

Business in Britain

A Survey of Business Opinions and Trends | 38th edition July 2011

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A Survey of Business Opinions and Trends

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Introduction



Welcome to the latest edition of our bi-annual Business in Britain survey, which offers an invaluable guide to past business performance and future expectations of companies, particularly in the SME market. The latest survey has canvassed opinions of 1,812 companies covering all industry sectors and regions of the British economy.

The key message from the latest results is that the economic recovery is fragile, but remains intact. Sales and turnover in the first half of the year improved, especially for companies able to benefit from strong export demand. Profitability, however, remained weak despite a rise in prices charged, suggesting a further squeeze on margins resulting

from higher costs, mainly from materials and energy. Employment and investment spending weakened a little in the past six months.

Looking ahead, our measure of business confidence (which takes into account expectations of sales, orders and profits in the next six months) rose slightly, but remained around levels consistent with a moderate pace of recovery. Companies remained cautious about increasing staff levels and capital spending in the current uncertain economic environment.

Sales and turnover were the strongest in the manufacturing and transport services sectors in the past half year and are expected to be the most buoyant in hospitality and leisure, manufacturing and business services in the next six months. In terms of investment spending trends for the second half of the year, healthcare and business services came top, suggesting good medium-term prospects in these sectors.

From a regional perspective, sales and turnover in the past six months were the strongest in the South East, London and the Midlands, and weakest in Scotland and the North West. Looking ahead, business confidence was the strongest in London, with Wales recording the biggest improvement.

I would like to thank all those companies that have taken the time to provide us with such a comprehensive view of developments in the UK SME space and recent trends in the economy.

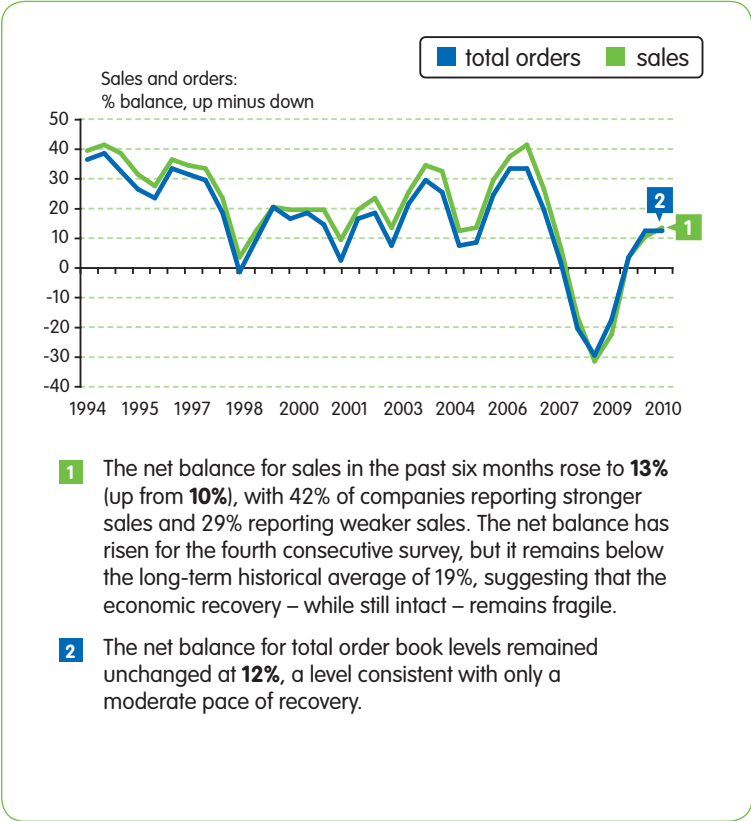
A handwritten signature in black ink, appearing to read 'John Maltby', written in a cursive style.

John Maltby
Managing Director,
Lloyds TSB Commercial

Recent trends in the SME market.

The economic recovery remains fragile, but intact.

Sales, orders and export sales balances over the last six months.



Export sales continued to outperform.

Expectations for total sales and orders in the next six months continued to improve, with the net balances at 24% and 22%, respectively. Still, these net balances remain below their respective long-term historical averages and indicate a moderate pace of growth.

	2011 H2	2011 H1
Expected sales: up	43%	40%
Expected sales: down	19%	22%
Balance	24%	18%

	2011 H2	2011 H1
Expected orders: up	36%	35%
Expected orders: down	14%	17%
Balance	22%	18%

Expectations for export sales in the next six months increased for the fifth consecutive survey, with the net balance rising to 38%, the strongest level since 2004. Forty-six percent of companies expected exports to rise, while 8% expected them to fall.

