Lloyds TSB | Commercial

Business in Britain

A Survey of Business Opinions and Trends | 36th edition July 2010

Contents

01 Introduction

02 Recent trends in the middle corporate market

07 The industrial picture

08 The regional picture

09 Analysis by company size

A Survey of Business Opinions and Trends

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Introduction

Our Business in Britain survey is one of the most comprehensive of its kind and offers an invaluable guide to past business performance and future expectations of companies, especially in the middle corporate market. It covers all industry sectors of the economy and all regions of Great Britain, and has been running since 1992.

The latest survey has canvassed the responses of no less than 2,386 companies and we are pleased to share the results with you.

The economy officially emerged from recession in the final quarter of last year, as anticipated in our last survey, and companies in the latest survey remain cautiously optimistic about prospects.

Indeed, our measure of business confidence – which is a forward-looking indicator reflecting expectations of sales (turnover), order book levels and profits in the next six months – rose for the third consecutive survey. It is consistent with a moderate pace of economic recovery continuing in the second half of the year. The caution is reflected in employment and investment trends, which have improved, but only gradually.

One major theme of the survey is that external sales continued to be stronger than domestic sales. Companies in more export-oriented sectors, such as manufacturing, tended to register stronger business confidence. By contrast, companies more dependent on domestic demand, such as construction and hospitality & leisure, tended to be less confident, on average.

This is also reflected in the results by company size. There are many smaller companies that export successfully abroad. On average, however, smaller companies – for instance with turnover below £1 million a year – tended to benefit less from stronger export demand and therefore were less confident than larger companies.

With manufacturing appearing to be one of the stronger sectors, it may be surprising to discover that companies in northern parts of our country tended to be less confident. However, this apparent north-south divide seems to reflect weaker domestic demand conditions outside the south. In fact, companies in northern parts of the country tended to be the most optimistic regarding export sales prospects.

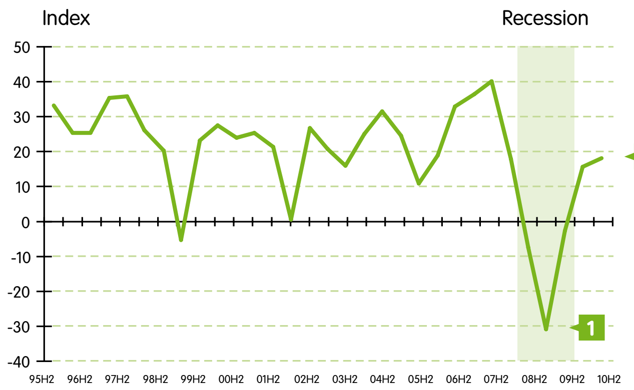
I would like to thank all those companies that have taken the time to assist us in providing such a comprehensive view of developments in the UK corporate space and recent trends in the economy.

John Maltby
Managing Director,
Lloyds TSB Commercial

Recent trends in the middle corporate market.

Business confidence rose for the third consecutive survey as sales and orders are expected to improve.

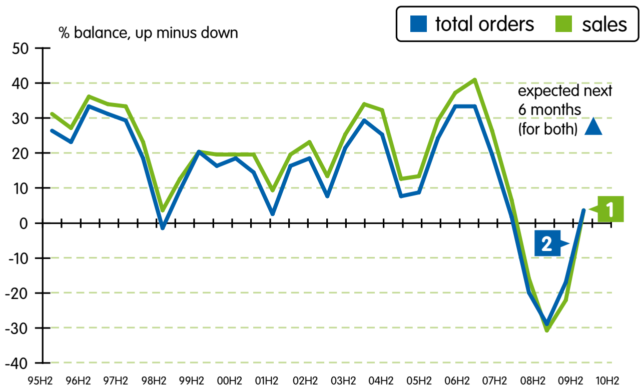
Business confidence.



1 Confidence hit a low of **-32%** in the December 2008 survey, but the monetary and fiscal policy response helped to foster an economic recovery.

2 The current reading for business confidence is **18**, the third consecutive rise and the highest level since December 2007. However, it remains below the long-term average of 22, suggesting that the pace of economic recovery is likely to remain moderate.

Sales and order balances.



