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Tourism South East

Business Confidence Survey

January – September 2006

INVESTOR IN PEOPLE

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CONTENTS

Executive Summary

The following report presents the findings from the 12th tourism business confidence survey conducted by Tourism South East, covering the period from January to September 2006.

A total of 377 completed questionnaires were received. 40% of responding businesses were serviced accommodation providers, 27% were non-serviced accommodation providers and a further 25% were visitor attractions. The remainder were retail, leisure, food and drink, travel and transport and other tourism service providers.

A better overall performance for the first nine months of the year…

47% of businesses reported their level of performance to be better overall over the first nine months of 2006 compared with the same period in 2005. 28% reported the same level of performance and a further 25% reported worse overall performance.

Results suggest a better overall performance across most sub regions for the first nine months of 2006 compared with 2005, although businesses in Surrey reported a mixed performance for this period.

Businesses in rural locations reported a mixed performance over the first nine months of 2006, whereas urban and coastal businesses reported better overall performance.

Caravan and camping establishments and guest houses reported a more positive performance for the first nine months of 2006 in comparison to other sectors. Attractions and 'other' businesses were more likely to report worse overall performance, whereas hotels, self catering, and B&B businesses were more likely to report a mixed performance.

Mixed optimism for the remainder of the year…

47% of businesses expect a better overall performance for the remainder of this year compared with 2005. 32% expect their business performance to be the same as 2005 levels. However, 20% expect their performance to be worse overall in 2006 compared with 2005.

Businesses in the BBO, IOW and Surrey sub regions were more optimistic than other sub regions about business performance in 2006. Kent, West Sussex & East Sussex and Brighton businesses were the least optimistic this quarter. Hampshire businesses reported a more mixed optimism for the remainder of the year.

Coastal and urban businesses were more likely to expect better performance in 2006. Rural businesses were more likely to expect a mixed performance overall for 2006.

Hotels, guest houses, holiday parks, and caravan and camping businesses were more upbeat about the year ahead. Self catering businesses were more likely to expect the same level of business as last year, whereas B&Bs and attractions were slightly less optimistic about the remainder of 2006.

Concerns about the UK economic climate fading…

In previous quarters, the current UK economic climate was a key concern for most businesses, however this concern appears to be diminishing compared with the same time last year.

As with last quarter, the majority of business operators reported that the weather had the most significant impact on business performance over the first nine months of the year.

More businesses were concerned about competition from other parts of the UK and had more often suffered from general security fears in comparison to last quarter.

Tourism South East Business Confidence Survey

1 Introduction

The following report presents the findings from the 12th tourism business confidence survey conducted by Tourism South East, covering the period from January to September 2006. Background to the survey methodology is given in section 5 and the sample profile for this quarter is detailed in section 6. Despite a recruitment exercise earlier this year, the sample remains at approximately 400 participants (a total of 377 completed questionnaires were received for the July – September survey period).

At the time of writing last quarter's report, security alerts at UK airports (following the attempted attack on flights to the USA on 10th August 2006) were hitting the headlines, causing immediate disruption to travel to and from the UK. It is hoped that the inbound tourism market will prove to be as resilient as it was following the London bombings last year, although the biggest concern will be the reaction of the American market. This quarter's business confidence survey includes an analysis of the impact of these security alerts on South East tourism businesses.

2 Overall business performance

2.1 Performance up to end of September 2006

Figure 1 Business performance since start of 2006 (compared with the same period in 2005)

