

The National Business Survey

National Report – June 2009 Results

Ipsos MORI



Executive Summary - The Business Climate

- The NBS confirms the tough conditions faced by businesses over the last 12 months – with the majority (56%) of businesses in England reporting that their business performance has deteriorated over the past 12 months
 - Conditions remain challenging across all regions in England, although businesses in the West Midlands and London were more likely to report that performance has deteriorated in the last 12 months
 - Across all sectors, firms were more likely to report that overall business performance has deteriorated in the last 12 months than remained stable. The proportion of businesses reporting higher domestic orders decreased from 24% in June 2008 to 14% in June 2009, while those reporting higher profit margins fell from 15% to 8% in June 2009
- The downturn has clearly altered competitive dynamics; most businesses have experienced stronger price pressure and a higher level of competition which has eroded profits
 - Firms in the construction sector have suffered most, contending with weak demand while also charging lower prices to customers which has further impacted on profit margins
- Businesses remain cautiously optimistic about market conditions going forward. An increasing proportion (22%) of firms now expect conditions to improve in the next 12 months compared to 10% in November 2008
 - Despite weak historic performance, businesses report a more positive outlook going forward. All key metrics – orders, output and margins - are expected to be higher in the next 12 months
- Most businesses remain well placed to weather a further downturn, although there is a significant group of firms which would be highly vulnerable if conditions deteriorate further

Executive Summary – Response to the Downturn

- Businesses have undertaken a range of actions in response to the downturn, the most common are to reduce their staffing costs
 - Interestingly, while firms that are not well placed to weather the downturn have taken measures to cut costs, they are less likely to have pro-actively pursued new markets or customers to improve sales
 - Some organisations have raised new sources of finance or credit (13%) or renegotiated existing finance or credit (15%) in the last 12 months. A higher proportion intend to raise new finance in the next 12 months
- Again, the next 12 months provide some cause for optimism. While 37% of firms reduced their number of staff in the past 12 months, only 21% expect to do so in the next 12 months
 - While unemployment has not peaked, this points to a possible slowing of unemployment growth going forward
- Businesses remain cautious over increasing capital investment levels – only 23% intend to invest more in their business in the next 12 months - unsurprising given the challenging current conditions
 - The expected level of capital investment in key categories – buildings, plant and machinery - remains depressed, although investment in marketing and sales is more healthy, with 23% of businesses expecting to invest more in this area over the next 12 months
- Surprisingly, given the current economic climate, only 36% of businesses have a formal business growth plan. These firms are more likely to report improved performance over the last 12 months and are much more likely to be better placed to weather a further downturn
- The number of firms who have introduced a new product or process innovation increased from 23% in November 2008 to 39% in June 2009, a clear response to tough conditions

Executive Summary – Cost and Financial Pressures

- Cost pressures appear to be easing slightly reflecting more competitive supply conditions and general tighter control by firms. Staff costs have seen the biggest change with 38% of businesses stating that they increased in June 2009, compared to 61% in June 2008
 - Businesses expect costs to continue to follow a downward trend, reflecting an increased focus on harder negotiations to get the best value for money from suppliers to lower their overall cost base
 - The increasingly price competitive environment has made firms less willing to pass on increased costs to customers with only 47% passing on costs in June 2009, compared to 64% the previous year
- Despite a reduction in staffing levels in response to the downturn, the number of firms with excess capacity continues to grow as demand has weakened
 - Firms in the manufacturing (82%) and hotels/catering (81%) sectors are the most likely to report having excess capacity compared to other sectors.
- The combination of firms scaling back their recruitment activities alongside an emerging buyers market for labour means that companies are less likely to report having staff vacancies that are difficult to fill

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Background and methodology

Background and objectives

- This report is based on findings from the National Business Survey (NBS), June 2009, conducted by Ipsos MORI on behalf of the Regional Development Agency Network and Invest Northern Ireland.
- The National Business Survey is one of the largest and most statistically robust of its kind carried out in England and Northern Ireland with over 6,800 companies responding from all sectors of the economy. Respondents are senior business leaders within their organisation.
- The survey is carried out twice a year (spring and autumn) with the latest findings covering opinion for the months May – June 2009. The survey asks a variety of questions ranging from business optimism to orders and output, skills issues, cost pressures and environmental performance.
- The survey builds on the findings and work of the survey carried out in June 2008, November 2008 and of the previously titled “UK Survey of Regional Economic Trends”, which ran over nine consecutive waves, from spring 2003.

Methodology

- The methodology and questionnaire remain largely unchanged to ensure consistency of approach between survey waves and data.
- The National Business Survey uses a postal methodology, with the option of completing the survey online for those who find this more convenient.
- An initial mail-out was sent out to a randomly selected, representative sample of businesses and organisations across the country. Following this email reminders were sent to all organisations with email contact details.
- Fieldwork was conducted between May and June 2009 and the final achieved sample size was 6,827. The table on the next slide shows how responses were broken down by each region.
- Data have been weighted by size (employee numbers), region and sector, to reflect the national profile.

Sample sizes

Region	Sample Size June 2009	Sample Size November 2008	Sample Size June 2008
Yorkshire and Humber	1,215	843	1,144
West Midlands	616	327	319
South West	558	425	454
South East	957	569	657
North West	620	538	357
North East	431	343	307
London	552	505	414
East Midlands	938	738	735
East of England	529	380	410
England	6,416	4,668	4,797
Northern Ireland	411	335	438
TOTAL (England and Northern Ireland)	6,827	5,003	5,235

Publication of data and acknowledgements

■ **Publication of the Data**

- As with all our studies, these findings are subject to our standard Terms & Conditions of Contract. Any press release or publication of the findings of this survey requires the advance approval of Ipsos MORI. This would only be refused on the grounds of inaccuracy or misrepresentation of the findings.

■ **Acknowledgements**

- We would like to place on record our thanks for the input and support provided during the study from Victoria Gell, Bethan Sheridan-Jones, and Patrick Bowes at Yorkshire Forward, as well as Ian Kay at the Office for National Statistics. We would also like to thank all businesses who took the time to take part in the survey.

Findings from the National Business Survey

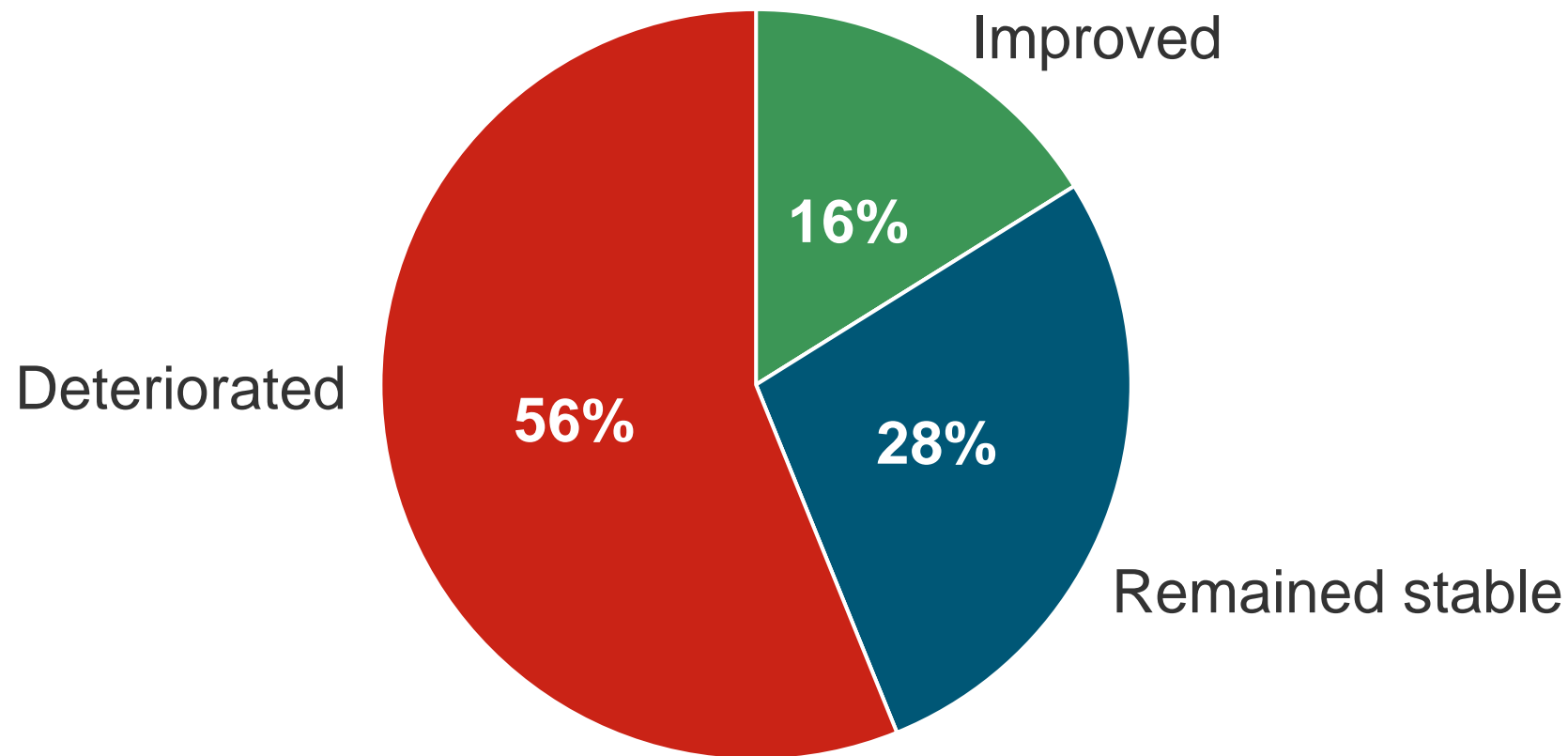
June 2009

Section 1

Headline Business Performance

The NBS confirms the tough conditions faced by businesses over the last 12 months

Q Would you say that overall, your business performance in the past 12 months has improved, remained stable or deteriorated?