1 The net balance of companies reporting higher sales in the past six months rose to **3%** from **-23%** in the previous survey.

2 The balance for orders increased to **3%** from **-18%**. Companies in the latest survey remain hopeful of a significant improvement in sales and orders in the next six months. The net balance for both sales and orders in the next six months is **25%**.

Sales, especially to export markets, continued to strengthen.

Total orders
The total orders balance increased to 3% in the first half of 2010, but the rise was less than expected in the previous survey. In the second half of the year, orders are anticipated to rise further.

Survey period:	2009H2	2010H1	2010H2 (expected)
Expecting increased sales	24%	33%	39%
Expecting decreased sales	42%	30%	14%
Balance	**-18%**	**3%**	**25%**

Total sales
The balance for total sales (turnover) rose to 3% in the first six months of 2010 but, like total orders, this was a less positive outcome than had been anticipated. In the next six months, the balance is expected to rise to 25%.

Survey period:	2009H2	2010H1	2010H2 (expected)
Expecting increased sales	26%	38%	44%
Expecting decreased sales	49%	35%	19%
Balance	**-23%**	**3%**	**25%**

Export sales
Export sales continued to outperform total sales, indicating stronger demand from abroad. The balance for export sales rose to 20% in the first half of 2010, in line with the last survey's expectations, and a further improvement is anticipated in the next six months.

Survey period:	2009H2	2010H1	2010H2 (expected)
Expecting increased sales	27%	40%	42%
Expecting decreased sales	37%	20%	9%
Balance	**-10%**	**20%**	**33%**

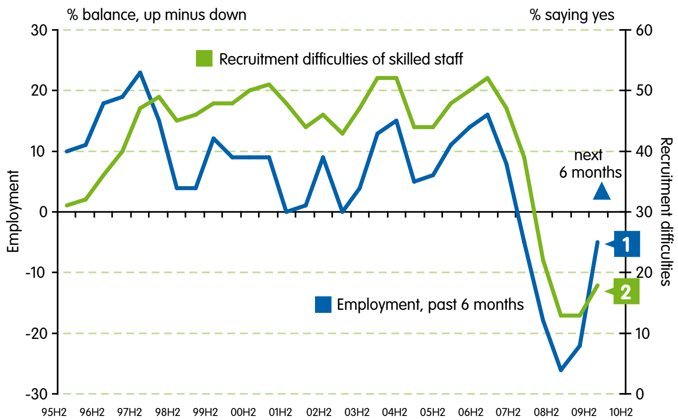
A quick summary.

Business confidence in the middle corporate market improved for the third consecutive survey, helped by expectations of further improvements in sales, orders and profits. This suggests that the economic recovery, which began at the end of 2009, is set to continue. However, the pace of recovery is likely to remain gradual.

The export market remains more buoyant than domestic demand, helped by stronger global trade activity and a sustained fall in the pound. Both total and export sales are expected to rise further in the next six months.

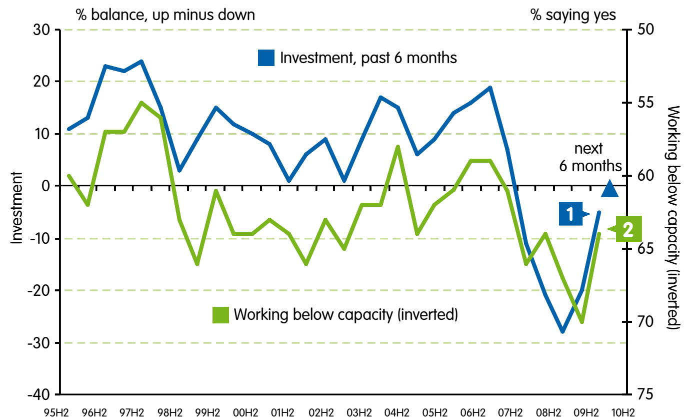
Companies remain cautious about hiring and capital spending.

Employment and recruitment difficulties.



1. The net balance for employment in the past six months rose to **-5%** from **-20%**, the least negative outturn since December 2007. The balance is expected to rise in the next six months to **5%**.
2. The proportion of companies reporting difficulties with recruiting skilled staff rose slightly to **18%**.