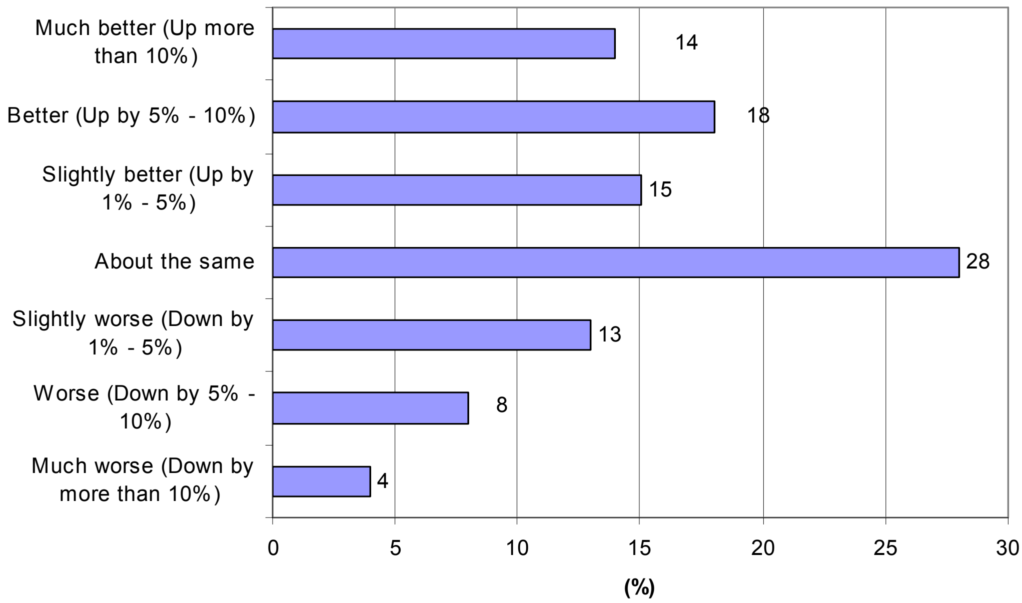
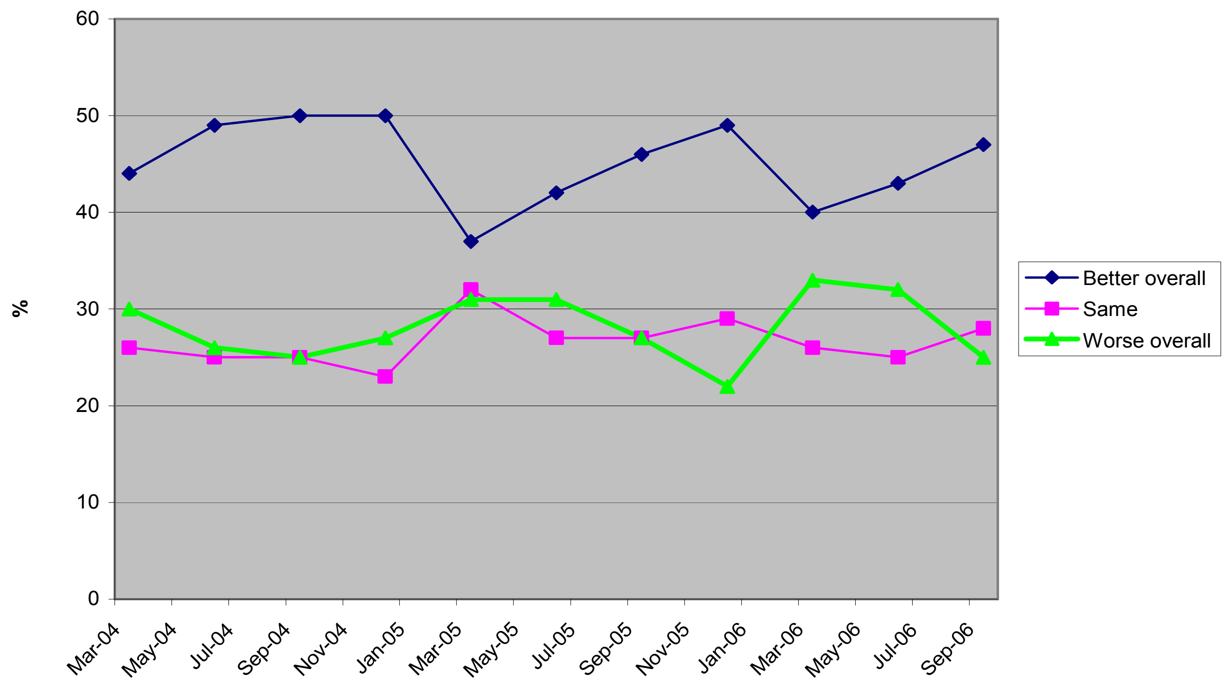


Figure 1 above better overall performance for tourism businesses for the first nine months of 2006 compared with the same period in 2005. 47% reported their level of performance to be better overall compared with last year (up 4% points on last quarter). 28% reported their business performance to be the same as 2005 over this period, and a further 25% reported worse overall performance (down 7% points on last quarter).

