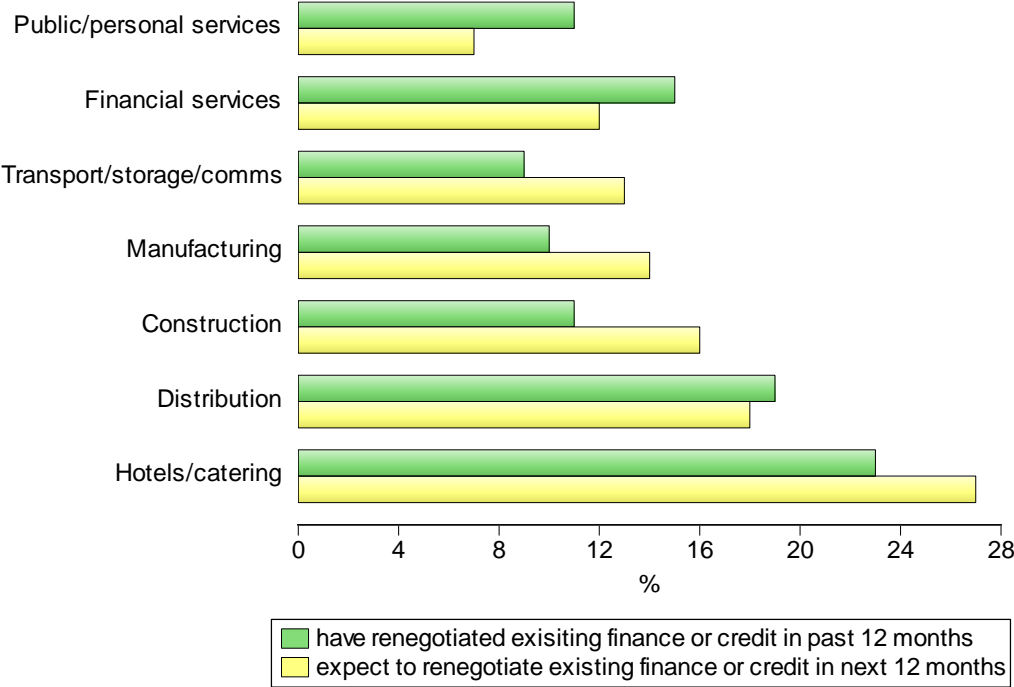


Fewer businesses in the South East have raised new sources of finance or credit over the past 12 months than the average for England, though this trend seems set to reverse in the next 12 months. This could imply that many firms are unable to put off raising finance any longer.

All sectors expect to raise more new sources in the coming year than in the past 12 months, particularly in the construction sector.

Many firms expecting to renegotiate existing finance

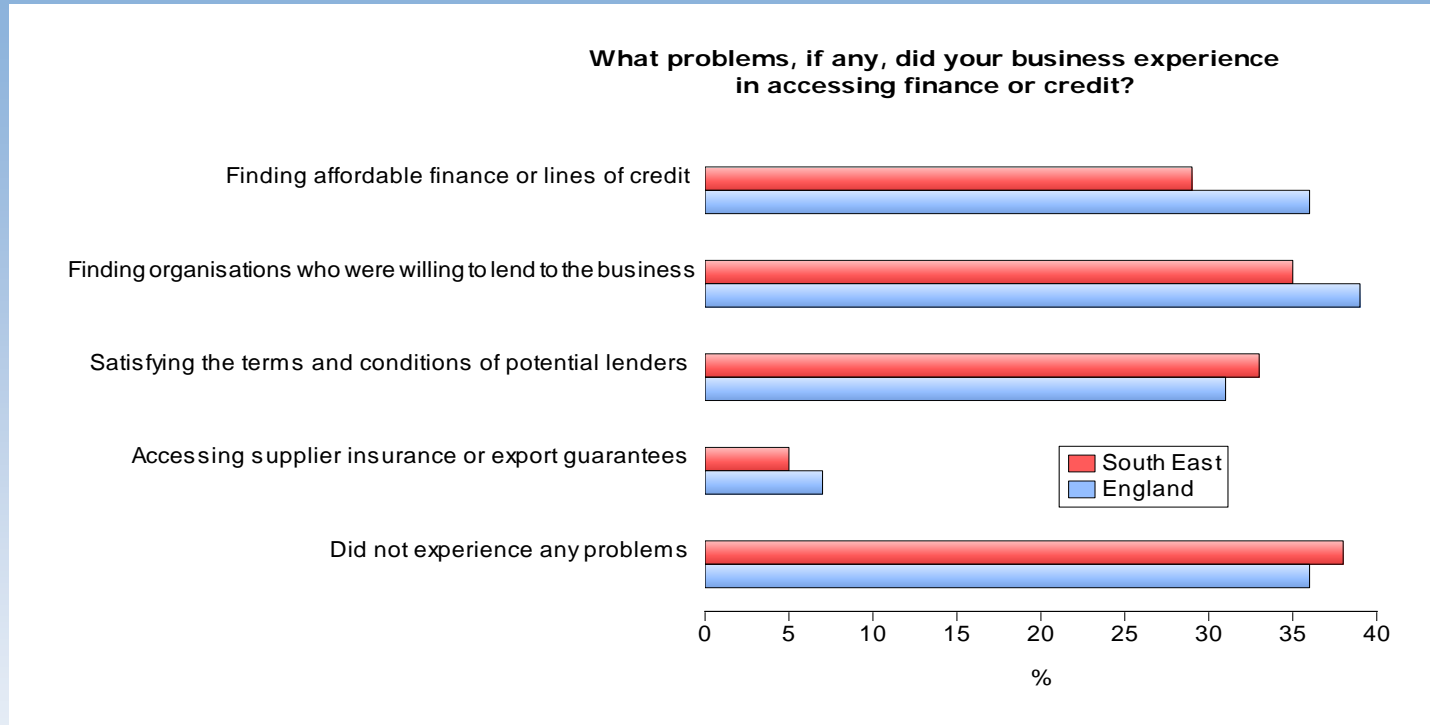
Has your firm renegotiated / does your firm expect to renegotiate existing finance or credit in the past/next 12 months?