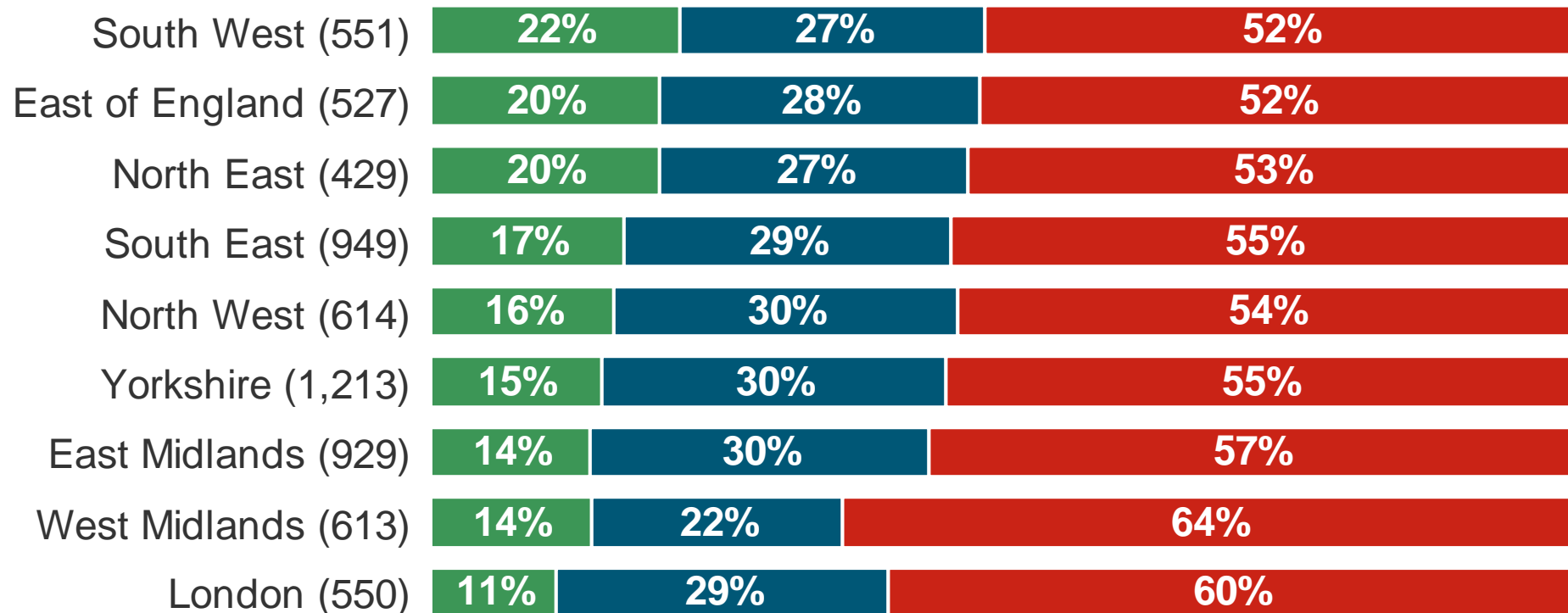


The majority (56%) of businesses in England (61% in Northern Ireland) reported that their business performance has deteriorated over the past 12 months, illustrating the impact of the downturn and weak demand conditions. Just 16% of firms reported that business performance had improved (11% in Northern Ireland).

Conditions remain challenging across all regions in England, although businesses in the West Midlands and London were more likely to report that performance has deteriorated in the last 12 months

Q Would you say that overall, your business performance in the past 12 months has improved, remained stable or deteriorated?

■ Improved ■ Remained Stable ■ Deteriorated

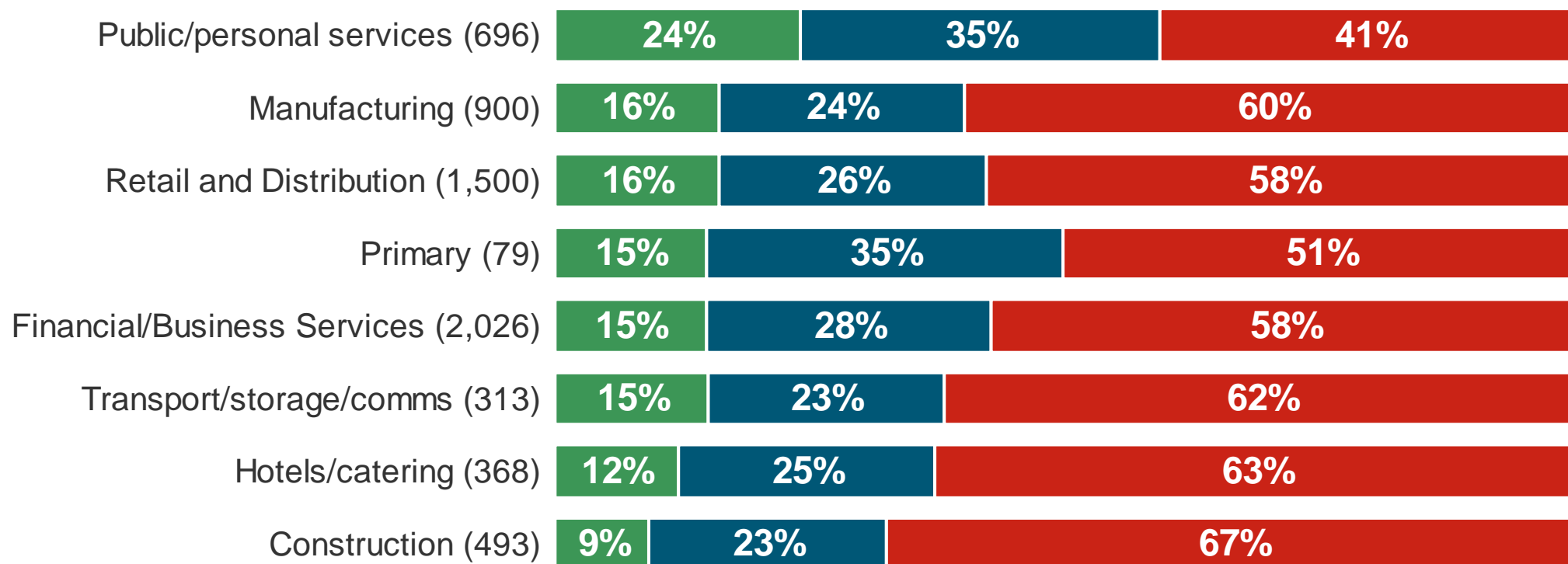


The West Midlands region had the highest proportion of firms (64%) reporting that performance had deteriorated over the last 12 months, significantly different from most other regions across England. These data show that business performance has differed by region, with the South West enjoying the highest number of firms stating that performance has improved in the last 12 months.

Across all sectors, firms were more likely to report that business performance has deteriorated in the last 12 months than remained stable. However, firms in the construction sector have suffered most.

Q Would you say that overall, your business performance in the past 12 months has improved, remained stable or deteriorated?