2.1.1 Trends in business performance (March 2004 – September 2006)

The proportion of businesses reporting better overall performance (compared with the same period in the previous year) saw an improvement over the second and third quarters of 2006 (April – September). There was also a fall in the proportion of businesses reporting worse overall performance compared with last quarter (down 7% points), almost back to levels reported at the start of 2006.

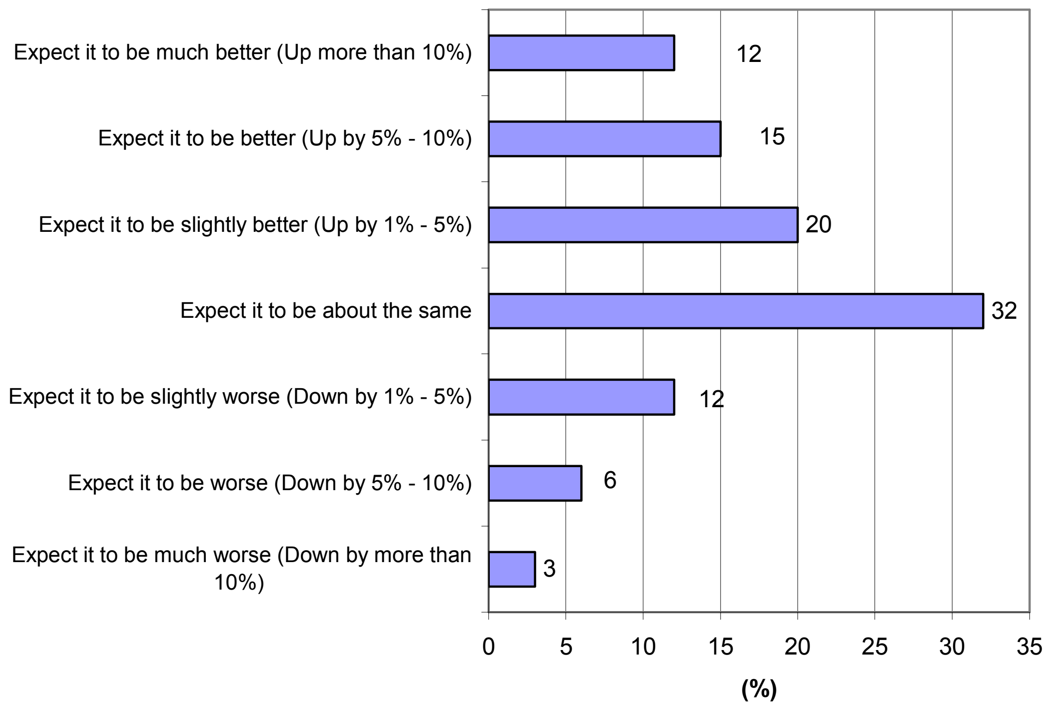
Figure 2 Business performance compared with the same period last year



2.2 Expectations for the remainder of 2006

Businesses were asked to indicate their expectations for the remainder of 2006 compared with 2005. Just under half (47%) of businesses expect their performance for the remainder of the year to be better overall compared with last year. However, this was 2% points lower than that reported last quarter. Over a quarter (32%) expect their business performance to be the same as 2005 levels (up 6% points from last quarter) and a further 20% expect their business performance to be worse overall (down 8% points from last quarter).