The picture here is more mixed than for firms expecting to raise new sources, where there appears to be a clear expected increase in the coming 12 months.

Generally speaking, more firms expect to renegotiate existing finance in the next 12 months than in the past 12 months, though this is not true for firms in financial services, public services, or distribution.

More than 60% of firms report problems accessing finance

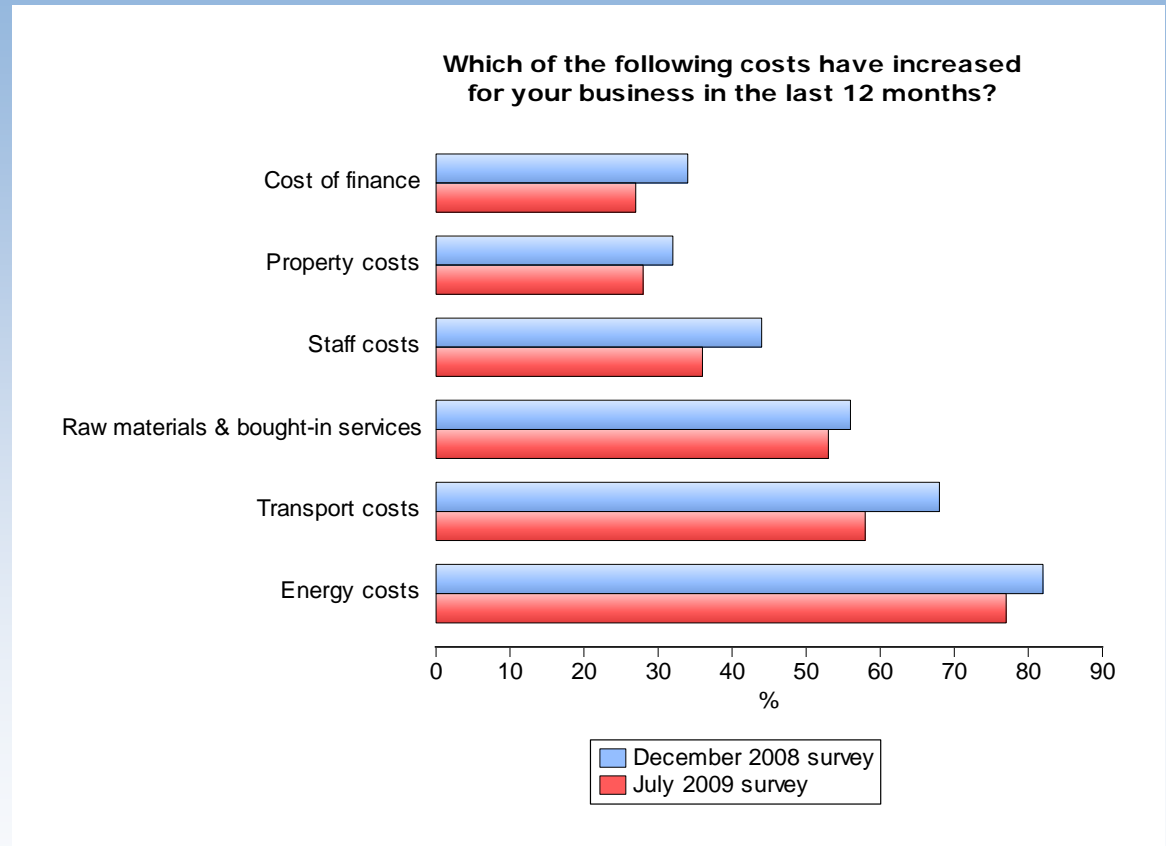


Fewer than 4 in 10 firms in the South East reported that they did not experience problems accessing finance or credit in the last year. Compared to England more generally, firms in the South East appear to have had relatively more problems satisfying the terms and conditions of potential lenders, but fewer problems finding affordable finance or organisations willing to lend to them.

Costs have increased, but by less than before

Compared to December's survey, fewer firms are now reporting cost increases.