■ Improved ■ Remained Stable ■ Deteriorated

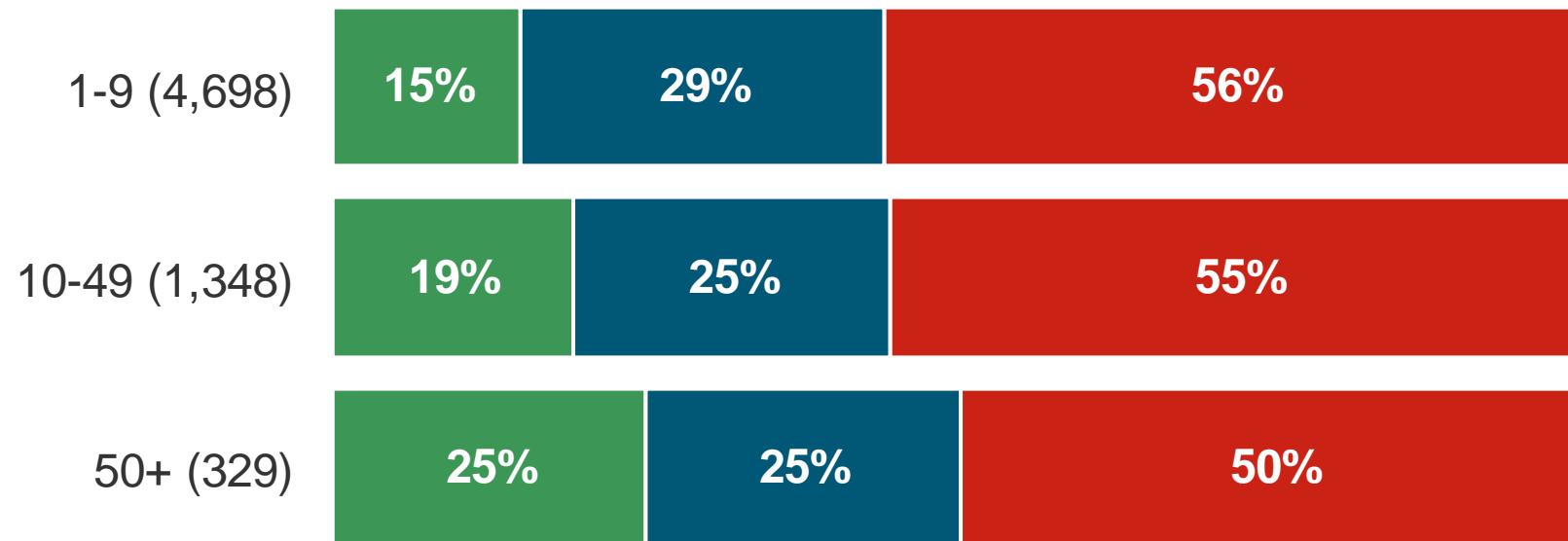


Over two thirds (67%) of businesses in the construction sector have reported a deterioration in their business performance in the last 12 months. Firms in the hotels/catering sector have also found conditions to be particularly challenging. The public/personal services sector has been the most sheltered from the downturn with a lower proportion (41%) stating that conditions have deteriorated compared to other sectors

Smaller businesses with 1-9 employees have reported the sharpest deterioration in performance over the last 12 months

Q Would you say that overall, your business performance in the past 12 months has improved, remained stable or deteriorated?

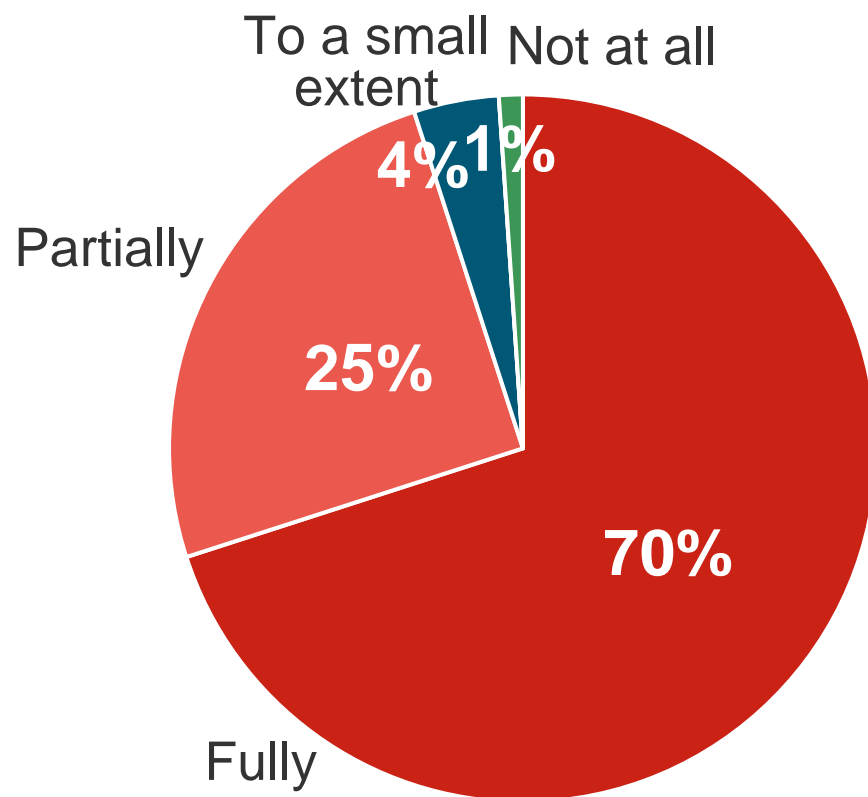
■ Improved ■ Remained stable ■ Deteriorated



Larger businesses with 50+ employees are more likely to report improved business performance in the last 12 months. A quarter (25%) of business with 50+ employees have seen an improvement in business performance over the past 12 months compared to only 15% of businesses with 1-9 employees. While conditions have been tough for all sizes of business, smaller firms have clearly felt a sharper impact on performance and have been more exposed overall.

Unsurprisingly, the vast majority of businesses fully attribute a deterioration in performance to the current economic conditions, illustrating the impact of the downturn

Q If it has deteriorated, to what extent do you attribute this specifically to the current economic conditions affecting the UK?



	Fully	Partially	To a small extent	Not at all
Construction	85%	14%	2%	0%
Manufacturing	78%	18%	3%	1%
Financial / Business Services	74%	22%	4%	1%
Transport/storage/comms	74%	20%	5%	1%
Retail and Distribution	67%	29%	4%	0%
Hotels/catering	61%	34%	5%	1%
Public/personal services	61%	32%	6%	2%
Primary	47%	40%	8%	6%

More than two thirds (70%) of businesses fully attribute a deterioration in businesses performance to the current economic conditions (63% in Northern Ireland). Firms in the construction and manufacturing sector are the most likely to fully attribute performance to current economic conditions, while the primary sector is least likely. There are no significant differences by English region

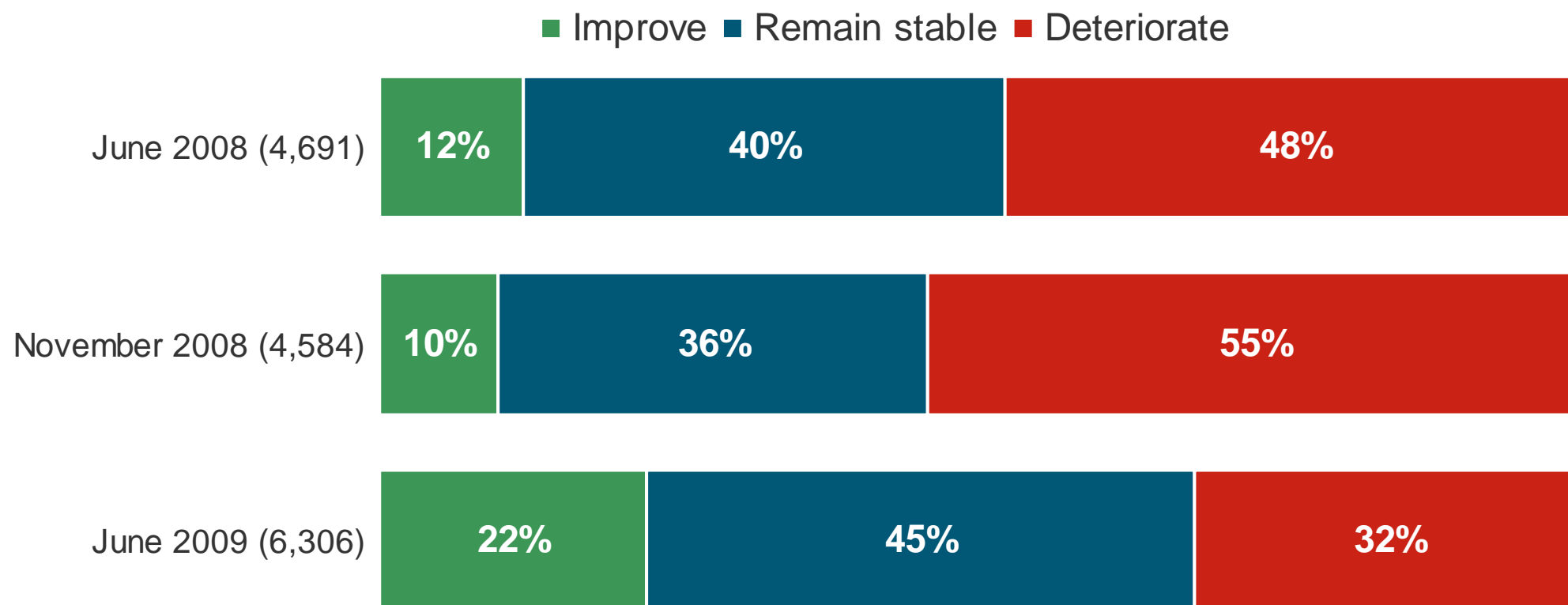
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Base: All businesses in England answering (3,646)