	2011 H2	2011 H1
Expected exports: up	46%	42%
Expected exports: down	8%	8%
Balance	38%	34%

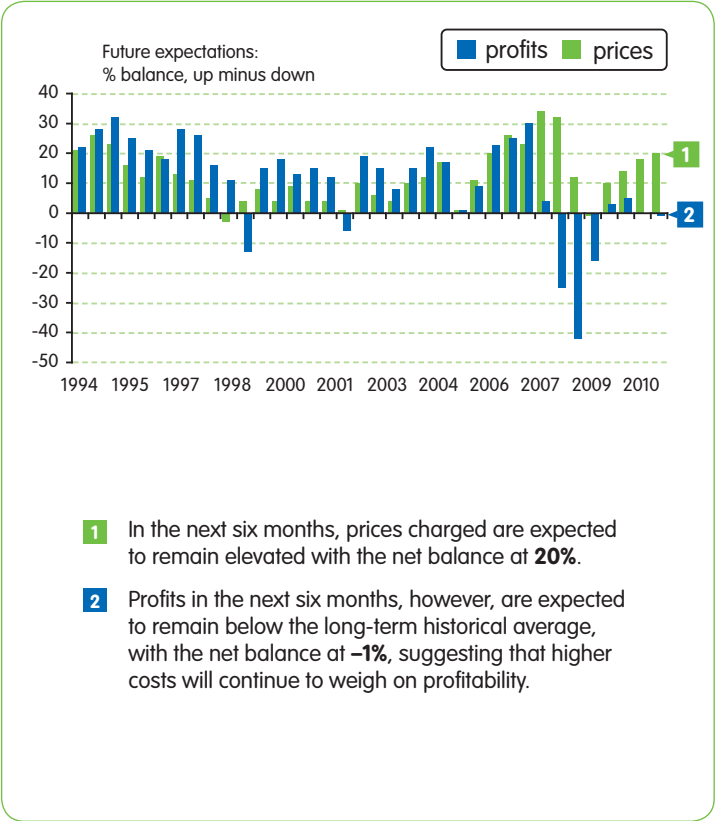
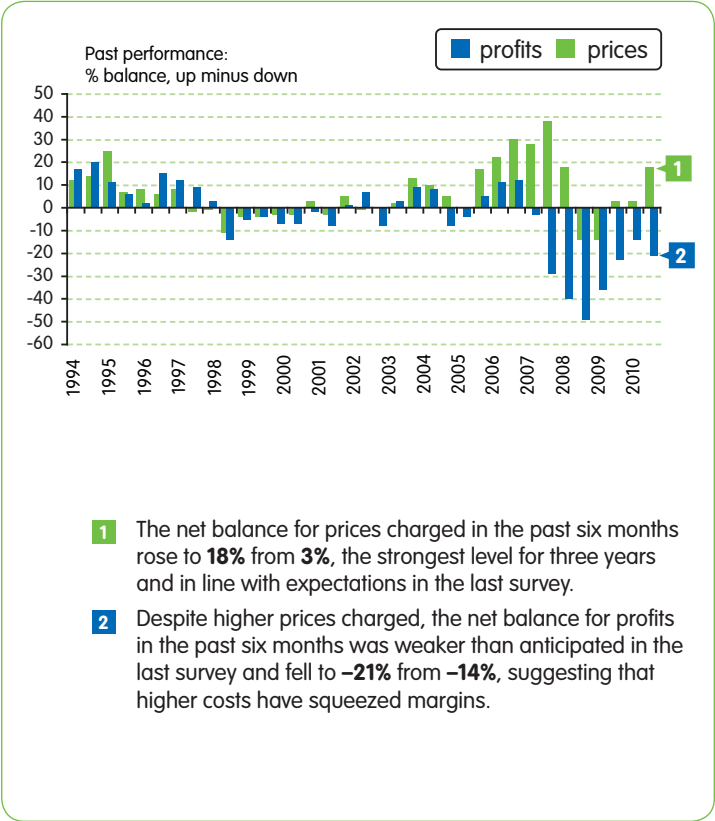
	2011 H2	2011 H1
Expected imports: up	38%	37%
Expected imports: down	8%	9%
Balance	30%	28%

Domestic demand remained weak.

Total sales improved in the past six months and are anticipated to rise further in the next six months, boosted by the strongest anticipated export sales since 2004. The strength of international demand, however, belies a much more subdued outlook for companies more reliant on domestic spending. Indeed, our survey shows that weak UK demand was cited by more than half (56%) of companies as the greatest threat to their business, a much higher proportion than costs and availability of finance (23%) and regulation (19%).

