Summary
1st Quarter 2012

The Q1 2012 results show a welcome improvement, after the disappointing figures for Q4 2011. Almost all the key national balances have strengthened in Q1, for both manufacturing and services, and are now much stronger than during the worst phase of the recent recession. But most national balances, in both sectors, remain below their pre-recession levels of 2007. The service balances have improved by less than those of manufacturing in Q1, and most service sector balances are still relatively weak by historical standards. The cashflow balances remain weak and signal potential financial problems that are a cause for concern. Manufacturing cashflow is barely positive and the service sector's balance is still in negative territory. Concerns over inflation have eased considerably in Q1, for both manufacturers and service firms, but recent renewed increases in oil and food prices may alter future perceptions.

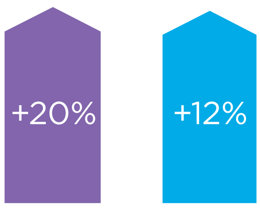
Domestic Market
All the Q1 2012 domestic balances show a welcome improvement, but they remain below their pre-recession levels. The manufacturing balance for home deliveries rose 12 points in Q1, to +12%, the strongest level since Q2 2011; the manufacturing home orders balance surged 19 points, to +6%, also the strongest level since Q2 2011. The service home deliveries balance rose eight points in Q1, to +10%, equal to the level recorded in Q2 2011. The service home orders balance rose 16 points, to +7%, the strongest level since Q2 2011. The service balances have risen by less than those of manufacturing in Q1.

Export Market
The Q1 2012 export balances strengthened for both manufacturing and services; though stronger than the home balances in both sectors, the export balances are still below their pre-recession levels. The manufacturing balance for export deliveries rose 12 points, to +24%, The manufacturing balance for export orders increased 15 points, to +20%. The manufacturing export balances remain stronger than the service export balances. The service export deliveries balance rose six points, to +16%. The service export orders balance rose 13 points, to +12%. Export balances for both manufacturing and services are at their best level since Q2 2011.

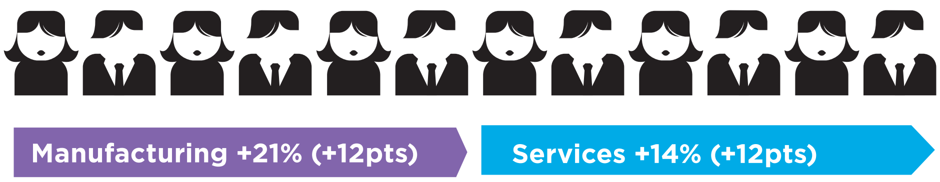
Employment
The Q1 employment balances improved for both manufacturing and services. The manufacturing employment balance rose 10 points, to +16%, the strongest level since Q4 2010. The manufacturing employment expectations balance surged 23 points, to +15%, equal to the level recorded in Q2 2011. The service employment balance increased two points, to +4%, but this is still a disappointingly weak level. The service employment expectations balance rose nine points, to +11%, the strongest since Q2 2011.

Investment
The Q1 investment balances strengthened for both manufacturing and services. The balance of manufacturing firms planning to increase investment in plant and machinery rose 12 points, to +17%, the strongest level since Q4 2010. Manufacturers' intentions to invest in training increased by

The export orders balance improved for both manufacturing (+20%) and services (+12%)



Confidence in improving profitability rose in both sectors



seven points, to +17%, the strongest level since Q1 2008. The balance of service firms planning to increase investment in plant and machinery rose three points, to +5%, equal to the level recorded in Q2 2008, but still a very weak level. Service sector intentions to invest in training rose six points, to +13%, the strongest level since Q2 2008, but are still weak.

Business Confidence

The confidence balances strengthened in Q1 2012, for both sectors. But the balances are still weak by historical standards, particularly for services. Manufacturers' turnover confidence balance surged 23 points, to +37%, the strongest level since Q2 2011. Manufacturers' profitability confidence rose 12 points, to +21%, also the strongest level since Q2 2011. The service sector's turnover confidence balance rose 11 points to 30%, equal to the level recorded in Q2 2011. Service profitability confidence increased 12 points, points to 14%, the strongest level since Q4 2010.

Capacity Utilisation and Cashflow

The percentage of manufacturing firms operating at full capacity fell eight points, to 36%. In services, the percentage of firms operating at full capacity edged up one point, to 35%. The cashflow balances remain weak, and remain in negative territory for services. The manufacturing cashflow balance fell one point, to +1%, still a weak level. Services cashflow rose four points, to -4%, and is also very weak.

Prices

Intentions to raise prices remain moderate in both sectors. The balance of manufacturing firms reporting pressure to increase prices fell three points, to +26%. The balance of service firms expecting to raise prices remained unchanged, at +24%.

Economic Climate

The Q1 2012 QES results point to a welcome improvement in the economic situation. Threats of a disorderly disintegration of the eurozone have receded, and fears of a renewed domestic recession have eased. After the disappointing GDP decline in Q4 2011, the new BCC survey supports the view that the UK economy has returned to positive growth in Q1 2012, but the results also highlight the huge challenges still facing our economy in the years ahead. Most Q1 key balances are stronger than in the second half of 2011, but are still only equal or lower to those seen in Q2 2011. Most balances are below pre-recession levels, and UK growth remains weak and inadequate. It is clear that much more must be done to empower businesses to drive a sustainable recovery. While the government perseveres with efforts to cut the deficit, it must go well beyond the recent Budget in reallocating resources within the spending envelope towards growth enhancing policies. Red tape must be cut more aggressively, the credit easing programme must be made more effective, and the MPC must play its part in ensuring that the huge QE programme encourages increased lending to viable SMEs.

The percentage of manufacturing firms reporting they were operating at full capacity fell to 36%

The percentage of firms reporting inflationary concerns fell in both sectors, manufacturing down to 37% and services down to 35%