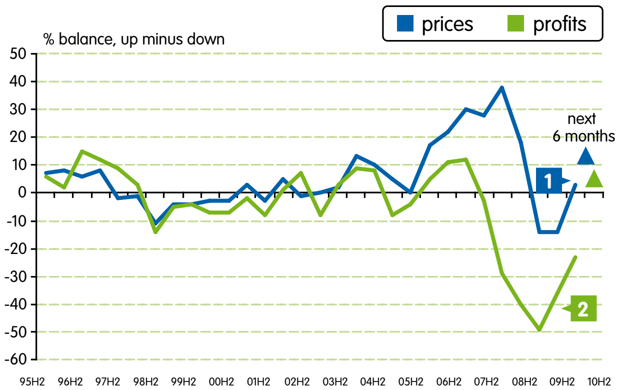
Investment capacity.



1. The net balance for investment (capital spending) rose in the past six months to **-5%** from **-20%**, the strongest outturn since June 2008, and is anticipated to improve in the next six months.
2. **64%** of companies said they are working below capacity, down from a peak of 70% in the previous survey.

Price pressures are gradually returning, though profits improved by less than anticipated.

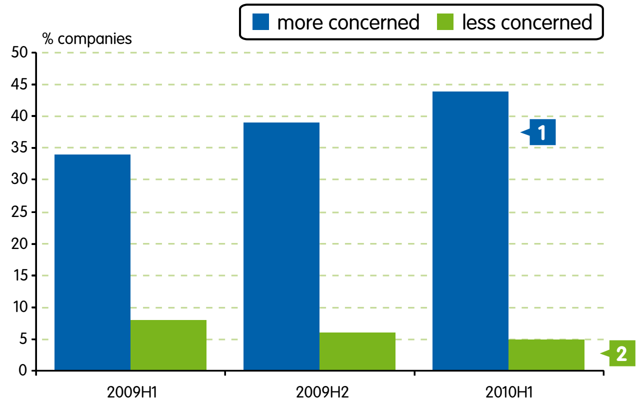
Prices and profits.



1 The net balance for firms' prices in the past six months rose to **3%** from **-14%**. However, a further rise to **14%** for prices is anticipated in the next six months.

2 The net balance for profits in the past six months rose to **-23%** from **-36%**, the highest level since December 2007. Profits are anticipated to recover significantly in the next six months, helped by a marked improvement in sales.

Concern about the impact of commodity prices.



1 The latest survey shows that **44%** of companies were more concerned about commodity prices than six months ago, up from **39%** in December 2009 and **34%** a year ago.

2 The proportion of companies less concerned about the impact of commodity prices fell to **5%**, down from **6%** in the last survey and **8%** a year earlier.

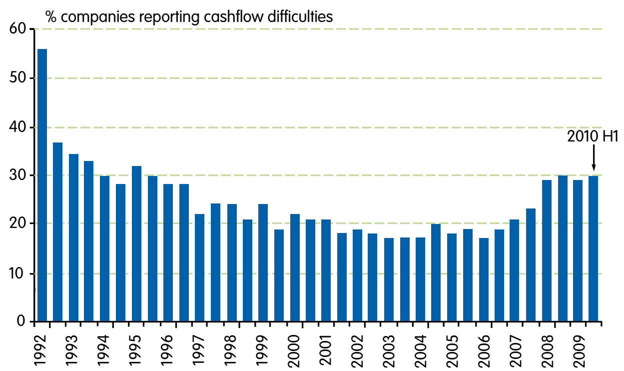
A quick summary.

Excess capacity and disappointing profits help to explain sluggish investment prospects and suggest that the impetus for companies to reduce costs will continue.

Companies' concerns about the impact of rising commodity prices on their business have risen in the past year.

Cashflow difficulties remain well below the early 1990s recession.

Cashflow difficulties have stabilised.



- The proportion of companies reporting cash flow difficulties has remained around 30% for the past six months. This is slightly above the 'normal' level of around 25%, based on the long-term survey average, but well below the level experienced in the early 1990s recession.
- The main reason for cashflow difficulties is late payment by customers, cited by 64% of companies, followed by a lack of business (41%). More than half (56%) of companies said that the greatest threat to their business was weak UK demand.

