

Policy and Economics Brief – 8 August 2008

The National Business Survey – key national and regional results

The National Business Survey (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). The survey has been conducted by Ipsos Mori on behalf of the RDA Network and as such the fieldwork (carried out in May and June 2008) was divided between England's nine Government Office Regions and Northern Ireland, with varied sample sizes within each region. A total of 5,235 companies have been interviewed across England and Northern Ireland, 657 in the South East.

Key results for England & Northern Ireland

- Business confidence across the nation's businesses has shown a marked downturn over the past year. The survey also shows that almost half of the businesses expect the business climate to deteriorate in the next 12 months. This compares to just over 1 in 10 who expect the business climate to improve.
- Amongst different sectors, construction, hotels and catering and distribution companies are less confident than those in other industries.
- However, whilst business confidence remains low and employers indicate that their workforces will grow less quickly and costs will rise more rapidly going forward, long range business optimism is still evident, with increased capital investment intentions (+9% on balance*). Companies have also indicated they will increase investment in the training of their workforces (+13% on balance*) and in product and process development (+14% on balance*).
- Across England and Northern Ireland, 55% of businesses feel confident that their employment levels will remain the same in the next 12 months. This is in line with the 54% of companies nationally who had reported no decline in employment in the last 12 months.
- Businesses have clearly felt significant pressure on their profitability over the last 12 months, and 45% reported lower profit margins compared to just 15% who reported higher margins. Transport and energy were confirmed to be the main upward pressure on a firms cost base with around 8 in 10 citing increasing costs across these two categories over the last 12 months.
- Businesses have responded to these challenges by increasing the prices they charge to customers, with 45% stating that prices charged were higher in the past 12 months compared to 11% stating that prices were lower.

- Going forward, businesses in England and Northern Ireland expect to face a difficult trading environment over the next 12 months with slowing domestic order books and rising costs, specifically in energy and raw materials, limiting scope for further price increases and putting margins under more pressure than seen in 2007.

Key results for the South East

- As the national figures show, business confidence amongst English businesses is in freefall, with almost half (48%) of businesses expecting the business climate to deteriorate in the next 12 months, and only 12% expecting it to improve. The challenging picture is widespread, with little difference by English region and business sector.
- However, despite the general lack of confidence amongst English businesses, the South East region reports the second highest level of business confidence after the South West (as measured by the Index of Business Confidence). In particular, businesses located in the South East report slightly less gloomy expectations regarding the next 12 months.
- Although the proportion of businesses located in the South East expecting the business climate in which they operate to improve in the next 12 months is smaller than the English average (11% in the South East against 12% in England).
- The proportion of businesses expecting the business climate to deteriorate is also smaller than the English average (46% in the South East against 48% in England).
- Looking at trends in profitability, 15.1% of the South East businesses reported that profit margins were higher over the last 12 months, a higher proportion than the English average (14.5%). Moreover, 43% of the South East businesses report that they are currently operating at or above capacity, a higher proportion than the English average (41%).
- Considering domestic orders, the NBS reveals that 19% of the South East businesses expect domestic orders to be higher in the next 12 months, a higher proportion than the English average (18%). Also, while in England 34% of businesses expect domestic orders to deteriorate in the next 12 months, in the South East a much smaller proportion (31%) expect this will happen.
- In line with the point above, 26% of the South East businesses reported that they expect the volume of output to be higher in the next 12 months, a higher proportion than the English average (24%).
- The proportion of companies in the South East expecting the number of people employed to increase in the next 12 months is 16%, higher than the English average (14%). Also, while in England 19% of businesses expect the number of employees to decrease in the next 12 months, in the South East a much smaller proportion (17%) expect this will happen. In particular, the South East reports the second lowest proportion of

businesses expecting the number of employees to decrease, after the North East.

- Finally, the proportion of companies in the South East that experienced growth in the prices charged in the past 12 months is 38%, much smaller than the English average (41%). Moreover, the proportion of companies in the South East expecting the prices charged to increase in the next 12 months is 41%, much smaller than the English average (44%).
- All in all the main results related to the South East region look quite encouraging. However it is important to point out that, looking at a number of indicators related to the past 12 months, the performance of South East businesses has been slightly weaker than that of companies located in some other regions.
- For example, the proportion of South East companies that experienced growth in domestic orders over the past 12 months (23%) is smaller than the English average (24%). In particular, the proportion of companies that experienced growth in domestic orders over the past 12 months in the South East is smaller than in West Midlands (34%), South West (27%), East Midlands (25%) and London (24%).
- Moreover, although the percentage of South East companies reporting growth in the volume of output over the past 12 months is in line with the English average (30% in both cases), the West Midlands (35%), the South West (33%) and the East Midlands (31%) show higher proportions of companies reporting growth.
- Finally, although the percentage of South East companies reporting growth in profit margins over the past 12 months is in line with the English average (15% in both cases), the South West (19%) and London (16%) show higher proportions of companies reporting growth.

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* The balance refers to the proportion of businesses who expect to spend more on investments over the next 12 months versus the proportion who expect to spend less on investments over the next 12 months.