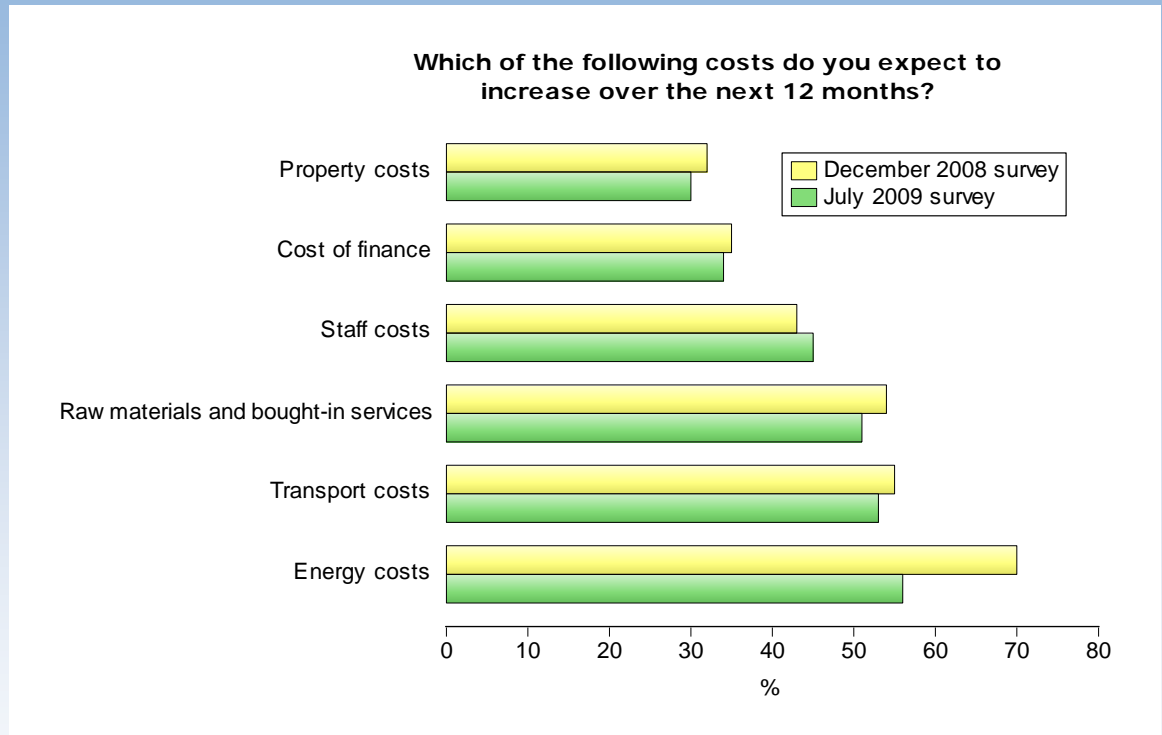
Nevertheless, most firms have faced increases in costs. Specifically, over three quarters of businesses report that energy costs have risen over the past 12 months, and over half report increases in the cost of transport and raw materials.



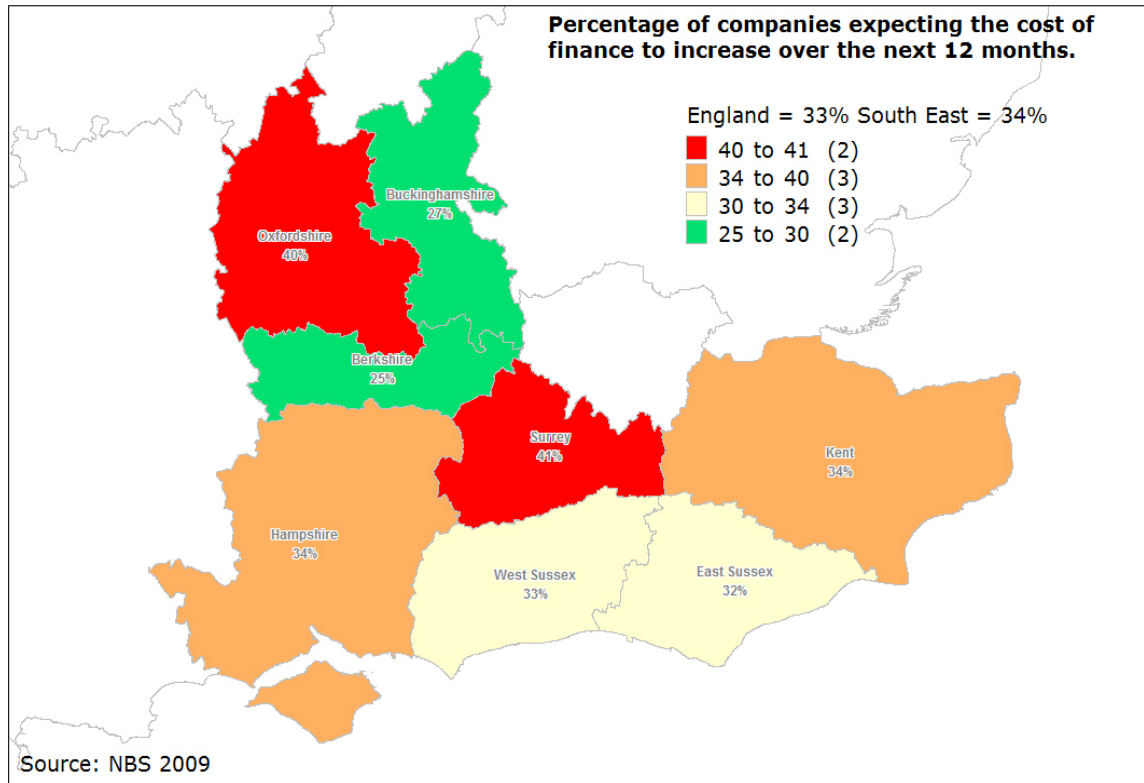
Expected cost increases are slightly lower

Similarly, firms expect costs to increase by less than they did in December, with the exception of staff costs.

There has been a notable fall in the proportion of firms expecting energy costs to rise, though it remains a major cost pressure with over half of firms expecting increases over the next 12 months.