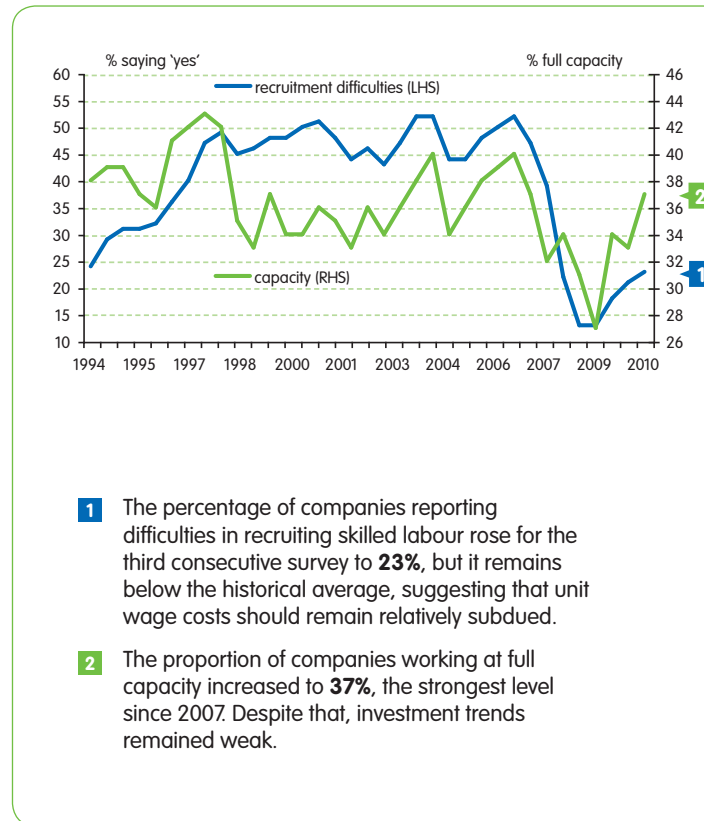
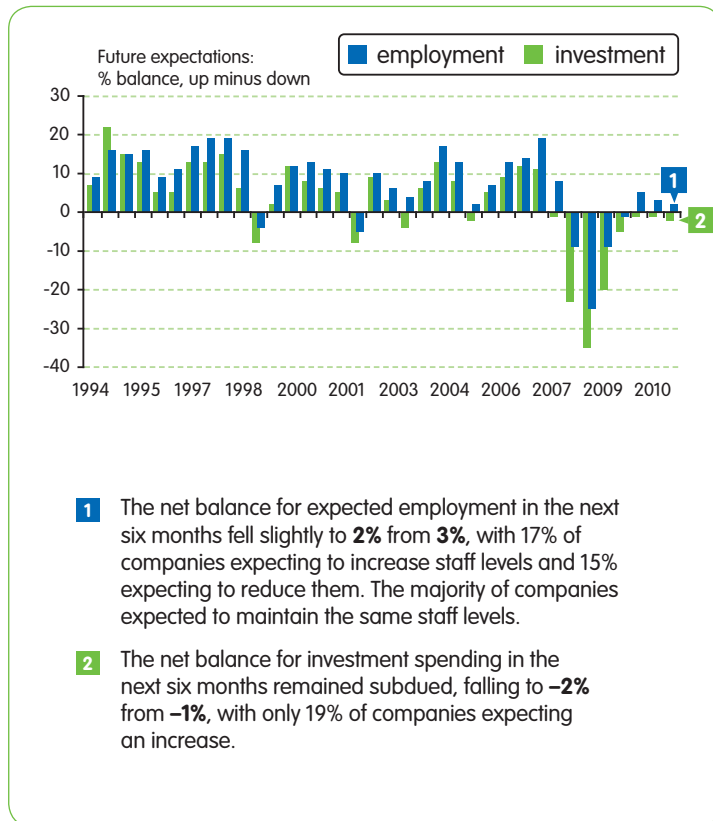
Profitability stayed weak.

Prices and profits: past performance and future expectations.



Hiring and capital spending intentions remained subdued.

Investment, employment and capacity trends.

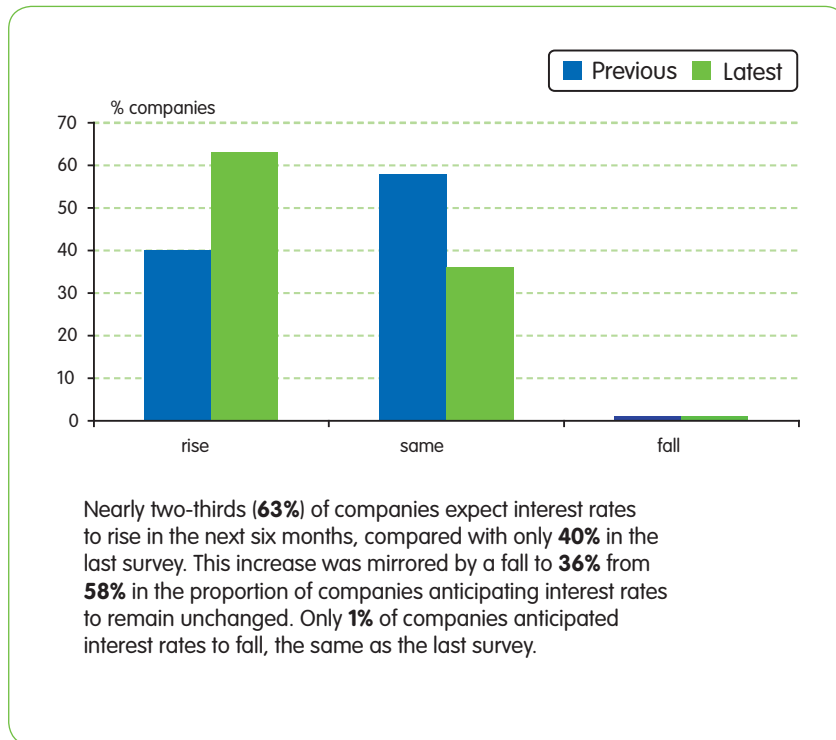


Higher costs weigh on profitability.

Despite higher prices charged, profitability is expected to remain weak, suggesting that higher costs will continue to erode margins. Difficulties in recruitment of skilled labour rose slightly, but remained low by historical standards, indicating that growth in unit wage costs is likely to remain relatively muted. Investment and employment trends remain subdued, highlighting companies' uncertainty about domestic demand prospects, with exporters tending to be more positive about prospects for capital spending and staffing than companies reliant on domestic demand.

Most companies now expect interest rates to rise in the next six months.