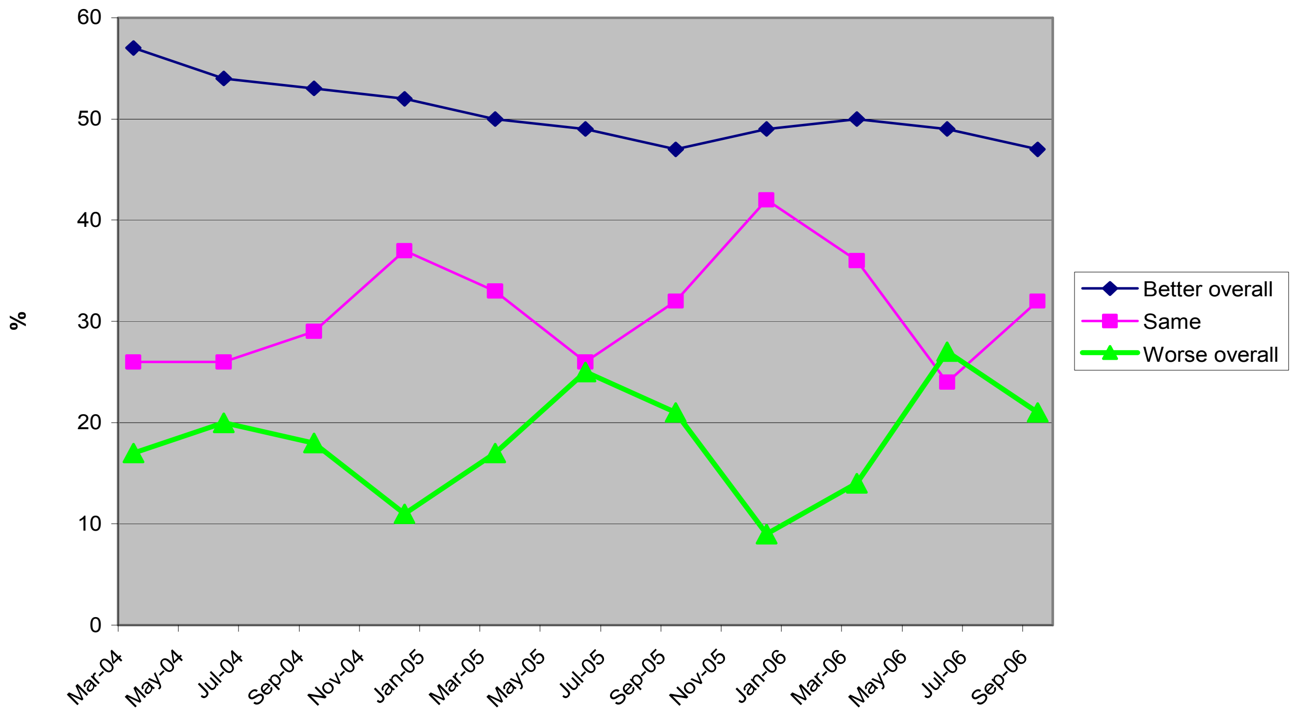
Figure 3 Business expectations for 2006 (compared with 2005)



2.2.1 Trends in business confidence (March 2004 – September 2006)

Business confidence has weakened since March 2004 (Figure 4 below), but picked up at the end of 2005 and the start of 2006. However, confidence has fallen very slightly again in the last quarter (47% in September 2006 compared with 49% in June 2006). The proportion expecting worse overall performance for the year ahead (compared with the same period in the previous year) was at its lowest level (and most positive) in December 2005 when only 9% expected 2006 to bring a worse overall performance. This proportion increased to 14% at the start of 2006 and continued to increase in June to 27%. Since then the trend has reversed and a slightly more positive 21% of all businesses in September reportedly anticipated a worse overall performance.

Figure 4 Tends in business confidence compared with same period last year



2.3 Key business concerns

The majority of business operators reported that the weather had the most significant impact on business performance over the first three quarters of 2006 (a very hot July, a changeable August, and a good September). Both the caravan and camping and visitor attraction sectors were more likely to report that the weather had impacted on performance over the first nine months of this year (25% and 22% respectively), even though a lesser impact was reported than last quarter.

Businesses this quarter were concerned about competition from overseas holidays (30%, which is a similar figure to last quarter) and the UK economic climate (27%, in comparison to 29% last quarter). Concerns about competition from low-cost airlines had also remained the same this quarter, staying at 18%. A noticeable increase relates to concerns about competition from other parts of the UK (20% this quarter in comparison to 11% last quarter). Concerns about security fears have increased (10% of businesses mentioned this last quarter, but this rose to 14% this quarter).

Table 1 Key business concerns

	Count	%
Weather	165	49
Competition from overseas holidays	101	30
UK economic climate	92	27
Strength of the pound/exchange rates	78	23
Local competition	75	22
Lack of promotion	75	22
High UK retail prices	71	21
Competition from other parts of the UK	68	20
Over regulation	66	20
Competition from low-cost airlines	61	18
Poor transport network	54	16
General security fears	47	14
No real concerns	40	12
Other	31	9
Threat of avian flu	12	4

Businesses were asked about factors (both positive and negative) that had affected their performance over the July – September period. For those who had reported better overall performance, the good weather over this period, the number of returning visitors, and the occurrence of summer events that attracted visitors to their area were felt to have boosted business over the third quarter of 2006.

