Summary
2nd Quarter 2012

In total, the Q2 2012 results suggest that the UK economy is stable, but its growth performance is still disappointing. However, the results show a surprisingly good improvement in exports. For both manufacturing and services, the export balances are now slightly above their average pre-recession levels in 2007. But most other key Q2 2012 national balances have recorded little net overall change compared with Q1 2012. Almost all the Q2 key balances are in positive territory, across both sectors, and are stronger than their average levels in the 2008-09 recession. But, with the exception of exports and manufacturing employment, all the key balances are still below their pre-recession levels in 2007. The cashflow positions are weak, with a very low positive manufacturing balance, and a service sector balance still in negative territory. Plans to raise prices have eased further in Q2, and are now below their long term historical averages for both manufacturers and service firms. But inflation remains a significant reported concern for businesses in both sectors, despite easing price pressures.

Domestic Market

The Q2 national domestic balances recorded small movements in both directions, but there was little net overall change compared with Q1. Though higher than in the 2008-09 recession, the Q2 balances remain below their pre-recession levels in 2007. The manufacturing balance for home deliveries fell three points, to +9%; the manufacturing home orders balance edged up two points, to +8%, the strongest level since Q2 2011. The service home deliveries balance remained unchanged in Q2, at +10%. The service home orders balance fell two points, to +5%. The service balances remain weak by historical standards.

Export Market

The national export balances improved further in Q2, for both manufacturing and services. The manufacturing balance for export deliveries rose seven points, to +31%, the strongest level since Q4 2010. The manufacturing balance for export orders increased four points, to +24%, the highest level since Q1 2011. The service export deliveries balance rose eight points, to +24%, the strongest level since Q3 2007. The service export orders balance rose seven points, to +19%, the equal strongest level since Q4 2006. The manufacturing export balances remain stronger than the service export balances, but the gap has narrowed.

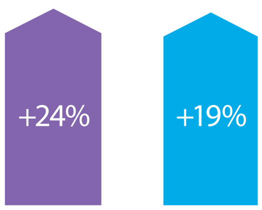
Employment

The Q2 employment balances recorded divergent movements. The manufacturing employment balance was unchanged, at +16%, the equal strongest level since Q4 2010. The manufacturing employment expectations balance fell two points, to +13%. The service employment balance increased six points, to +10%, the highest level since Q1 2008. The service employment expectations balance edged up one point, to +12%, the equal strongest level since Q1 2008. Both service balances remain below their 2007 pre-recession levels.

Investment

The investment balances recorded divergent movements in Q2. The balance of manufacturing firms planning to increase investment in plant & machinery fell six points, to +11%. Manufacturing intentions to invest in training rose one point, to +18%, the best level since Q1 2008. The balance of service

The export orders balance improved for both manufacturing (+24%) and services (+19%)



Expectations to raise prices fell in both sectors

firms planning to increase investment in plant & machinery was unchanged, at +5%. Service sector intentions to invest in training were also unchanged, at +13%. Both service balances are still at relatively weak levels.

Business Confidence

In manufacturing, the confidence balances rose in Q2. In services, turnover confidence was unchanged, and profitability confidence fell marginally. All the confidence balances are still below their 2007 pre-recession levels, and most are weak by historical standards. Manufacturers' turnover confidence rose seven points, to +44%, the strongest level since Q4 2010. Manufacturers' profitability confidence increased three points, to +24%, also the strongest level since Q4 2010. The service sector's turnover confidence balance was unchanged, at +30%, the equal highest since Q1 2011. Service profitability confidence edged down one point, to +13%.

Capacity Utilisation and Cashflow

The percentage of manufacturing firms operating at full capacity rose three percentage points, to 39%. In services, the proportion of firms operating at full capacity edged up one point, to +36%, the strongest level since Q2 2011. The cashflow balances remain weak in both sectors. The manufacturing cashflow balance rose one point, to +2%. Services cashflow rose three points, to -1%, still negative.

Prices

Intentions to raise prices have weakened in both sectors, mostly in manufacturing. The balance of manufacturing firms reporting pressure to increase prices plunged 17 points, to +9%, the lowest since Q1 2010. The balance of service firms expecting to raise prices fell six points, to +18%, the equal weakest result since Q3 2009.

Economic Climate

The Q2 2012 results suggest weak and inadequate, but still positive, UK growth. The economic outlook is difficult and uncertain. With the Diamond Jubilee reducing the numbers of days worked in Q2, and early estimates showing renewed falls in the erratic construction sector, there is a distinct possibility that official figures for Q2 may show negative UK GDP growth for a third quarter in a row. If this happens, it would be at variance with our survey results. One immediate priority is to ensure that official statistics, which may yet be revised long after they are initially published, do not damage confidence unnecessarily. The real challenges still facing our economy are vast. Businesses must plan for relatively low growth in the next few years, as fiscal austerity restores stability to our public finances and the eurozone's problems create a challenging environment for our exports. But UK businesses are resilient, and have huge untapped potential. To empower them, the government must act radically and decisively to support growth. More forceful deregulation, increased infrastructure investment, and the creation of a new business bank will help businesses create jobs and drive growth.

The balance of manufacturing firms reporting an increase in domestic sales fell

The percentage of firms reporting exchange rate concerns rose in both sectors: manufacturing up to 52% and services up to 18%