The summary.

The Business in Britain survey indicates that business confidence – as measured by expectations of sales, order book levels and profits – continued to improve. Notwithstanding some downside risks, it suggests that the moderate pace of economic recovery is anticipated to continue in the second half of the year.

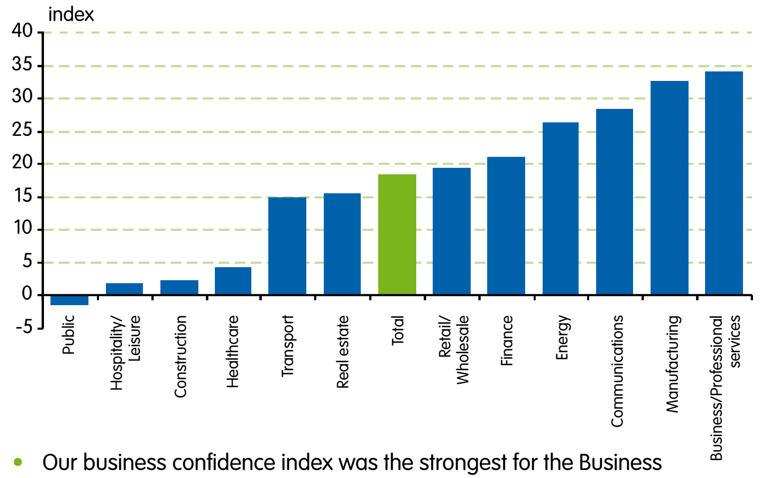
In particular, sales and order book levels are expected to rise further. However, investment and employment trends, while improving, are somewhat less buoyant, highlighting that companies remain cautious about the strength of the economic recovery, especially in relation to domestic demand.

Net balances for prices and profits improved in the past six months, but the latter remained at historically low levels. Both prices and profits are expected to improve further in the next six months. Wage costs seem likely to remain subdued but given that only a low proportion of companies reported recruitment difficulties, but concerns about the impact of higher commodity prices have risen.

The industrial picture.

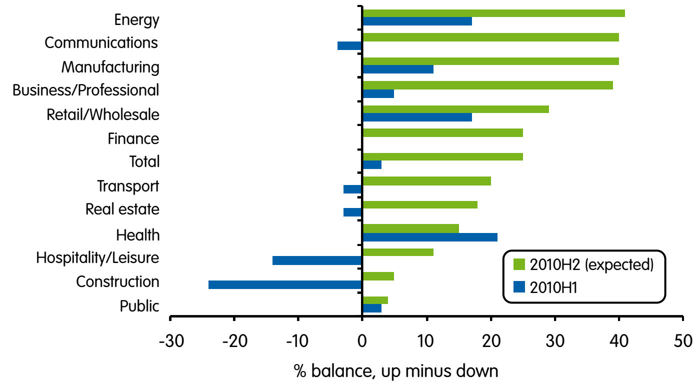
Business & Professional services and Manufacturing were the most confident industries.

Business confidence, ranked by industry sector.



- Our business confidence index was the strongest for the Business and Professional services and Manufacturing, rising to 34 and 33, respectively.
- In contrast, business confidence was the weakest in the Public, Hospitality & Leisure and Construction sectors, with the index ranging from -1 to 2. The all-sector average was 18.
- Export-oriented sectors, such as Manufacturing, have tended to be more confident than those sectors more reliant on domestic demand.

Total sales.

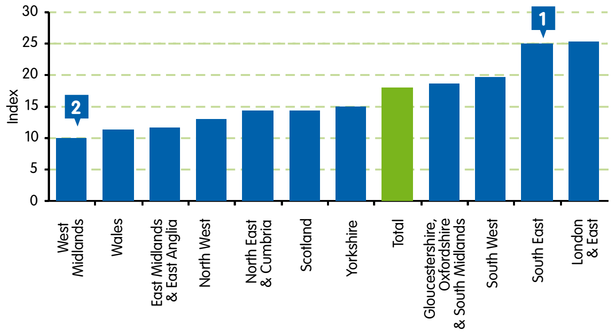


- The net balance for total sales in the past six months was the strongest in the Healthcare, Energy and Retail/Wholesale sectors. The weakest sales balance was Construction and Hospitality/Leisure.
- Healthcare, however, was the only sector where sales in the next six months are expected to slow. Sales are expected to be the weakest in the Public sector and Construction.
- The Energy, Communications and Manufacturing sectors are anticipated to record the strongest sales in the next six months.