A number of businesses remarked on increased and better marketing and promotion in the way of improved Internet presence and online booking facilities. Word of mouth recommendations were seen as beneficial to businesses and many operators also mentioned that weddings had brought many customers throughout the third quarter. Several businesses also commented on an increase in business tourism generally; especially long stay business bookings from contractors working in the area improving occupancy rates.

However, the weather and the increasing ferry fares to and from the Isle of Wight were mentioned as key contributing factors by those businesses reporting poorer performance over the first three quarters of 2006. Although some businesses commented that the heat wave in July had not had a detrimental effect on business, for some operators (particularly indoor attractions), the hot weather was felt to have driven visitors to beaches and the countryside rather than indoor attractions. Many businesses also commented that the changeable August weather weakened performance generally during the third quarter of 2006. Coupled with this, many business operators commented that increased competition nationally and abroad, including cheap flights and accommodation were adversely affecting performance.

For a large proportion, the uncertainty surrounding the economy was felt to be suppressing business performance. The cost of running a business whilst keeping prices low was mentioned along with rising fuel and rising travel costs in general. On a more localised level, mention was made of road works and other infrastructure problems including confusing signage in some areas. Several businesses also commented on not having enough bedspaces for the number of visitors who wanted to stay.

3 Sector insights

The results by sub region, location and business type need to be viewed with a consideration of the sample sizes (sample size is given in brackets).

3.1 Sub regions

Table 2a below breaks down business performance for the first nine months of 2006 compared with 2005, into sub regions.

3.1.1 Performance up to end of September 2006

Results suggest a better overall performance across most sub regions for the first nine months of 2006 compared with 2005, although businesses in Surrey reported a mixed performance for this period.

Table 2a Business performance since start of 2006, compared with same period in 2005

	Berks, Bucks, Oxon	Hampshire	I.O.W	Surrey	West Sussex	East Sussex and Brighton	Kent
Base	*(43)*	*(100)*	*(45)*	*(20)*	*(43)*	*(41)*	*(81)*
	%	%	%	%	%	%	%
Much better (Up more than 10%)	19	16	16	15	16	7	11
Better (Up by 5% - 10%)	26	19	20	15	9	27	12
Slightly better (Up by 1% - 5%)	9	12	18	10	21	15	20
Total % 'Up'	***54***	***47***	***54***	***40***	***46***	***47***	***43***
About the same	23	32	27	25	26	22	33
Slightly worse (Down by 1% - 5%)	12	10	18	20	14	17	10
Worse (Down by 5% - 10%)	7	9	2	5	9	7	9
Much worse (Down by more than 10%)	5	2	*	10	5	5	5
Much better (Up more than 10%)	19	16	16	15	16	7	11
Total % 'Down'	***24***	***21***	***20***	***35***	***28***	***29***	***24***

Note: Respondents may have businesses present in more than one sub region.

The proportion of BBO and IOW businesses reporting better overall performance did improve this quarter, compared with the snapshot taken 12 months ago (September 2005). 54% of BBO businesses reported better overall performance this quarter compared with 48% twelve months ago and 54% of IOW businesses reported better overall performance compared with 45% twelve months ago. Both Kent and Hampshire businesses saw a slightly worse overall performance this quarter (43% and 47% respectively) in comparison to the same quarter last year (46% and 48% respectively). For East Sussex & Brighton businesses, almost the same proportion of businesses reported better overall performance this quarter (47%) compared with 12 months ago (46%). Surrey and West Sussex results have now been separated to reflect the new sub regional arrangement, and therefore comparisons with the previous year's results are not possible.

3.1.2 Expectations for 2006

Table 2b breaks down expectations for 2006 by sub region. Overall, South East businesses' expectations for 2006 remain reasonably favourable.

Businesses in the BBO, IOW and Surrey sub regions were more optimistic than other sub regions about business performance in 2006. 48%, 58% and 50% of businesses in these sub regions respectively expect business to be up on 2005 levels. Despite being more optimistic last quarter, businesses in the East Sussex and Brighton sub region were less optimistic this quarter, with 27% expecting business to be worse overall during 2006 compared with 2005 levels. In addition, West Sussex and Kent businesses were equally pessimistic, with 27% and 28% of businesses respectively expecting a worse performance overall. For Hampshire businesses a more mixed performance is expected in 2006.