Many firms still expect the cost of finance to rise further



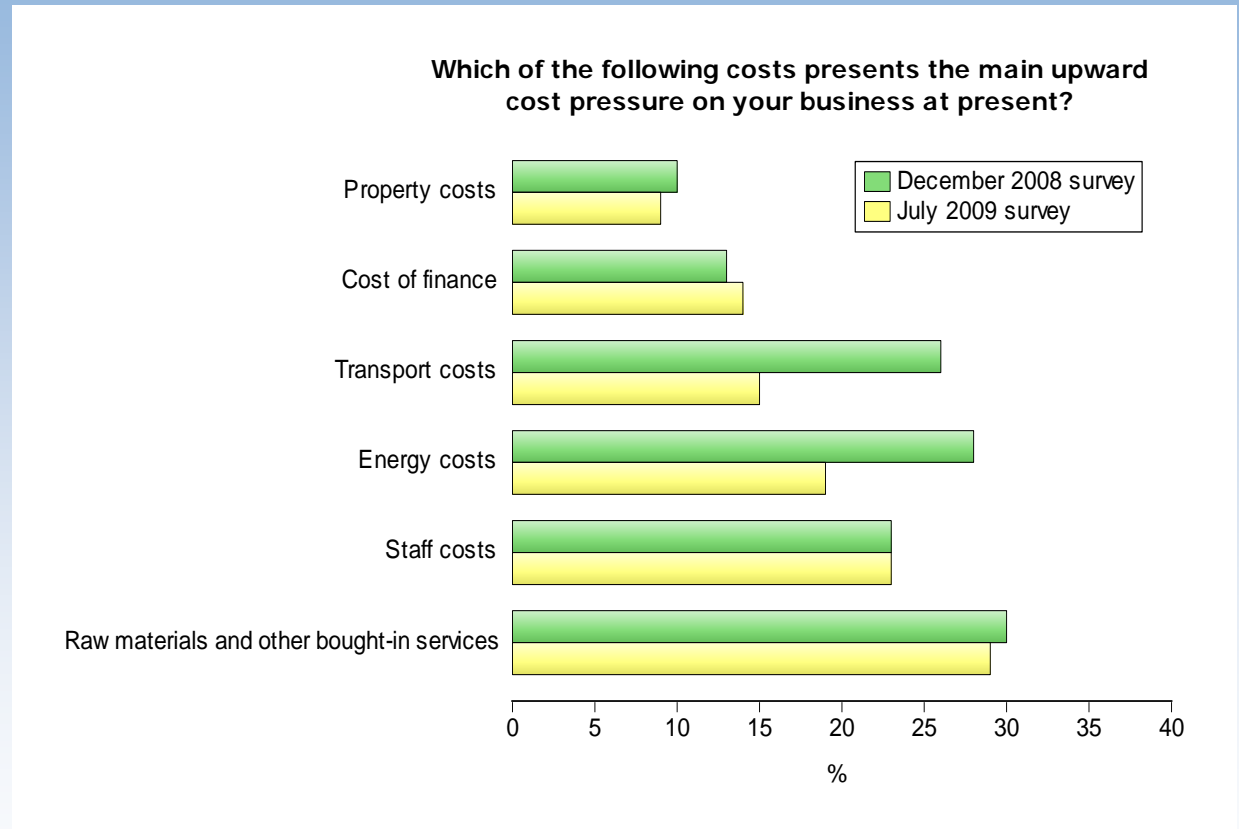
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Both in the South East and in England more generally, around a third of businesses expect the cost of finance to increase over the next 12 months.

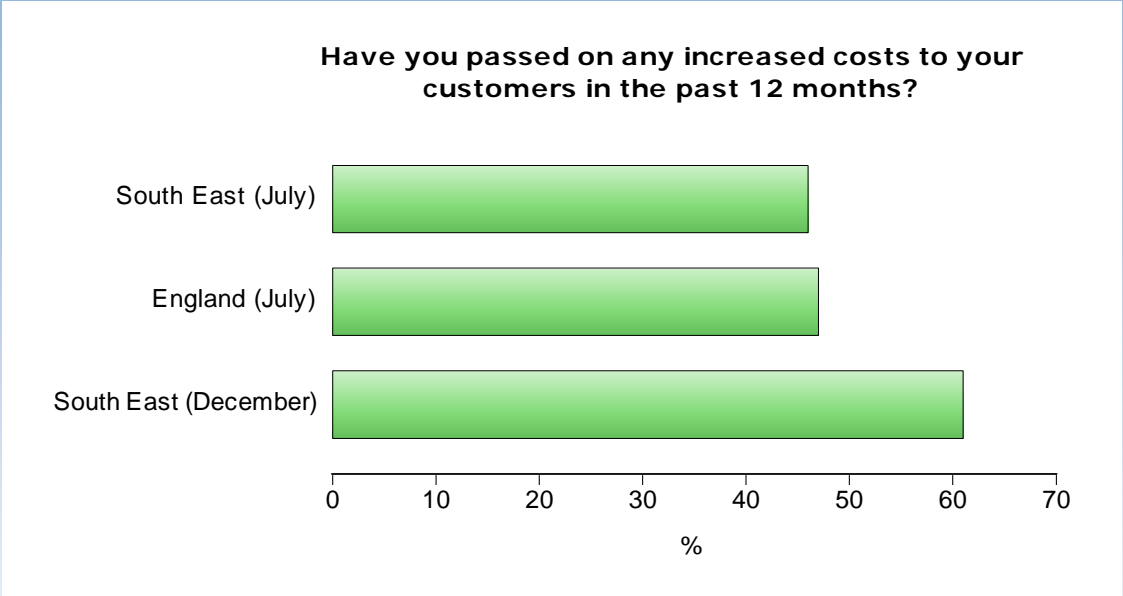
Raw materials are now a major cost pressure

However, only around 1 in 7 firms report the cost of finance to be their major upward cost pressure. Instead, around 3 in 10 businesses report that their major pressure is raw materials and bought-in services, up from 1 in 5 in December.

Fewer firms now report that transport and energy are their major costs.