The increasing proportion of firms now expecting a recovery, provides some optimism that business performance will also improve going forward. However, it remains to be seen if these positive expectations are translated into actual performance

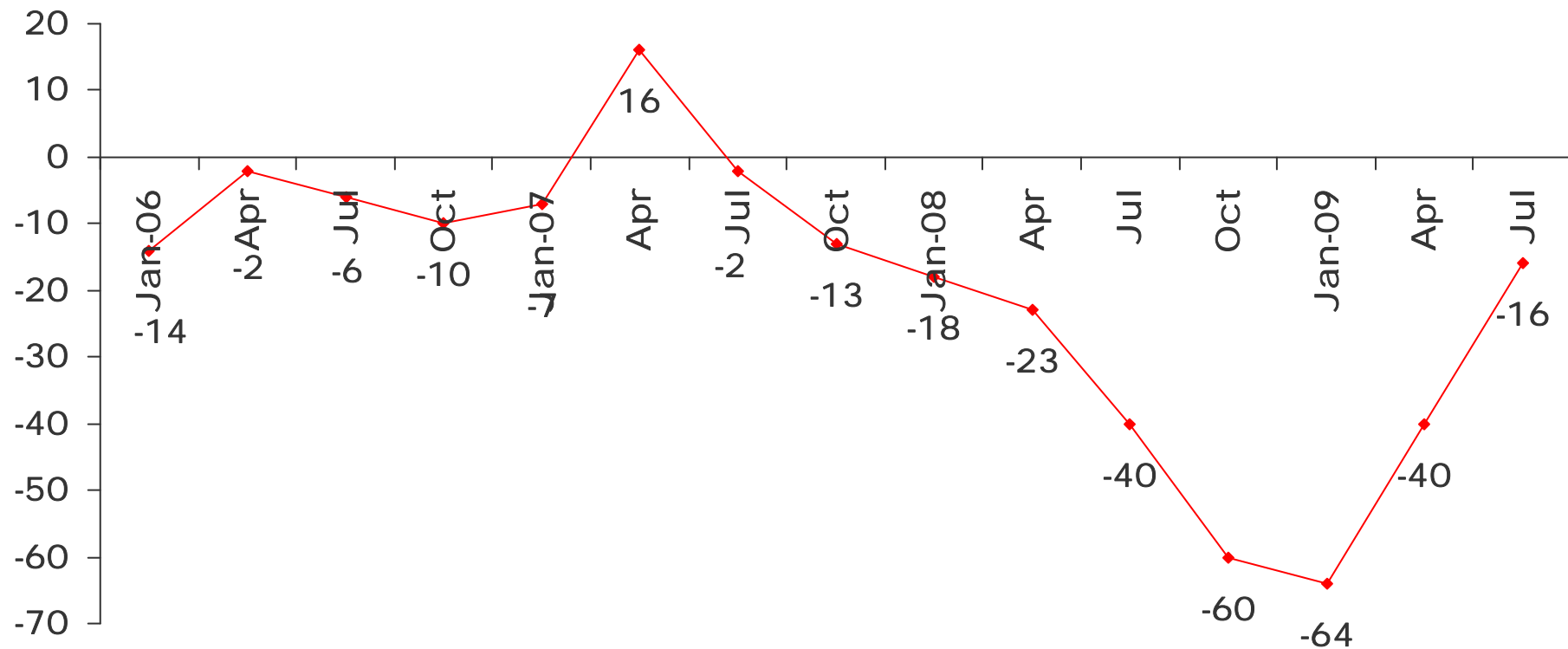
Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?



For the first time, the proportion of firms expecting conditions to improve has increased: from 10% in November 2008 to 22% in June 2009. While the proportion of businesses expecting conditions to deteriorate over the next 12 months has fallen strongly, 32% still expect this in June 2009

The CBI Quarterly Industrial Trends Survey shows a similar trend to the NBS – business confidence has improved in January 2009, but the balance remains firmly negative overall

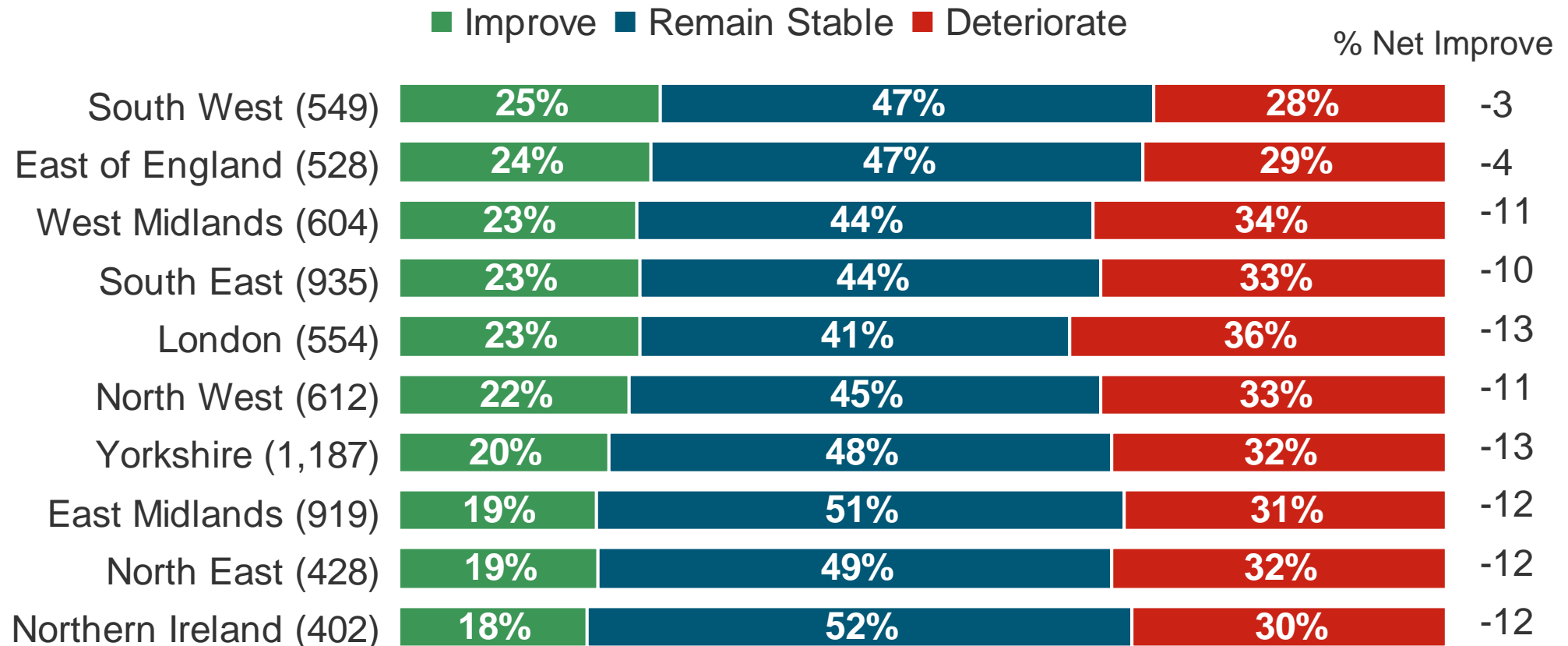
Balance is a percentage difference between negative and positive responses



Source: CBI Quarterly Industry Trends Survey (UK)

While there are few significant differences in expectations by region, businesses in the South West and East of England are most optimistic overall

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?