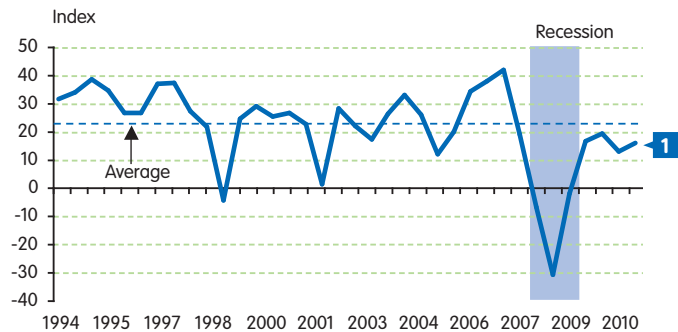
Interest rate expectations in the next six months.



Overall business confidence rose in the current survey, consistent with a moderate pace of growth in the second half of the year.

Business confidence.

Our business confidence index tracks companies' expectations for total sales, total orders and profits over the next six months.



1 Our measure of overall business confidence, which tracks total sales, orders and profits expectations in the next six months, increased to **15** from **12**. This is a level consistent with a moderate, rather than strong, pace of economic recovery.

Summary – economic recovery is on track but subdued.

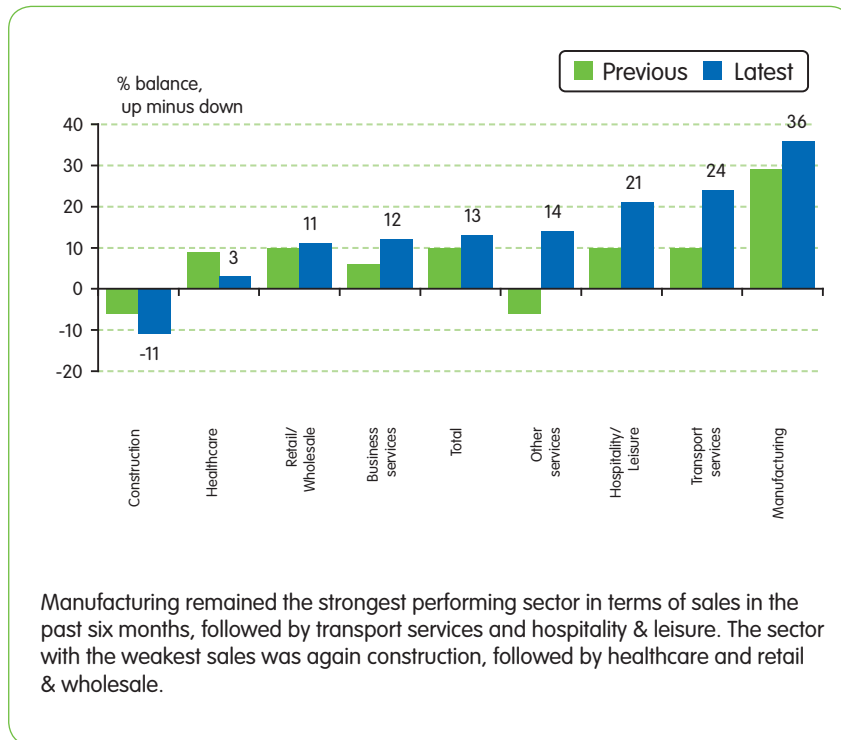
The key take out from the latest Business in Britain survey is that companies expect the economic recovery to continue in the second half of the year, but are cautious about its strength. Indeed, companies cited weak UK demand as the greatest threat to their business, while a majority now expect interest rates to rise in the next six months.

Export sales have continued to perform strongly although companies reliant on domestic demand, remained cautious about raising employment and capital spending levels. Profitability remained subdued, despite higher prices charged, implying a significant impact of higher costs on margins. Unit wage costs, however, are likely to stay weak given that difficulties in recruiting skilled labour remained at historically low levels.

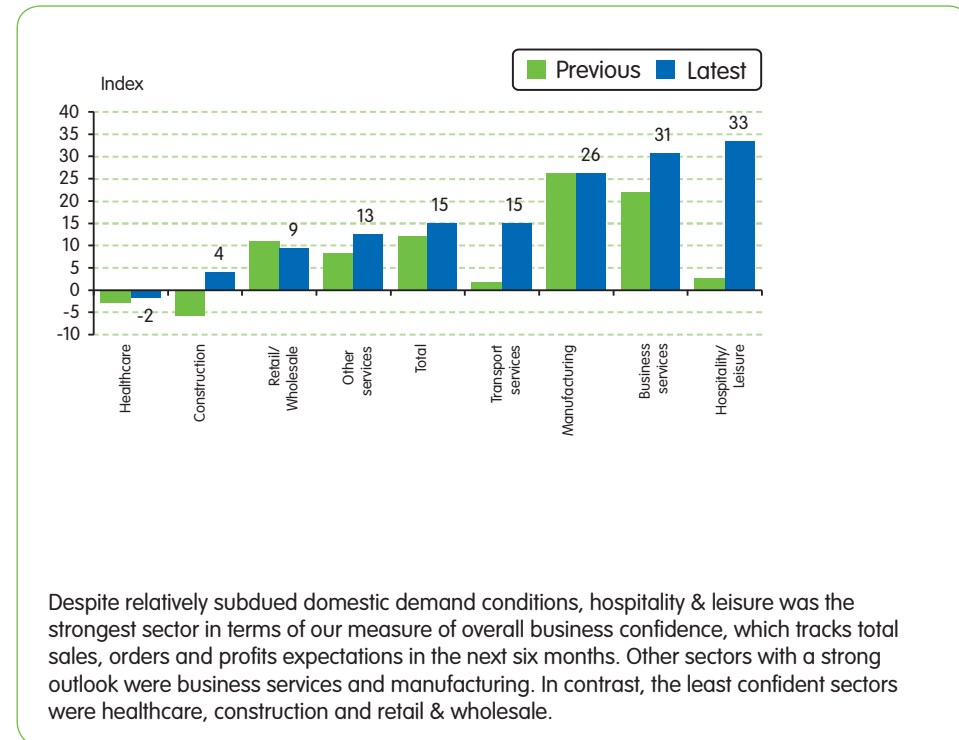
The industrial picture.