Fewer firms passing on costs to consumers



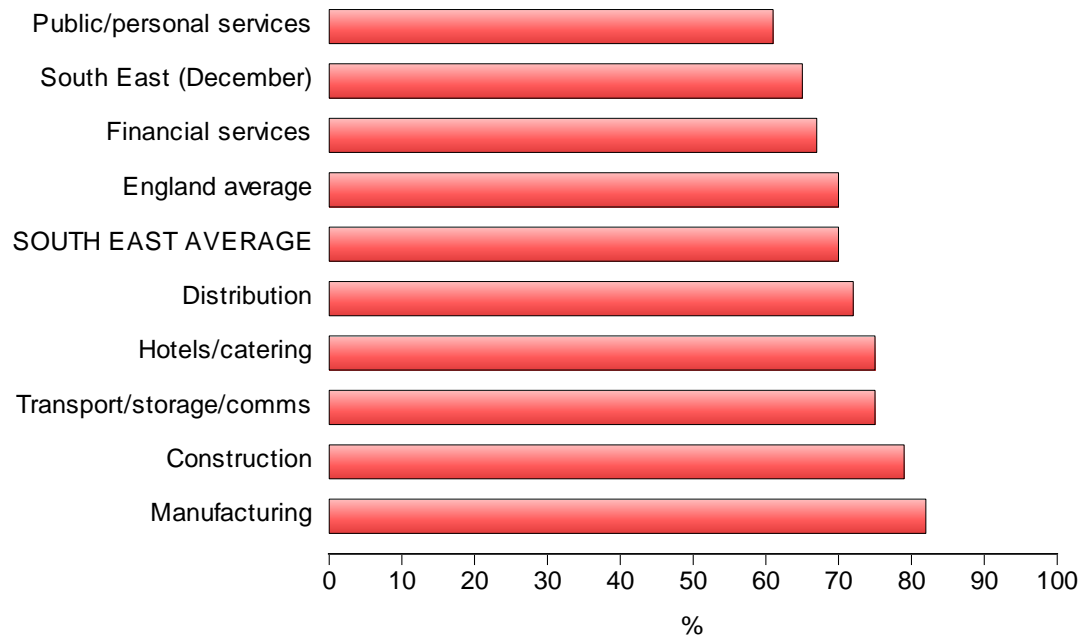
Around half of businesses report having passed on any increased costs to consumers in the past 12 months. This is still significant, but represents a fall from levels reported in December, giving some indication of the tougher price competition that firms have been experiencing.

Human resources

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Most firms operating below capacity

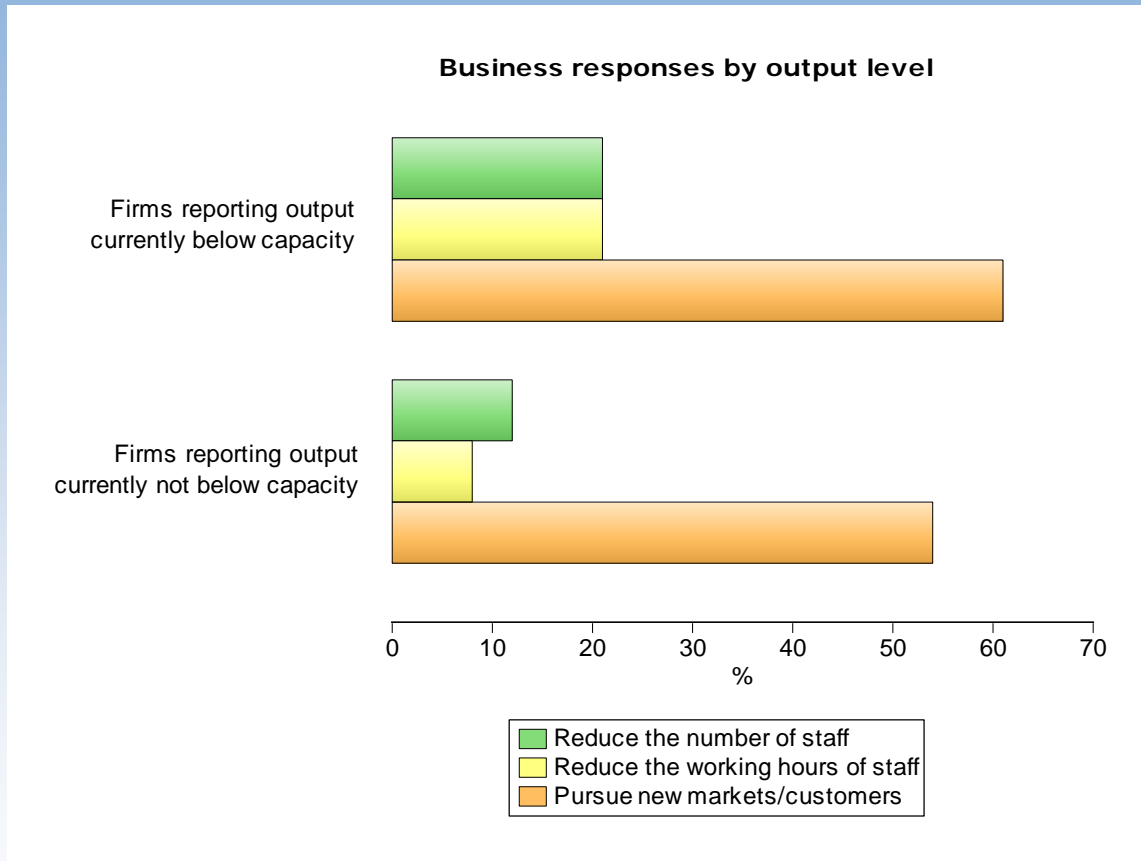
Is your present level of output below capacity?