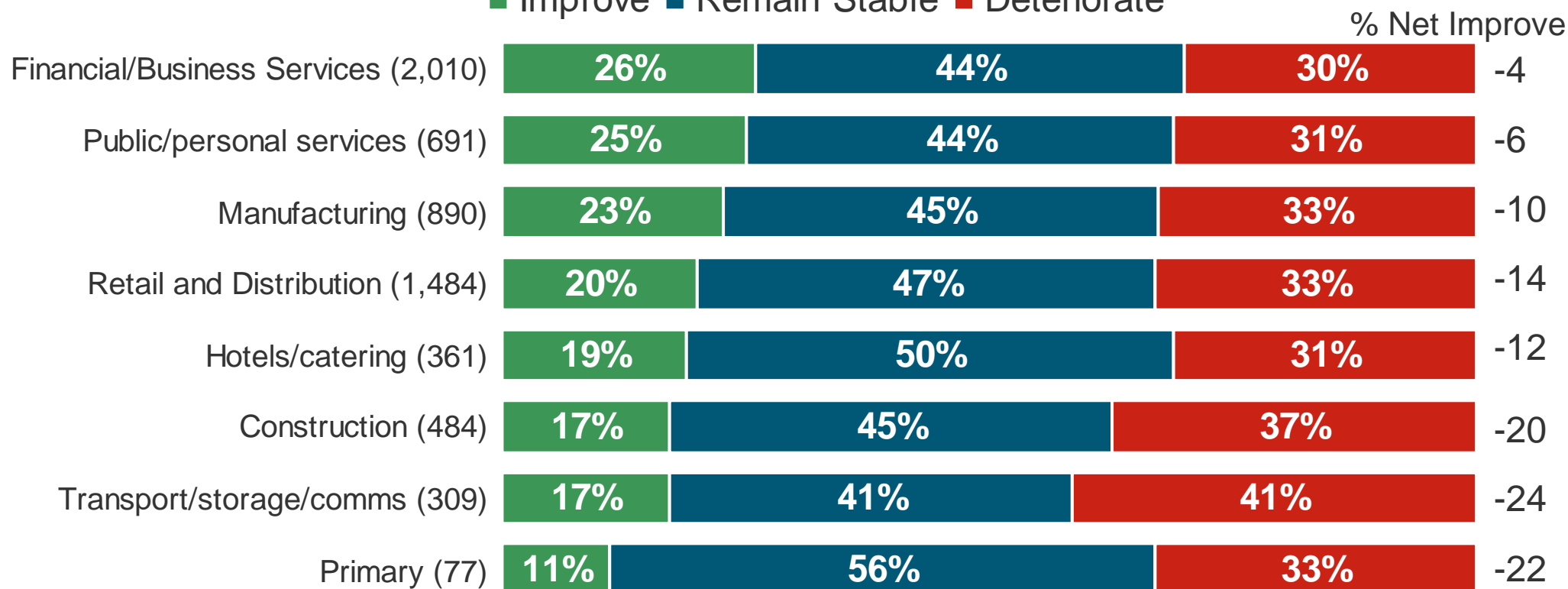


Organisations in the South West and East of England are again the most positive regions in England with a net improve score of -3% and -4% respectively. Businesses in these regions were also the most likely to state that business performance had improved, which may explain the positive expectations

The Financial / Business Services sector are most optimistic about the future business climate, driven by a period of relative stability in the consumer and wholesale banking markets

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?

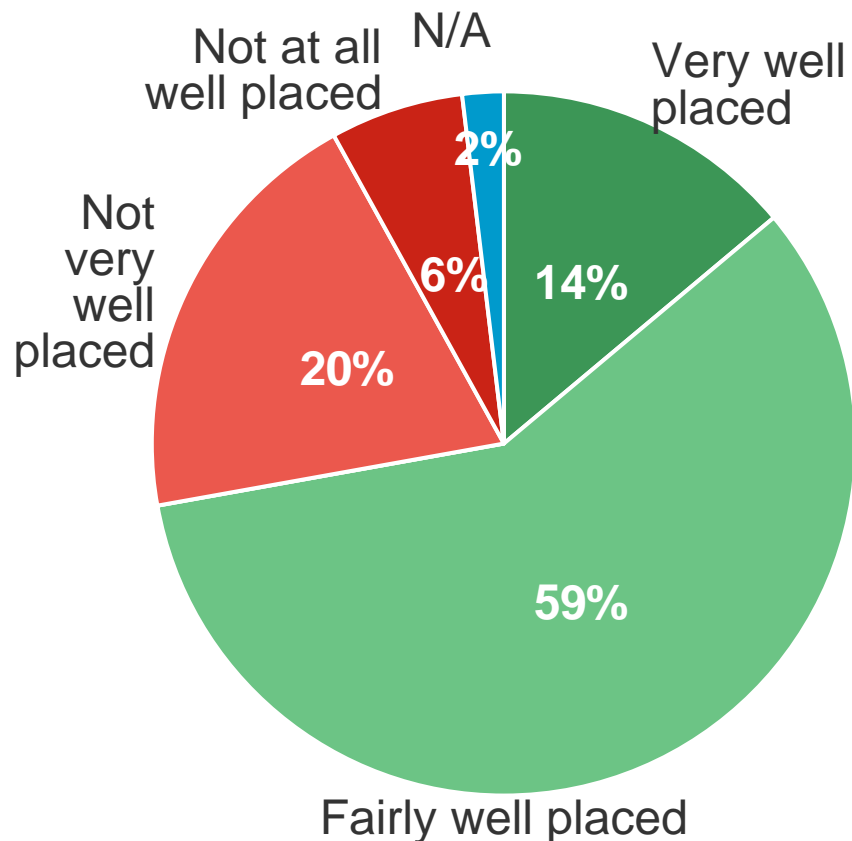
■ Improve ■ Remain Stable ■ Deteriorate



Challenging conditions are expected to continue in the primary sector with just 11% expecting the business climate to improve. The construction sector also remains one of the most negative sectors most likely to expect conditions to deteriorate further going forward. Despite the differences in business performance by business size, there are no significant differences in outlook for the business climate between smaller and larger businesses

Most businesses remain well placed to weather a further downturn, although there is a significant group of firms which would be highly vulnerable if conditions deteriorate further

Q How well placed is your business to weather any downturn in economic conditions over the next 12 months?



	Very well	Fairly well	Not very well	Not at all well
Public/personal services	17%	58%	17%	5%
Manufacturing	15%	61%	18%	6%
Financial and Business Services	14%	60%	19%	6%
Retail and Distribution	13%	59%	21%	6%
Transport/storage/comms	11%	64%	18%	5%
Construction	11%	53%	25%	10%
Hotels/catering	10%	51%	29%	10%
Primary	9%	70%	14%	7%

Just over a quarter (26%) of businesses overall feel they are not well placed to weather any further downturn in the next 12 months (30% in Northern Ireland). These firms are more likely to be within the construction (35%) and hotels/catering (39%) sectors. These sectors also saw the greatest deterioration in business performance and will clearly be most in need of support should demand fall further

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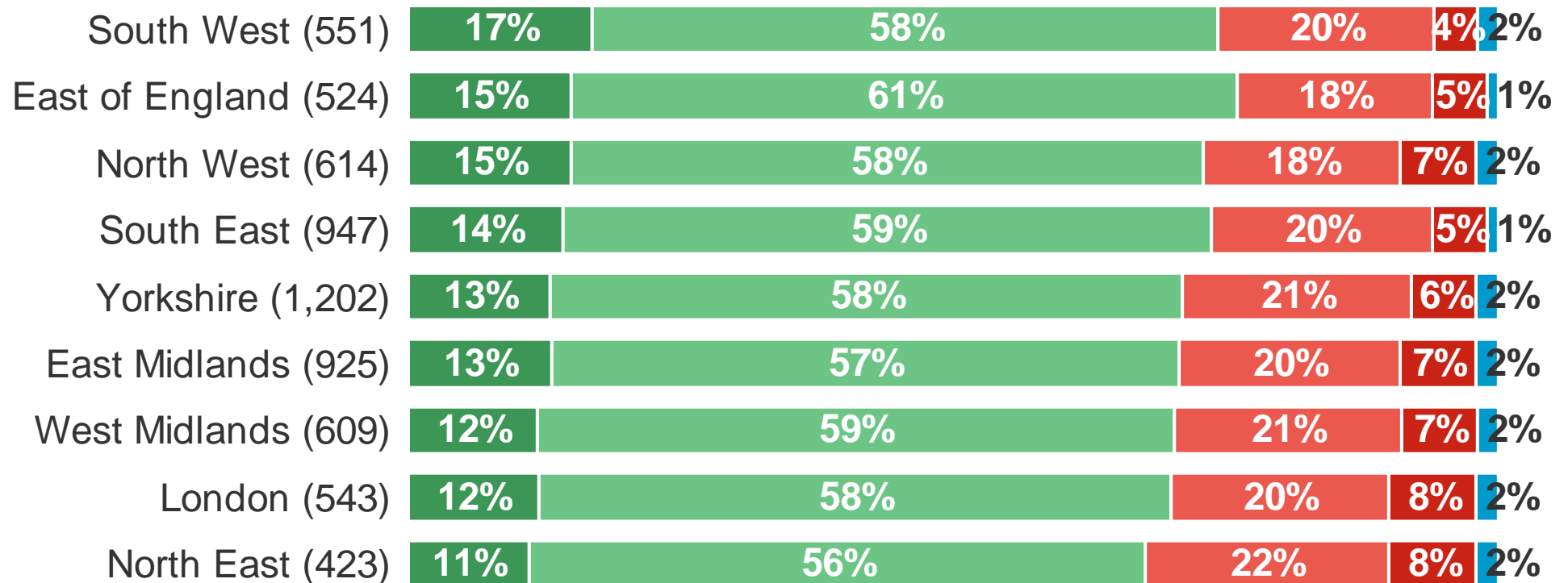
Base: All businesses in England answering (6,338)



Firms in the South West and East of England report being best placed for a further downturn. Businesses in these regions also reported the strongest performance and had the most positive expectations overall

Q How well placed is your business to weather any downturn in economic conditions over the next 12 months?