Hospitality & leisure the most positive sector...

Sales over the last six months.

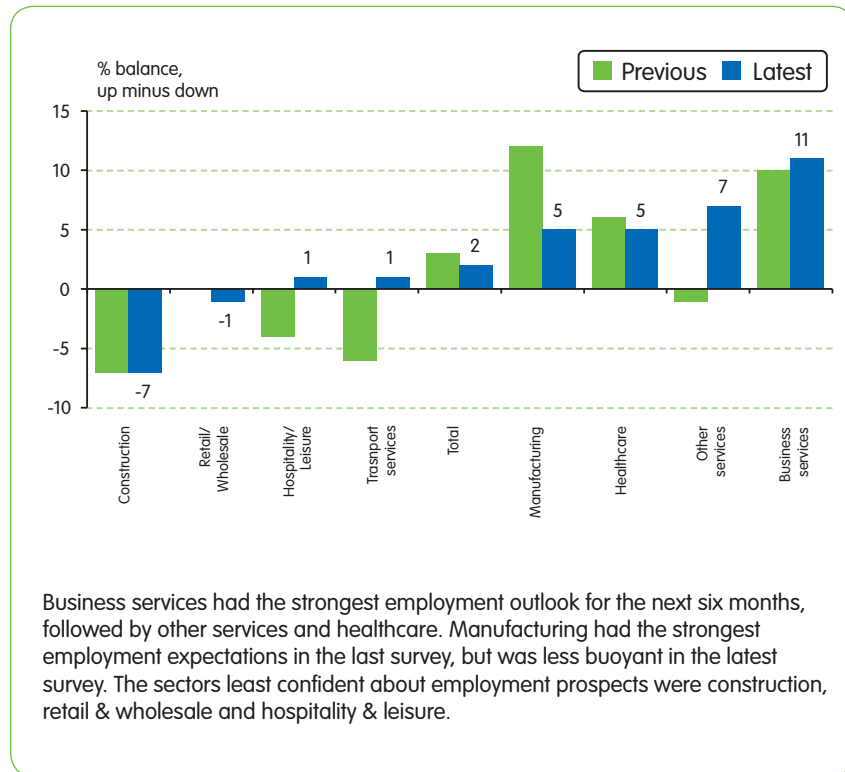


Business confidence.

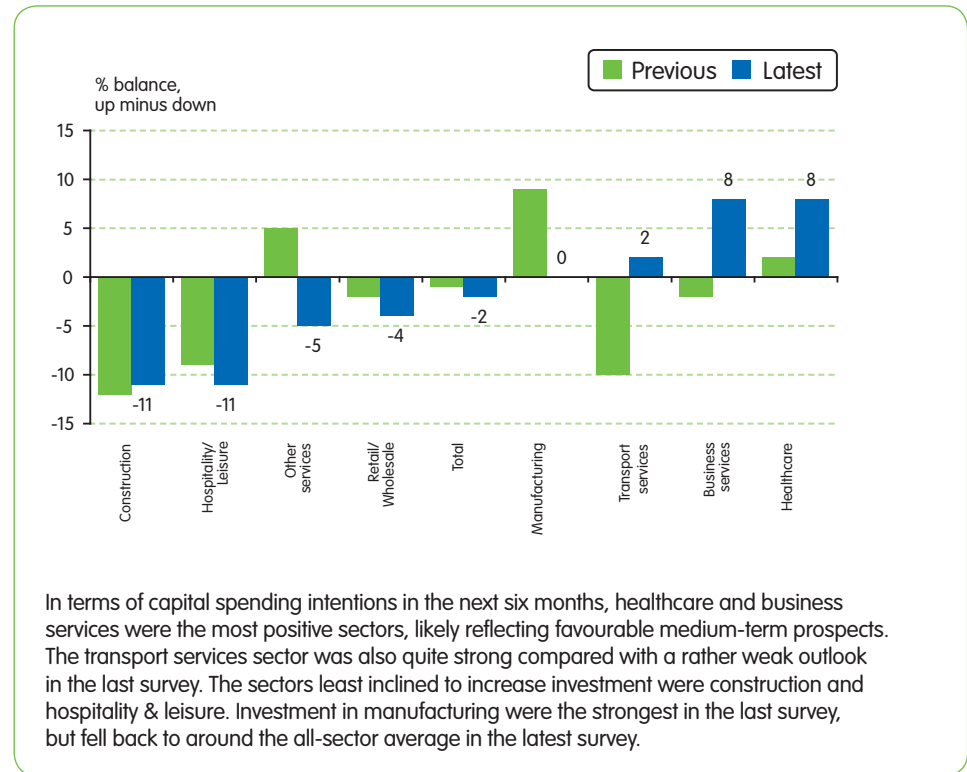


...but healthcare is the most optimistic in terms of investment trends.