Table 2b Expectations for 2006, compared with 2005

	Berks, Bucks, Oxon	Hampshire	I.O.W	Surrey	West Sussex	East Sussex and Brighton	Kent
Base	*(35)*	*(99)*	*(45)*	*(18)*	*(34)*	*(33)*	*(69)*
	%	%	%	%	%	%	%
Up more than 10%)	14	15	13	11	9	12	9
Up by 5% - 10%	17	15	18	0	12	18	16
Up by 1% - 5%	17	13	27	39	26	15	20
Total % 'Up'	***48***	***43***	***58***	***50***	***47***	***45***	***45***
Expect it to be about the same	34	34	24	33	26	27	36
Down by 1% - 5%	11	13	16	6	9	18	10
Down by 5% - 10%	3	6	2	11	12	6	7
Down by more than 10%	3	3	0	0	6	3	1
Total % 'Down'	***13***	***22***	***18***	***17***	***27***	***27***	***28***

Note: Respondents may have businesses present in more than one sub region

BBO, IOW and Kent businesses were slightly more optimistic than other sub regions about business performance in 2006, compared with 12 months ago, when 46% of BBO, 51% of IOW and 41% of Kent businesses expected better overall performance for the year ahead. Businesses in Hampshire and East Sussex, however, were less optimistic in September 2006 than they were in September 2005 (22% expect worse overall performance for 2006 compared with 16% 12 months ago in Hampshire, and 27% of businesses expect a worse performance in East Sussex compared to 17% this time last year).

Surrey and West Sussex results have now been separated to reflect the new sub regional arrangement, and therefore comparisons with the previous year's results are not possible.

3.2 Location

3.2.1 Performance up to end of September 2006

Businesses in rural locations reported a mixed performance over the first six months of 2006 compared with the same period in 2005, with 45% of rural businesses reporting better overall performance and a further 27% reporting worse overall performance. Coastal and urban businesses were more likely to report better performance over this period (both 50%) and were less likely to report worse overall performance (18% and 21% respectively).

Table 3a Business performance since start of 2006 compared with 2005

	Rural	Coastal	Urban
Base	*(215)*	*(88)*	*(70)*
	%	%	%
Much better (Up more than 10%)	12	20	13
Better (Up by 5% - 10%)	19	14	20
Slightly better (Up by 1% - 5%)	14	16	17
Total % 'Up'	***45***	***50***	***50***
About the same	27	32	29
Slightly worse (Down by 1% - 5%)	14	9	13
Worse (Down by 5% - 10%)	10	3	4
Much worse (Down by more than 10%)	3	6	4
Total % 'Down'	***27***	***18***	***21***

Note: Respondents may choose to define their location by more than one type

3.2.2 Expectations for 2006

As with last quarter, both coastal (52%) and urban (48%) businesses were more likely to expect better performance in 2006. Rural businesses were more likely to expect a more mixed performance in 2006, with 44% expecting better overall performance and 24% expecting business to be worse overall.

Table 3b Expectations for 2006 compared with 2005

	Rural	Coastal	Urban
Base	*(190)*	*(79)*	*(64)*
	%	%	%
Much better (Up more than 10%)	9	22	9
Better (Up by 5% - 10%)	17	14	11
Slightly better (Up by 1% - 5%)	18	16	28
Total % 'Up'	***44***	***52***	***48***
About the same	32	30	34
Slightly worse (Down by 1% - 5%)	14	9	11
Worse (Down by 5% - 10%)	7	8	3
Much worse (Down by more than 10%)	3	1	3
Total % 'Down'	***24***	***17***	***17***

Note: Respondents may choose to define their location by more than one type

3.3 Type of business

3.3.1 Performance up to end of September 2006

Caravan and camping establishments and guest houses reported a more positive performance for the first six months of 2006 than other sectors. 73% of camping and 59% of guest house businesses reported better overall performance over the first three quarters of the year compared with 2005. 36% of visitor attractions and

27% of 'other' businesses reported a worse overall performance. Hotels, self catering and B&B establishments reported a mixed performance with varying degrees of positive and negative performance.