■ Very well placed ■ Fairly well placed ■ Not very well placed ■ Not at all well placed ■ N/A



Firms in the North East reported stronger performance than a number of other regions but interestingly have the highest proportion of business stating they are not well placed to weather a downturn. Businesses in this region are also the least optimistic about their future business climate

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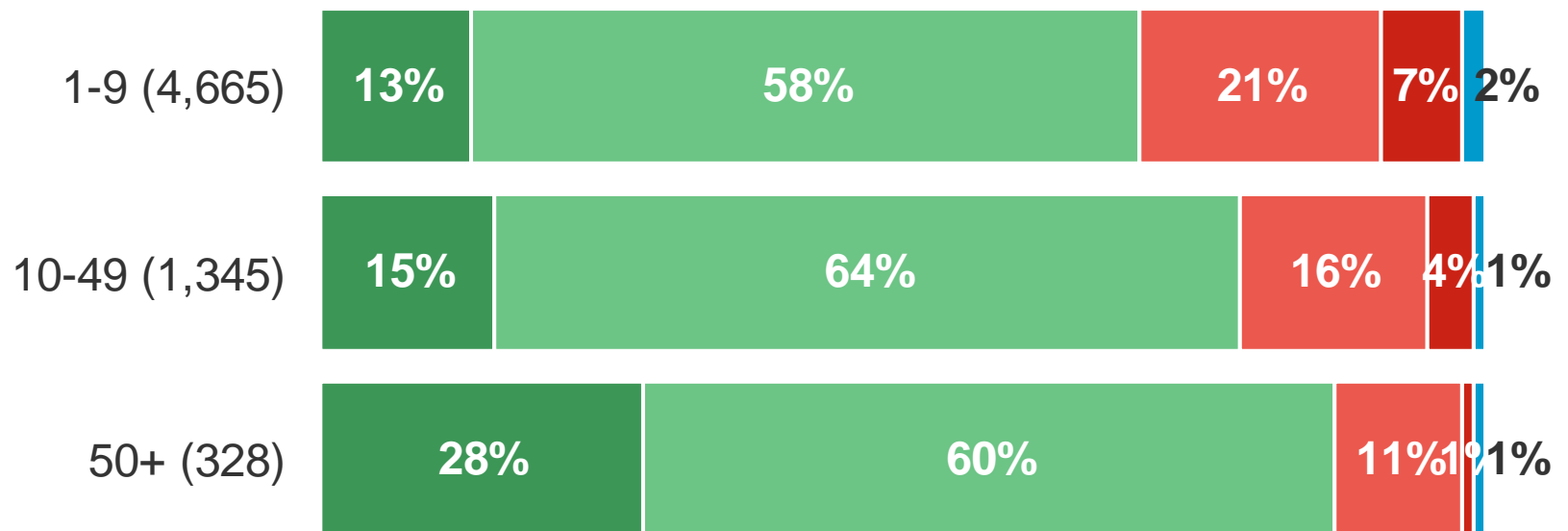
Base: All businesses in England answering (shown in brackets)



Unsurprisingly, given the weaker performance over the last 12 months, smaller firms are also more likely to state they are not well placed to weather a downturn

Q How well placed is your business to weather any downturn in economic conditions over the next 12 months?

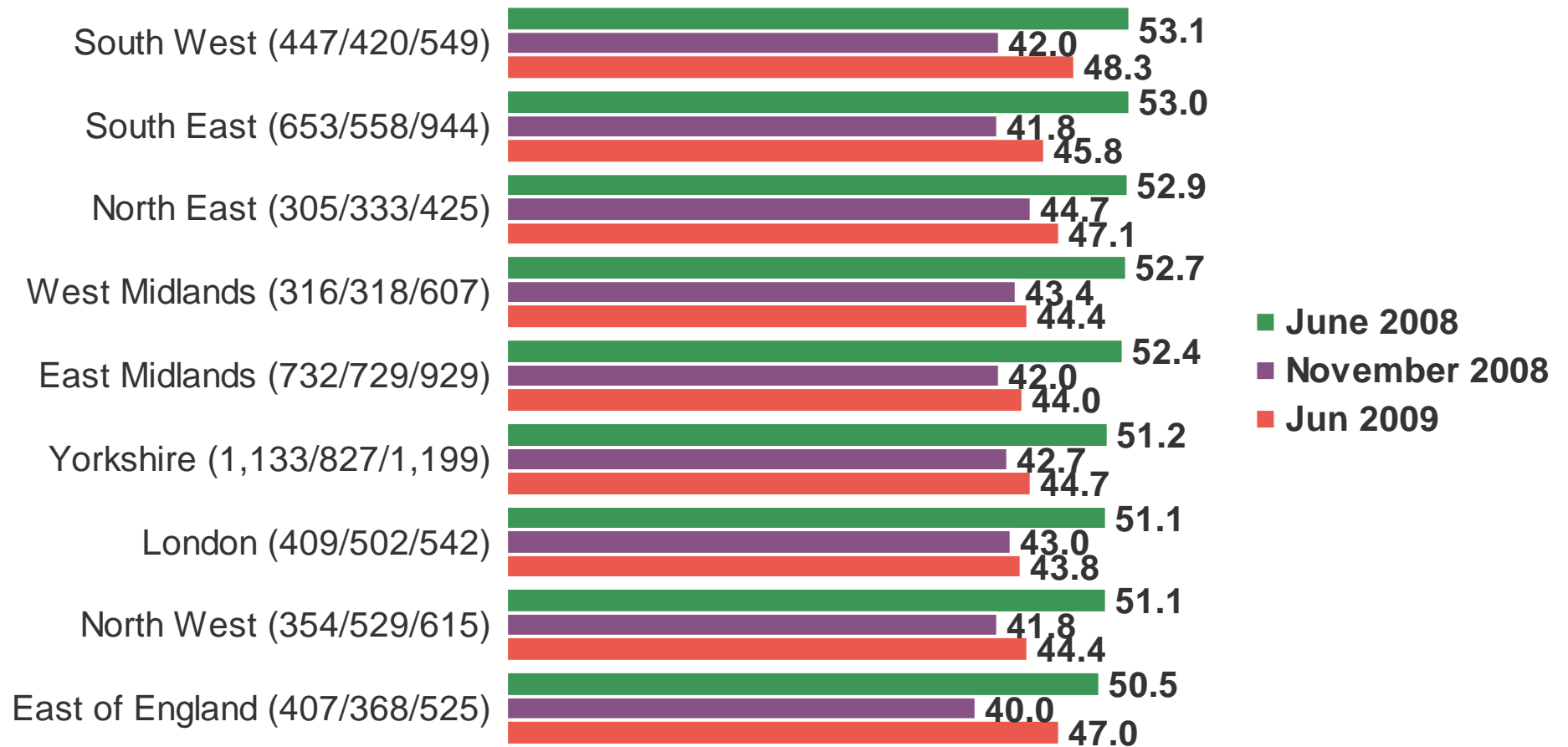
■ Very well placed ■ Fairly well placed ■ Not very well placed ■ Not at all well placed ■ N/A



28% of businesses with 1-9 employees stated they are not well placed to weather a downturn in economic conditions in the next 12 months, compared to 12% for 50+ employee firms. Smaller firms clearly feel more exposed should demand weaken significantly and are most at risk