Employment in the next six months.



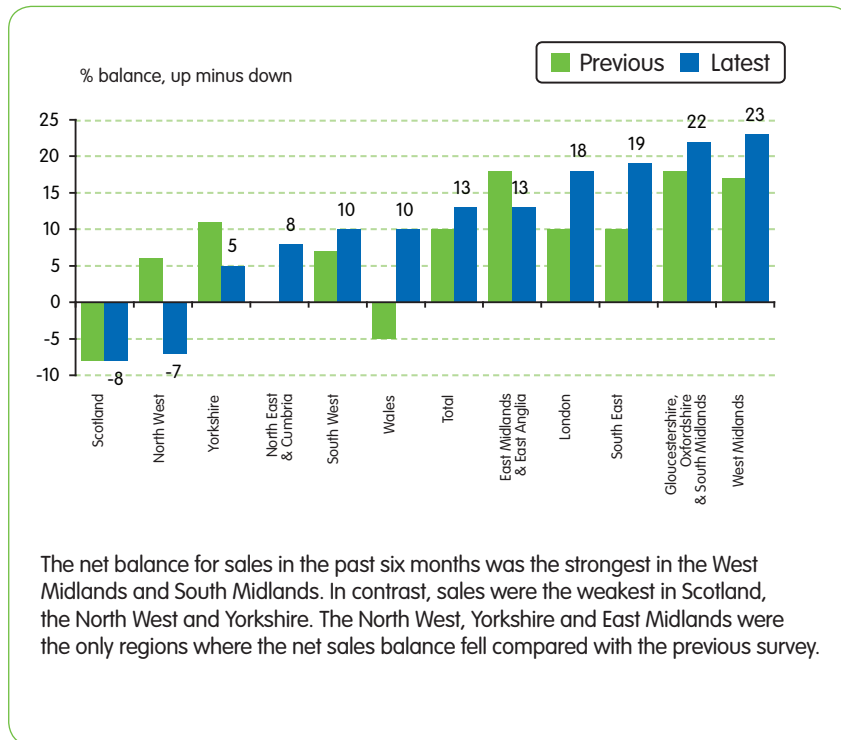
Capital spending in the next six months.



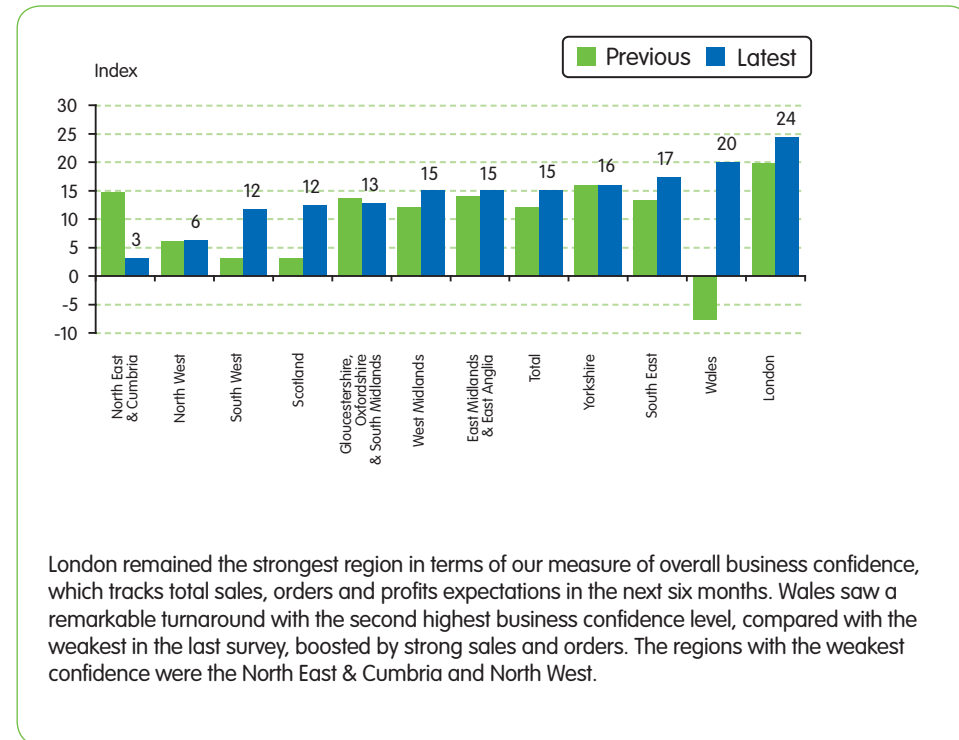
The regional picture.

Business confidence strongest again in London, while Wales recorded the biggest improvement.

Sales over the last six months.