Table 4a Business performance since start of 2006 compared with same period in 2005

	Hotels	Guest Houses	B&B	Self Catering	Caravan and camping	Visitor attractions	Other
	%	%	%	%	%	%	%
Base	*(30)*	*(22)*	*(96)*	*(77)*	*(22)*	*(92)*	*(34)*
Up more than 10%	17	18	11	14	23	12	18
Up by 5% - 10%	23	18	15	17	41	16	5
Up by 1% - 5%	17	23	21	13	9	12	12
Total % 'Up'	***57***	***59***	***47***	***44***	***73***	***40***	***45***
Expect it to be about the same	10	32	29	40	18	25	29
Down by 1% - 5%	17	5	11	14	0	20	6
Down by 5% - 10%	13	5	9	1	9	9	9
Down by more than 10%	3	0	3	0	0	7	12
Total % 'Down'	***33***	***10***	***23***	***15***	***9***	***36***	***27***

Hotel, guest house, B&B and caravanning and camping businesses all saw a better overall performance compared with the snapshot taken 12 months ago (September 2005), when 50% of hotels, 49% of guest houses, 44% of B&Bs and 56% of caravan and camping businesses reported better overall performance. However, for self catering and visitor attraction businesses, the picture was less positive than the snapshot taken 12 months ago, when 47% of self catering and 54% of visitor attraction businesses reported better overall performance.

3.3.2 Expectations for 2006

Hotels, guest houses, holiday parks and caravan and camping businesses were more upbeat about the year ahead, with 54%, 53%, 76% and 67% respectively expecting better overall performance this year compared with last year. B&B businesses and attractions were slightly less optimistic about the year ahead. Self catering businesses were equally more likely to expect better overall or the same level of business in 2006 compared with 2005.

Both hotel and caravan and camping businesses were more optimistic than they were 12 months ago (September 2005) when 44% of hotels and 52% of caravan and camping businesses expected better overall performance for the year ahead. Optimism amongst B&Bs and visitor attractions was very similar to the snapshot taken 12 months ago; however self catering operators and visitor attractions were less optimistic than 12 months ago when 48% of self catering businesses and 52% of visitor attractions expected better overall performance for the year ahead.

Table 4b Expectations for 2006 compared with 2005

	Hotels	Guest Houses	B&B	Self Catering	Caravan and Camping	Visitor Attractions	Other
Base	*(26)*	*(21)*	*(88)*	*(70)*	*(12)*	*(79)*	*(37)*
	%	%	%	%	%	%	%
Up more than 10%	19	24	7	10	25	11	16
Up by 5% - 10%	23	5	14	14	25	16	14
Up by 1% - 5%	12	24	20	16	17	22	27
Total % 'Up'	***54***	***53***	***41***	***40***	***67***	***49***	***57***
Expect it to be about the same	31	29	36	40	25	24	27
Down by 1% - 5%	4	14	15	17	8	10	8
Down by 5% - 10%	8	5	5	3	0	13	5
Down by more than 10%	4	0	3	0	0	4	3
Total % 'Down'	***16***	***19***	***23***	***20***	***8***	***27***	***16***

4 Impact of terrorist alerts of 10th August on business performance in the South East

4.1 Overall impact of terrorist alerts

The security alerts at UK airports (following the attempted attack on flights to the USA on 10th August 2006) were a major issue for the South East during the third quarter of 2006 as they caused immediate disruption to travel to and from the UK. In this quarter's survey, businesses were asked whether these alerts had had an impact on the running of their business or the behaviour of customers. The vast majority of businesses (71%) reported that they had not been affected. Similar numbers reported both a positive and negative impact (8% and 7% respectively) and a further 15% were unsure as to whether the events had made any on business performance.

Table 5 Impact of terrorist alerts of 10th August on the running of businesses

	Count	%
A negative impact	22	7
A positive impact	27	8
No impact	234	71
Unsure	48	15

Where the terrorist alerts had negatively impacted on the running of businesses, the main problems came in the form of cancellations and changing of bookings at short notice. Several businesses commented on the cancellations and general lower number of bookings from the USA and Europe due to a fear of flying into the country. Another business operator mentioned that the gridlocked roads around Heathrow during the security alerts negatively affected the performance of their business.

4.2 Impact of terrorist alerts (sub region)

A higher proportion of businesses in the BBO and Surrey sub regions than for the whole of the South East reported that they had been adversely affected by the security alerts. This is understandable as these counties surround Heathrow and Gatwick airports. The majority of businesses in the other five sub regions reported that the alerts had had no impact on them, whereas 20% of the IOW businesses reported that the alerts had proved positive for their business.