More firms than in December are currently working below a full rate of operation.

All sectors have been affected, with at least 6 in 10 businesses reporting output below capacity. This rises to more than 4 in 5 firms in manufacturing.

Firms below capacity have undertaken more cost-saving measures



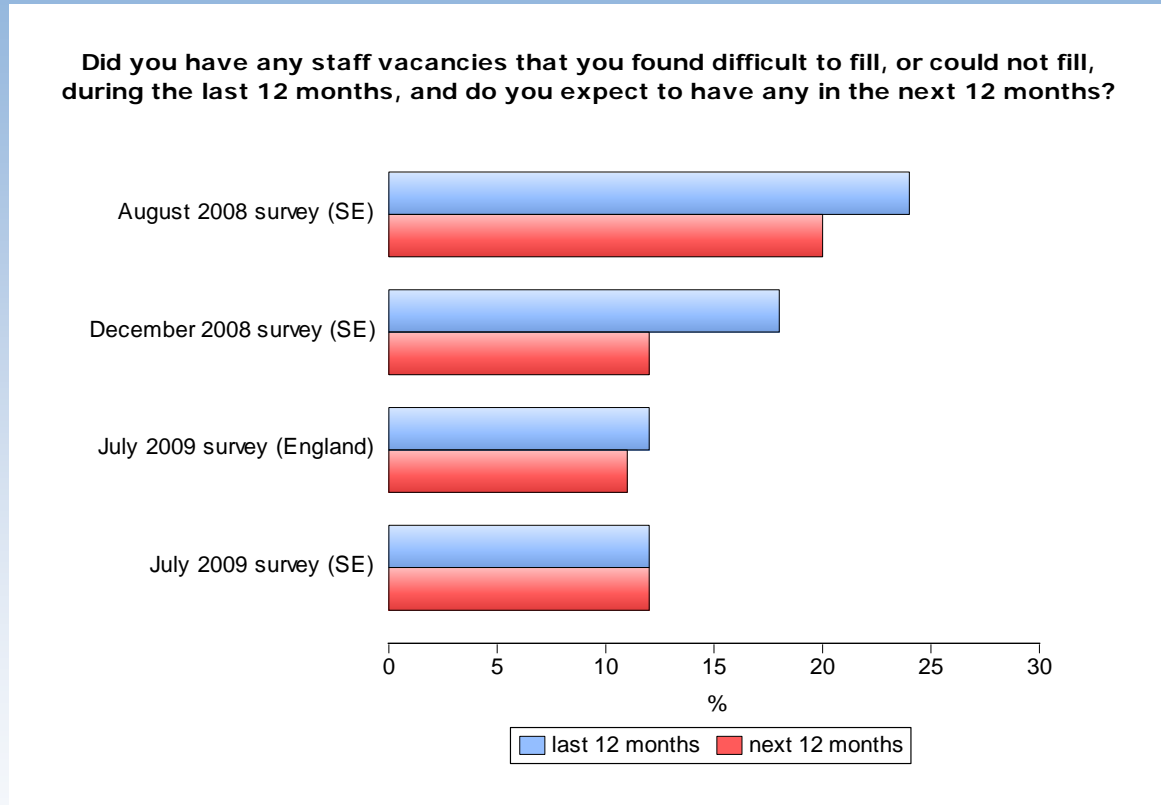
Businesses operating below capacity are more likely to have reduced their number of staff, reduced working hours, and have tried to expand into new markets.

Expanding into new markets is clearly the first choice of many firms, before they seek to reduce labour costs.

Fewer problems filling vacancies

One positive aspect of the recession is that firms are now finding it much less difficult to fill vacancies – around 1 in 8 firms had difficulties in the past 12 months, compared to 1 in 4 in the August 2008 survey.

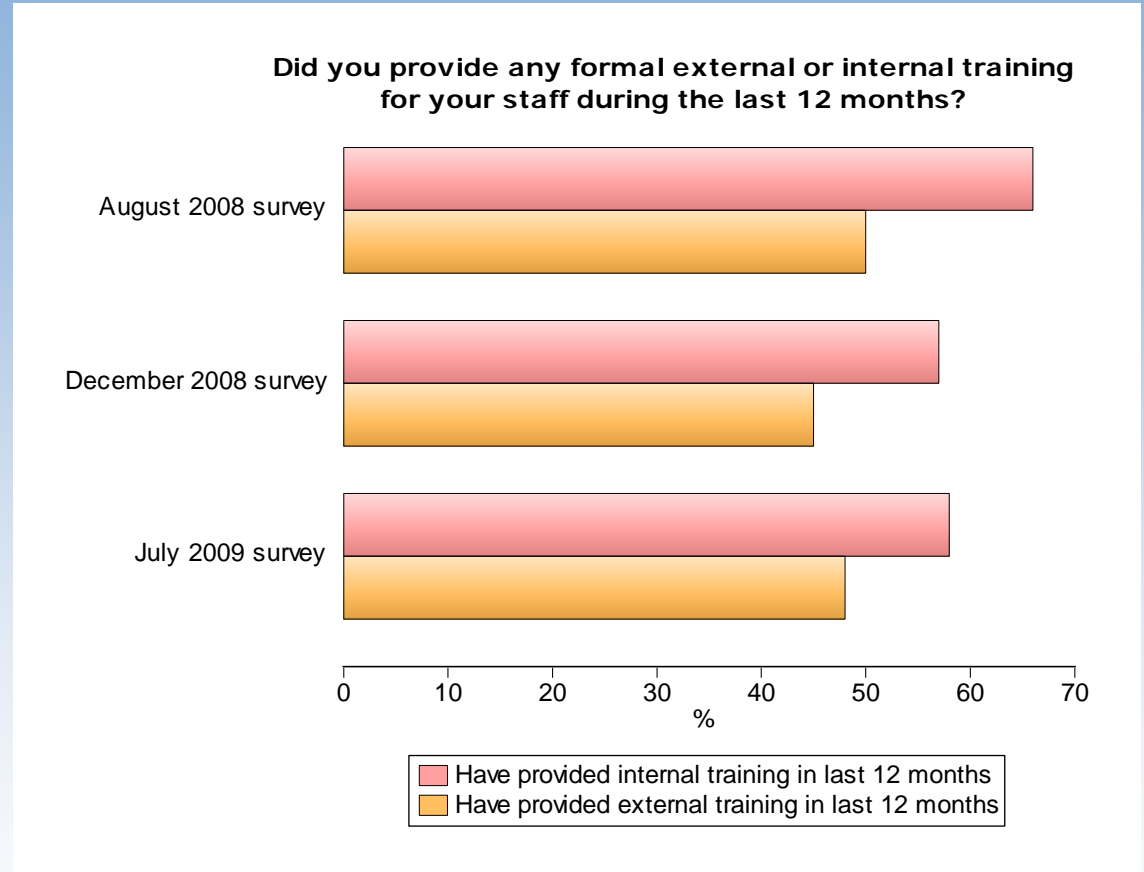
Similarly low proportions expect to have problems filling positions in the next 12 months.