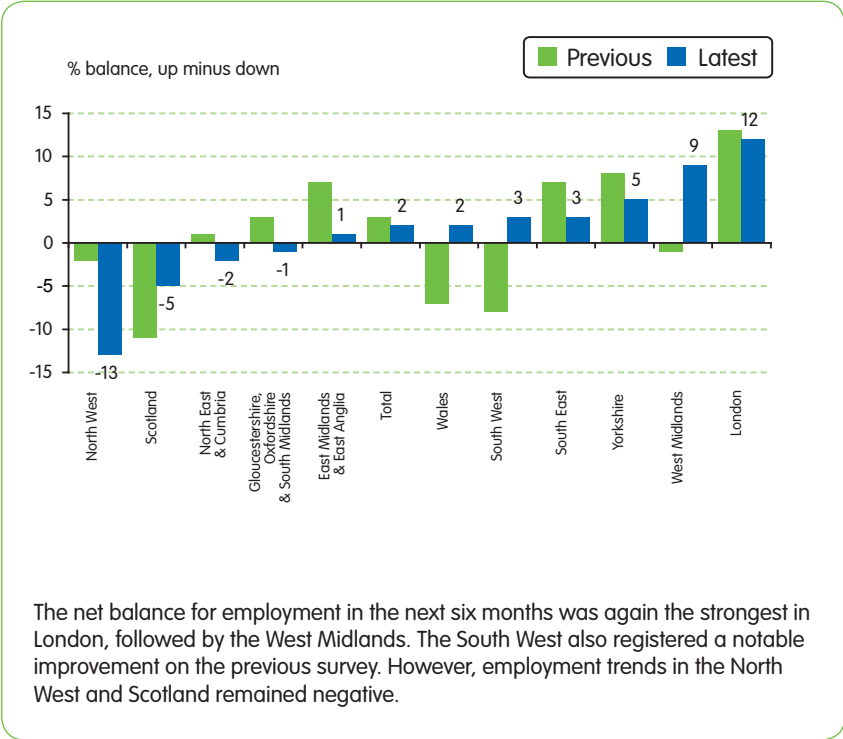


Business confidence.



Employment and export sales in the next six months are expected to be the strongest in London.

Employment in the next six months.



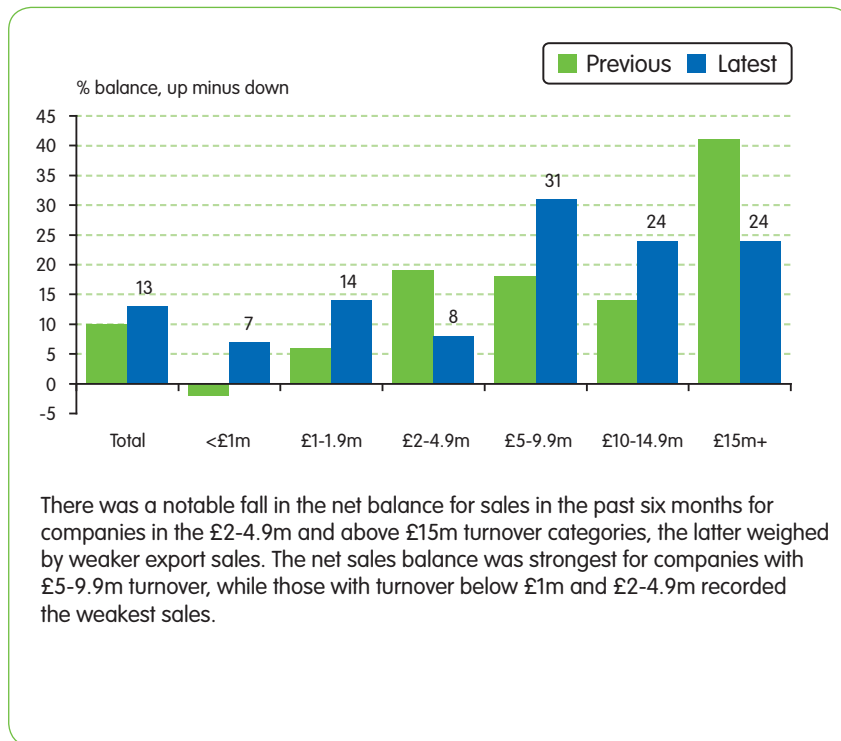
Export sales in the next six months.



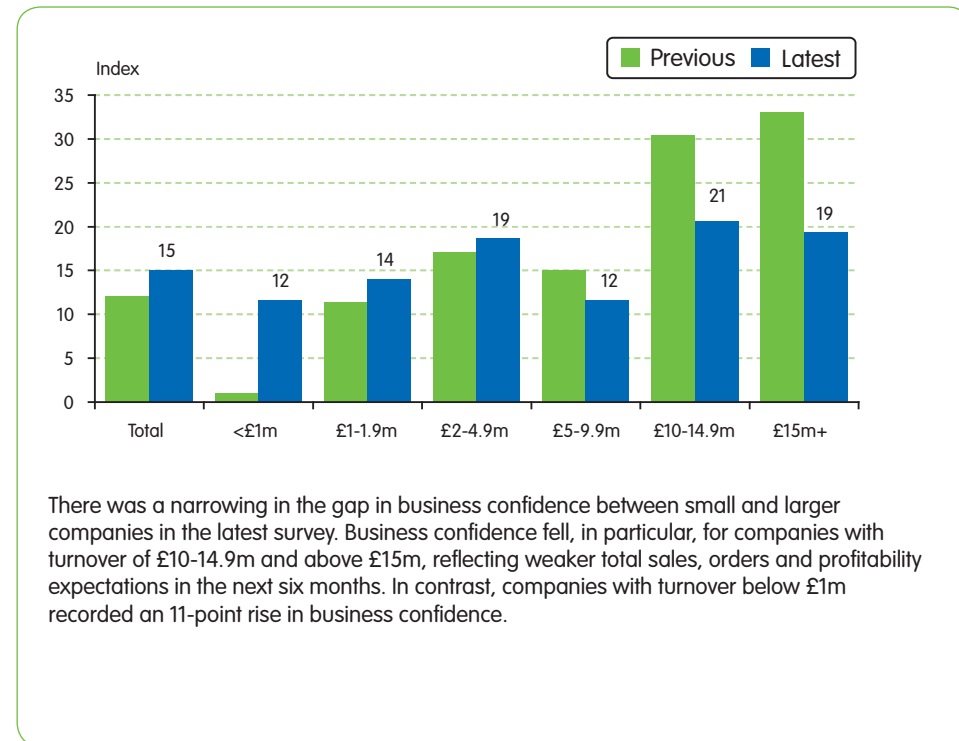
Analysis by size of firm.