The regional picture.

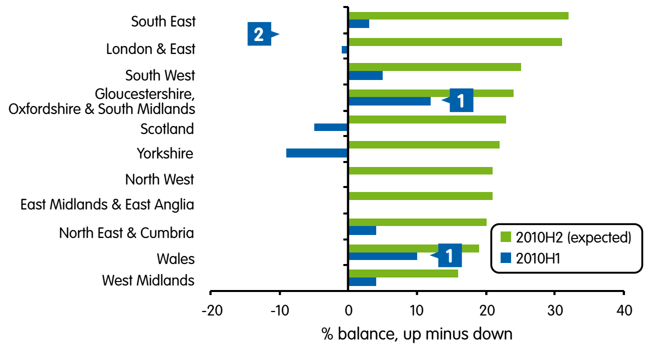
A north/south divide has appeared.

Business confidence, ranked by region.



1. Business confidence was the highest in the London & East and South East areas, both rising to 25, supported by strong balances for expected total sales, orders and profits.
2. Sentiment was the weakest in the West Midlands and Wales, with confidence at 10 and 11, respectively.

Total sales.



1. The net balance for total sales in the past six months was the strongest in Gloucestershire, Oxfordshire & South Midlands and Wales.
2. In the next six months, sales are expected to be the strongest in the South East and London & East.

A quick summary.

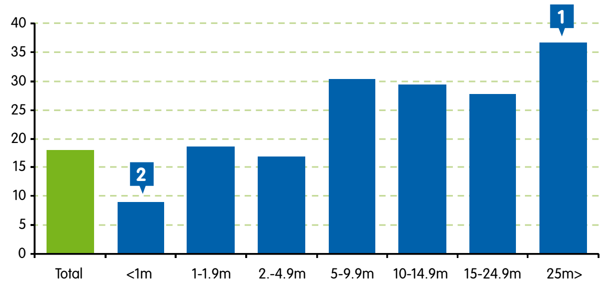
Although manufacturing is expected to be a strong performing sector, northern parts of the country tended to have weaker business confidence levels, reflecting weaker domestic demand.

The strongest balances for expected total sales are the South East and London & East, but export sales are anticipated to be the strongest in Scotland, Yorkshire and Wales.

Analysis by company size.

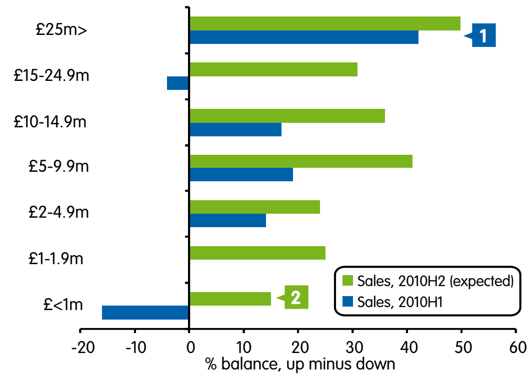
Larger companies were most confident.

Business confidence, ranked by company size.



1. Confidence among companies with turnover over £25m rose to 37, up from 21 in the last survey.
2. In contrast, business confidence was the weakest for companies with turnover below £1m, falling slightly to 9 from 10, but remained well above the low of -31 in December 2008.

Total sales.



1. The net balance for total sales in the past six months was the strongest for companies with turnover over £25m, with a net 42% reporting higher sales.
2. The lowest balance for expected total sales was 15% for companies with turnover below £1m, though this still represented a marked improvement on the past six months.

A quick summary.

Business confidence tended to be higher for companies with larger turnover.

This seems to reflect the fact that larger companies tend to be more export-oriented and are therefore able to benefit from stronger export demand relative to domestic demand.

Companies in all turnover categories expect total sales to strengthen in the next six months, with the highest balance of 50% for companies with turnover above £25m.

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If you'd like to contact us to discuss the Business in Britain report or ways Lloyds TSB could support your business please do get in touch.

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