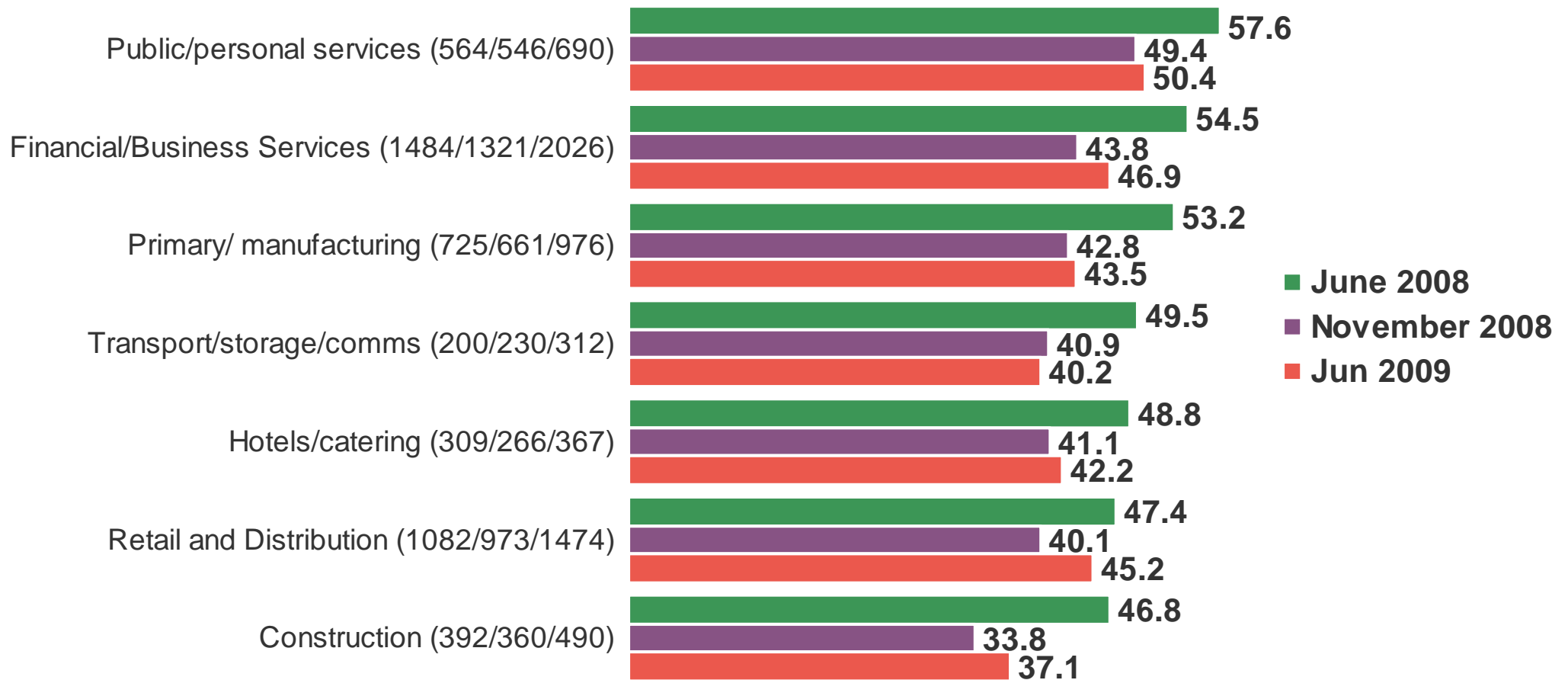
The Index of Business Confidence has increased from 42.9 in November 2008 to 45.3 in June 2009, but still falls short of the figure of 51.9 in June 2008

Index of Business Confidence – (National Index 45.3)



The public sector remains the most confident with an index of 50.4, compared to the most negative sector, construction (37.1)

Index of Business Confidence – (National Index 45.3)

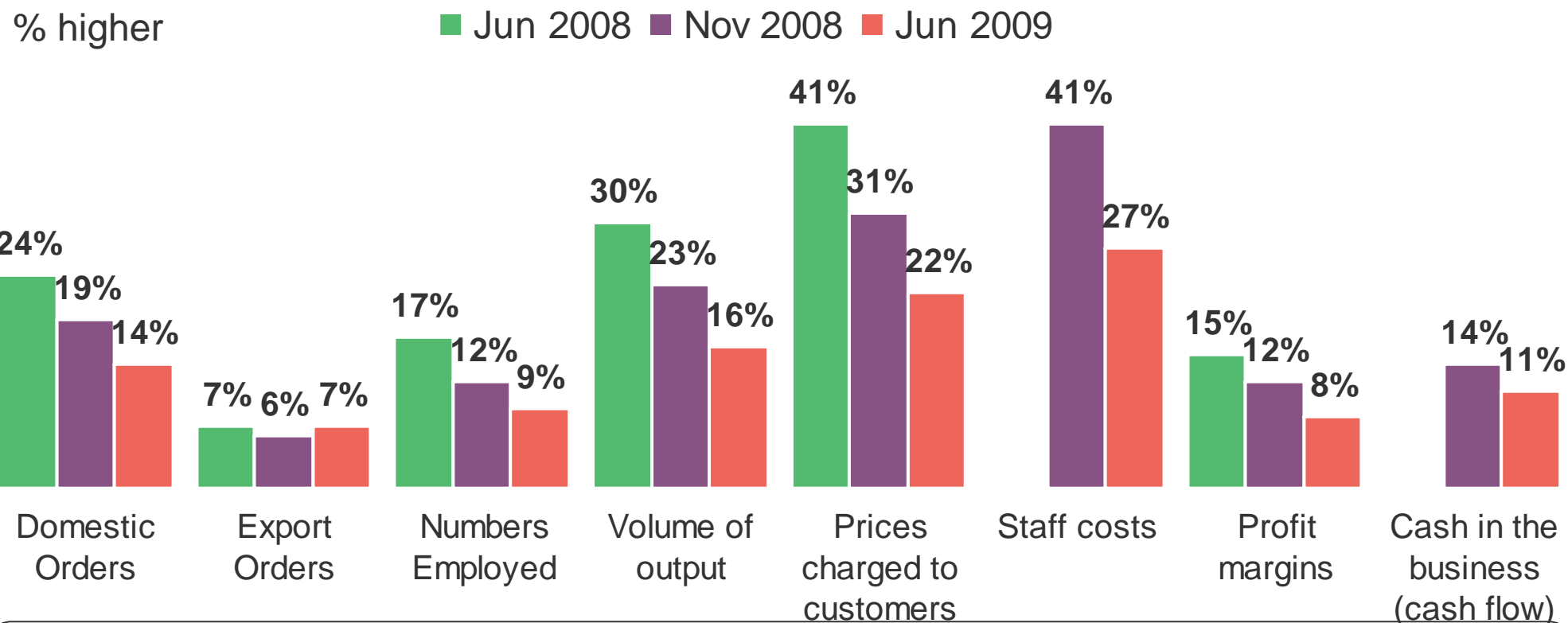


Section 2

Performance and outlook across key business metrics

The NBS provides yet more evidence of what a tough year it has been for business. Performance across all key measures has deteriorated further compared to November and June 2008

Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to...

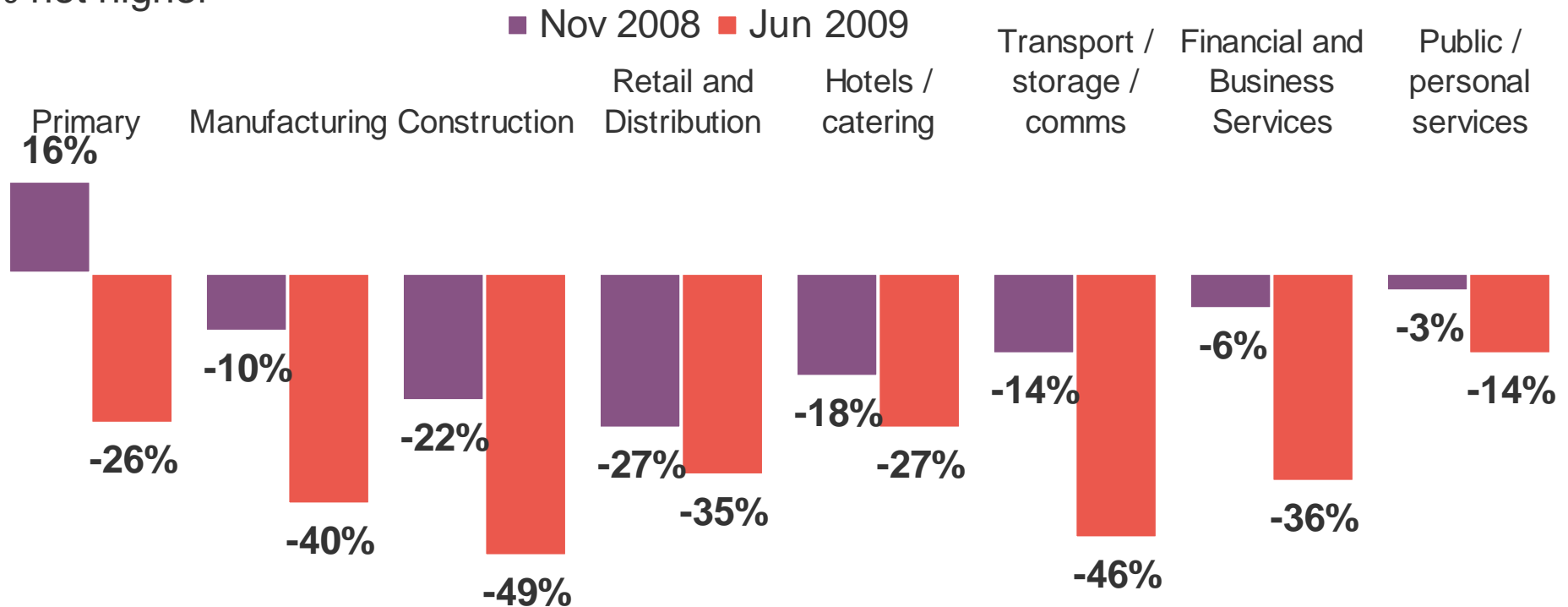


Given the deterioration in overall business performance reported by businesses, it is unsurprising that order levels, output and profit margins have declined further between November 2008 and June 2009. Export orders are the only measure to have held relatively steady - exporters may have benefitted from the relative weakness of sterling by historic standards