The gap between small and larger companies has narrowed.

Sales over the last six months.

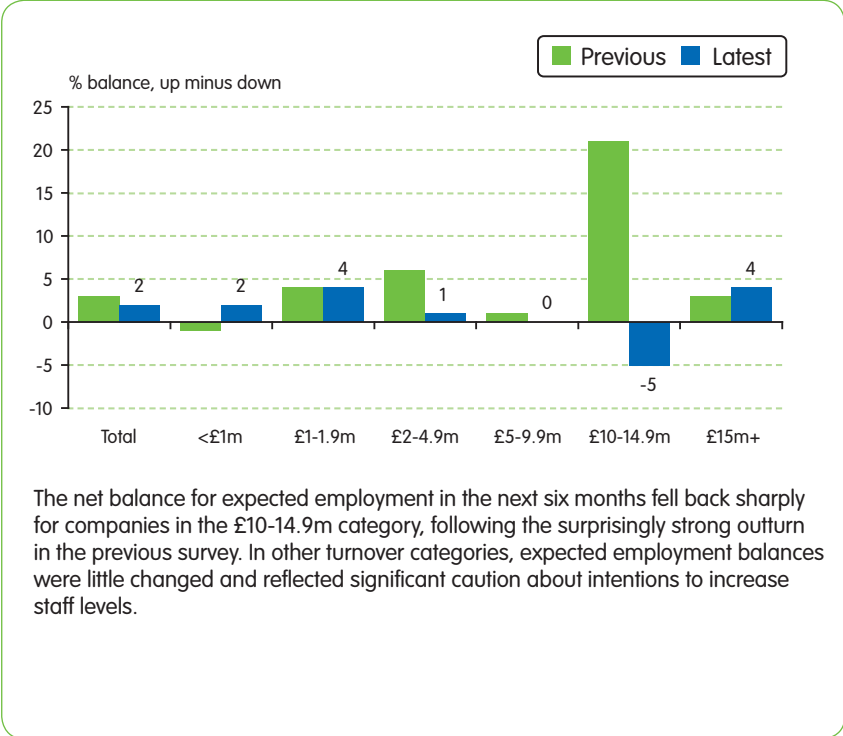


Business confidence.

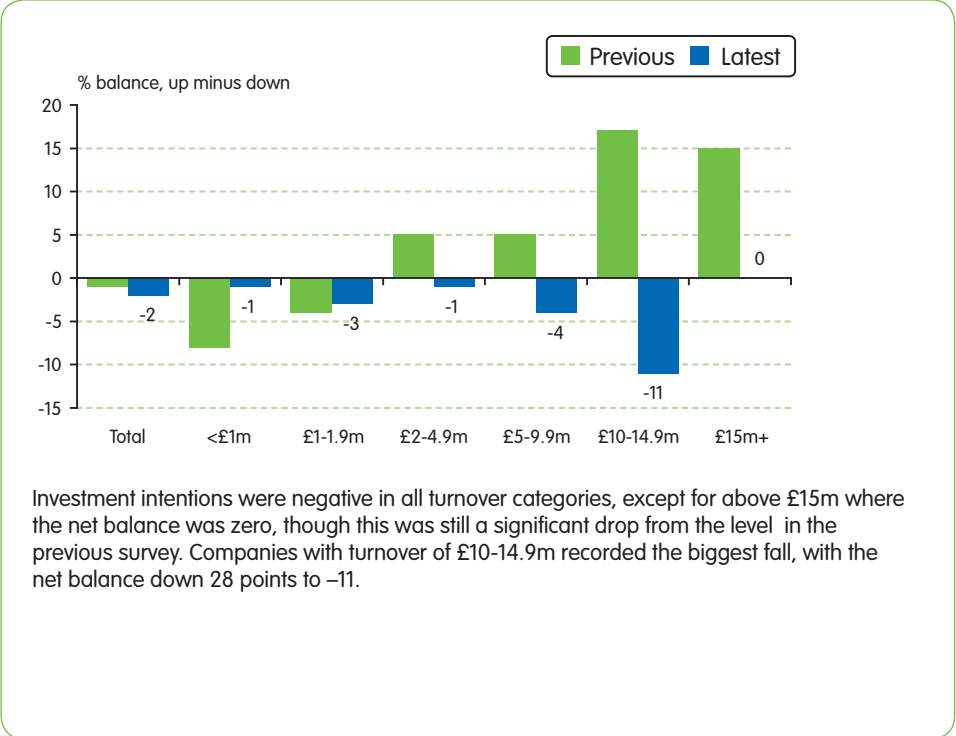


Investment intentions were weak across all company sizes.

Employment in the next six months.



Capital spending in the next six months.



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