



UK BUSINESS CONFIDENCE MONITOR REPORT

Q1 2010 SOUTH EAST



SOUTH EAST IN Q1 2010



South East Confidence Index rises to highest level since 2004. One hundred and forty senior business professionals in the South East were interviewed and record a **Confidence Index score of 24.3** in the Q1 2010 *ICAEW UK Business Confidence Monitor* (BCM). This is the fourth consecutive increase in the Confidence Index from a low of -38.7 for the same period last year.

ROBUST GROWTH EXPECTED FOR KEY FINANCIAL PERFORMANCE INDICATORS

In line with a further rise in confidence, firms in the South East expect a significant improvement in the main indicators of business health over the coming year. Having seen gross profits shrink by 2.1% over the last 12 months, firms now expect profits to grow by 3.7% over the coming year.

Turnover, which has declined by 0.8% over the year to date, is also forecast to rise over the coming year, by 3.7%. Sales volumes are projected to expand by 3.8% in the next 12 months following a 2.2% contraction over the last year.

Turnover, profits and sales growth expectations have all moderated slightly since the last BCM, which suggests that the region's economic recovery may be more sluggish than originally anticipated. The latest data from the Office for National Statistics reiterate this point, with national output growth rates coming in much lower than expected.

FIRMS START TO LOOSEN THEIR BELTS AFTER RECORD TIGHTENING LAST YEAR

Following a steep decline in employment over the last 12 months, firms in the South East now expect modest growth in headcount over the coming year. Firms report an average cut in the number of employees of 2.7% over the last year, a record decline for the region. However, staff numbers are expected to rise by 0.7% over the coming year as the economic outlook begins to improve. This forecast is in line with news that regional claimant count unemployment fell for the fourth consecutive month in December.

Firms also expect to increase the level of their capital investments by 2.0% over the coming year. This follows a decline in investments of 1.5% over the last 12 months – the steepest ever fall recorded for the region by BCM. In January the South East England Development Agency (SEEDA) announced investment of £80m to support the region's businesses in becoming more productive and profitable.

FIG. 1 BCM CONFIDENCE INDEX TREND IN SOUTH EAST



WAGE GROWTH EXPECTED TO REMAIN MODEST IN THE SOUTH EAST

Slack in the labour market means that firms do not expect a return to historic rates of wage growth in the next year. Average basic salaries are forecast to rise by 1.4% over the coming 12 months after remaining constant over the last year. This compares to typical growth in employee compensation of around 3% in the three years leading up to the recession.

MORE FIRMS REPORT ISSUES WITH INFRASTRUCTURE

Non-transport infrastructure problems have become substantially more of an issue for businesses in the South East over the last six months. The proportion of firms reporting non-transport infrastructure problems as a greater challenge than a year ago rose to one in six (16%) in Q1 2010, up from just 4% six months earlier. Disruption to postal services due to Royal Mail industrial action up to the end of 2009 is clearly still fresh in the minds of firms in the region.

FEWER FIRMS REPORT ISSUES WITH FINANCE AS CREDIT MARKETS EASE

The proportion of firms reporting access to capital as a greater challenge to the performance of their organisation declined significantly in Q1 2010. Around one-fifth of firms (22%) report access to capital to be a greater challenge to performance compared to a year ago, down from a third (36%) in Q4 2009.

This is consistent with results from the Bank of England's recent *Credit Conditions Survey* in which lenders reported reductions in spreads and fees in the latest quarter, the first such declines since Q2 2007.

It is also good news in view of findings from more than 19,200 Business Link health checks conducted since October 2008, which found that access to finance is the second most significant challenge facing firms in the South East.

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