Table 6 Impact of terrorist alerts (sub region)

	Berks, Bucks, Oxon	Hampshire	I.O.W	Surrey	West Sussex	East Sussex and Brighton	Kent
Base	*(34)*	*(98)*	*(46)*	*(18)*	*(35)*	*(32)*	*(68)*
	%	%	%	%	%	%	%
A negative impact	18	3	0	17	3	6	10
A positive impact	12	8	20	6	9	6	0
No impact	59	76	65	67	74	72	72
Unsure	12	13	15	11	14	16	18

4.3 Impact of terrorist alerts (location)

Urban businesses reported a slightly higher negative impact, 10% of rural businesses commented that they had benefited from the alerts, and the three locations equally reported that they had not been affected either way.

Table 7 Impact of terrorist alerts (location)

	Rural	Coastal	Urban
Base	*(189)*	*(79)*	*(63)*
	%	%	%
A negative impact	5	8	10
A positive impact	10	9	3
No impact	70	71	73
Unsure	15	13	14

4.4 Impact of terrorist alerts (sector)

The sector that suffered the greatest negative impact was guest houses (33%). It appears that hotels, self catering and caravan and camping businesses were positively affected by the alerts, but it must be noted that these sectors had small bases so results should be treated with caution. The majority of business in all sectors reported that they were not affected by the security alerts.

Table 8 Impact of terrorist alerts (sector)

	Hotel	Guest house	B&B	Self catering	Caravan & camping	Attraction	Other
Base	*(25)*	*(21)*	*(86)*	*(71)*	*(19)*	*(80)*	*(29)*
	%	%	%	%	%	%	%
A negative impact	8	33	7	4	0	3	7
A positive impact	12	5	5	11	37	4	3
No impact	56	52	69	75	24	80	83
Unsure	24	10	20	10	37	14	7

5 Survey background

5.1 Methodology

Tourism businesses in the South East region were asked to complete a simple two page questionnaire and return by either fax or post. Alternatively, respondents had the option of completing the questionnaire on-line. 55% were returned by post, 35% were returned by fax and the remaining 10% were completed online. The sample size has remained constant at approximately 400 participants (despite a recruitment exercise over March last year and the introduction of a new prize draw).

5.2 Dates for next survey

The next survey covering the full year for 2006 and expectations for 2007 will be mailed on 3rd January 2007.

6 Profile of sample

For the third quarter of 2006, a total of 377 questionnaires were returned by the analysis deadline. As the survey is self selecting rather than random, it is not possible to calculate margins of error associated with the sample. However, there remains a substantial core of survey participants (over 200) who currently provide data each quarter, and therefore the trends identified by the survey are believed to accurately reflect overall trends in business performance and expectations.

Care should be taken when interpreting the results where sample size is small.

6.1 Sub region

Indicative analysis at a sub regional level has been provided within this report. Care should be taken when interpreting the results for the Surrey, West Sussex, East Sussex & Brighton and BBO sub regions due to small sample sizes.

Table 9 Sub region

	Count	%
Berks, Bucks, Oxon	43	11
Hampshire	101	27
IOW	47	12
Surrey	20	5
West Sussex	43	11
East Sussex and Brighton	41	11
Kent	82	22
Total	377	100

Note: Respondents may have businesses present in more than one sub region

6.2 Type of location

57% of businesses were located in rural areas, 24% were in coastal areas and the remaining 19% were located in urban areas. Indicative analysis by location has been provided within this report.

Table 10 Location

	Count	%
Rural	215	57
Coastal	91	24
Urban	71	19
Total	377	100

Note: Respondents may define their location by more than one type

6.3 Type of business

Table 11 Business sector

	Count	%
Hotels (including motels, travel lodges, inns)	30	8
Guest houses	22	6
B&B including farm houses)	97	26
Self-catering (including flats, cottages, houses)	78	21
Holiday park	8	2
Caravan and camping	15	4
Visitor attractions	93	25
Leisure/sport centre	4	1
Retail	3	1
Food and drink	5	1
Travel and transport	3	1
Tourism services (i.e. tour operator, travel agent/guide)	1	*
Other	18	5
Total	377	100

* Less than 0.5%