Fewer firms offering training to staff

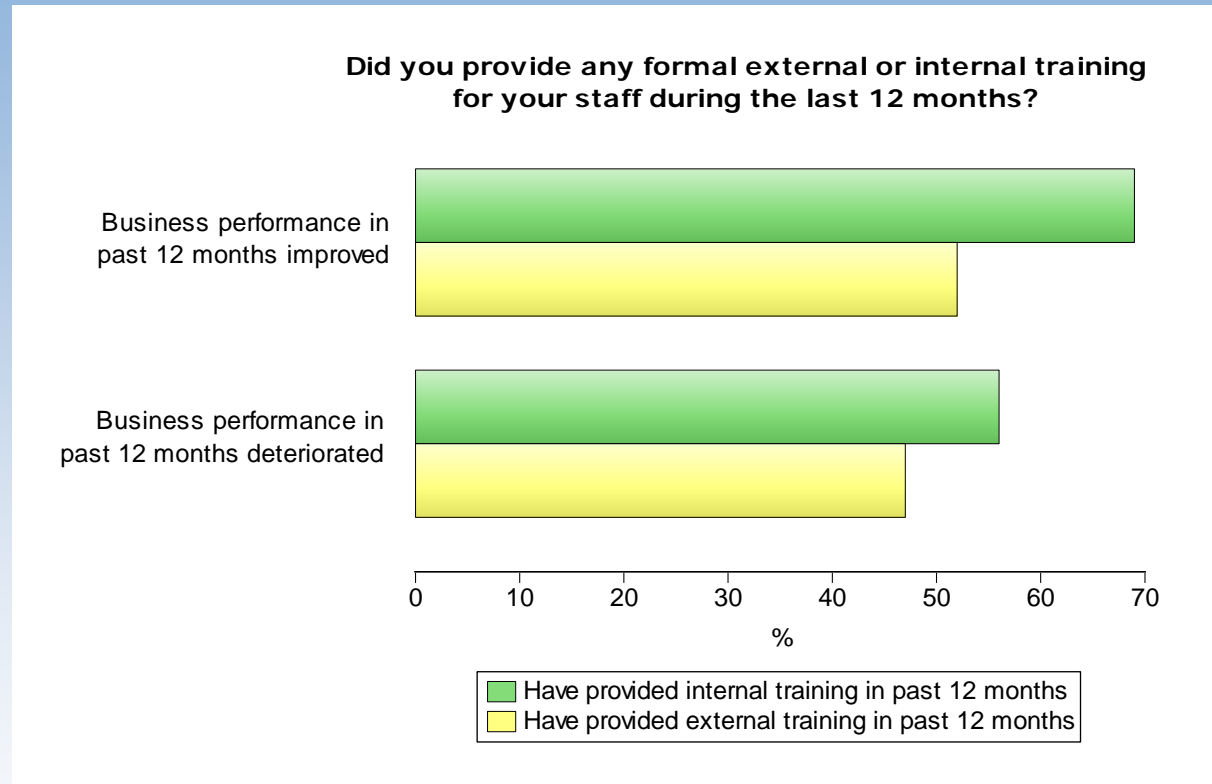
One effect of the recession seems to be that there has been a fall in the proportion of firms providing training to their staff, particularly internal training.

However, there has been no further decrease since December's results were released, suggesting that the scale of the fall may be limited.



Suffering firms less likely to offer training

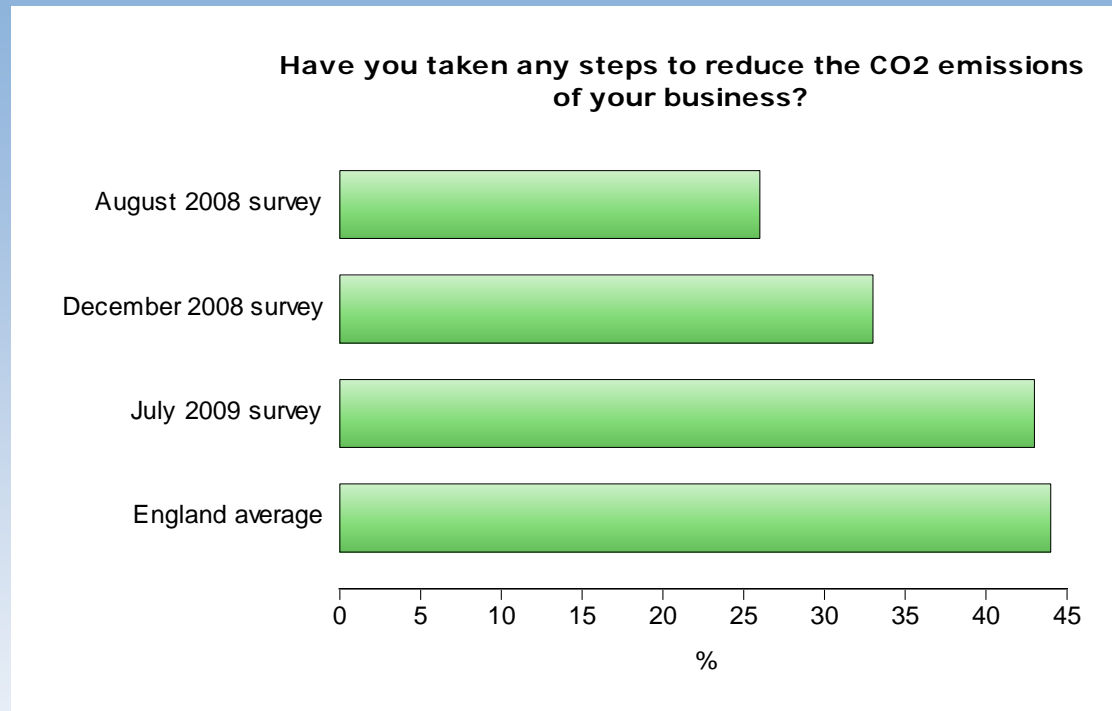
Businesses reporting that their performance in the past 12 months has deteriorated are less likely to have offered training to their staff, particularly internal training, as they strive to cut costs.



Environmental performance

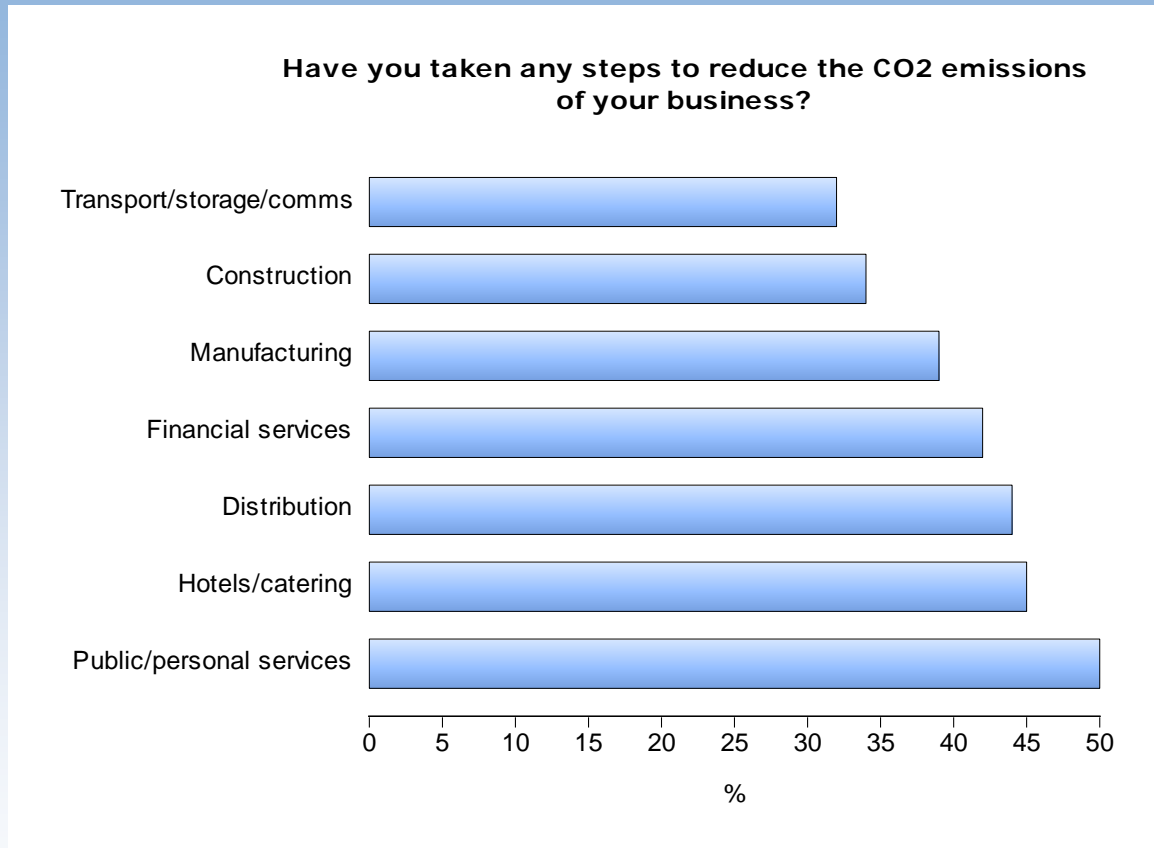
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More businesses are taking efforts to reduce CO2 emissions...



There has been a steady increase in the proportion of firms having taken steps to reduce CO2 emissions, despite the effects of the recession. Still, less than half of firms have made any efforts.

The majority of firms still have not taken any steps



Firms in transport, storage or communications are the least likely to have taken steps to reduce CO2 emissions, with firms in construction also significantly below the average.