When comparing the net higher domestic order figures, it is clear that all sectors have seen a large deterioration in order levels since November 2008 as a result of the downturn

Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to... Domestic orders

% net higher



The balance of firms reporting higher domestic order levels vs. those that reported lower orders has further deteriorated between November 2008 and June 2009. Firms in the construction, manufacturing and transport sectors have suffered the most overall, although the greatest decline is within the primary sector, which shifted from a balance of +16% in November 2008 to -26% in June 2009

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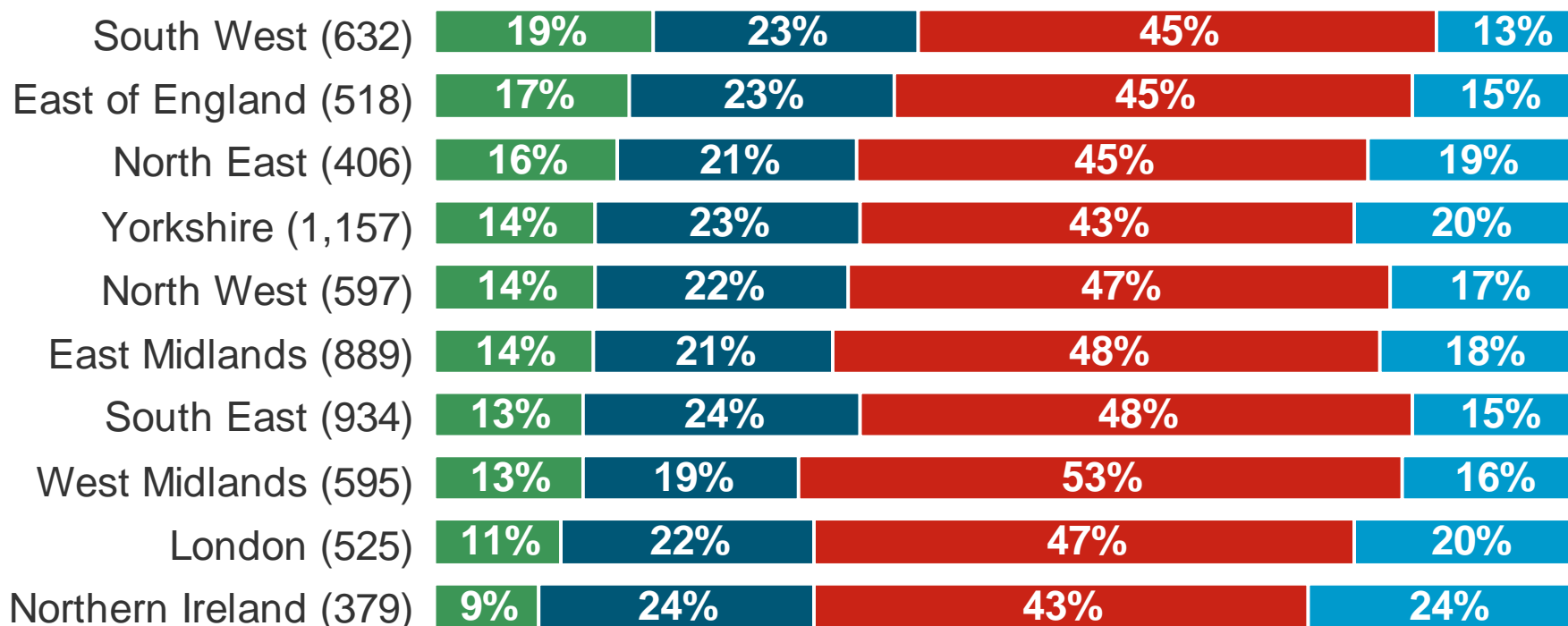
Base: All businesses in England answering (Nov 2008 – 4,477, Jun 2009 – 6,153)



In keeping with the data on overall business performance, businesses in the South West and East of England reported the lowest negative balance for domestic orders

Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to... Domestic orders

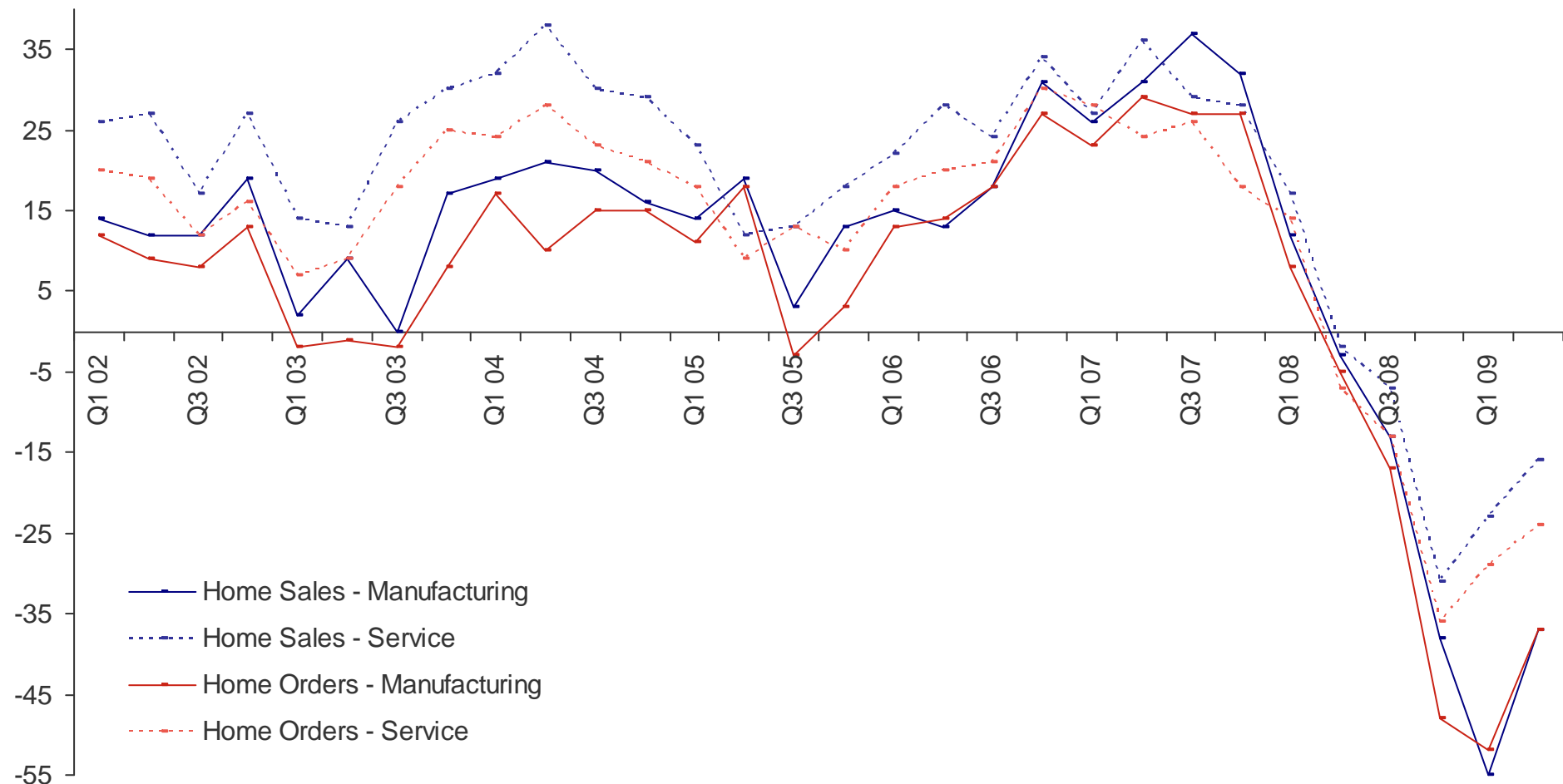
■ Higher ■ Same ■ Lower ■ Not applicable



While the picture remains extremely challenging across England, there are some significant differences in domestic order performance by region: businesses in London (-37%) and the West Midlands (-40%) report the weakest balance for domestic orders overall. Firms in these regions also had some of the highest proportions who stated they were the least well placed to weather a further downturn, further explaining the trend

Results from the British Chambers of Commerce (BCC) contrast the NBS and point to improving performance. BCC results in Q2 2009 saw the first improvement for two years in the balance of businesses reporting higher home sales and orders

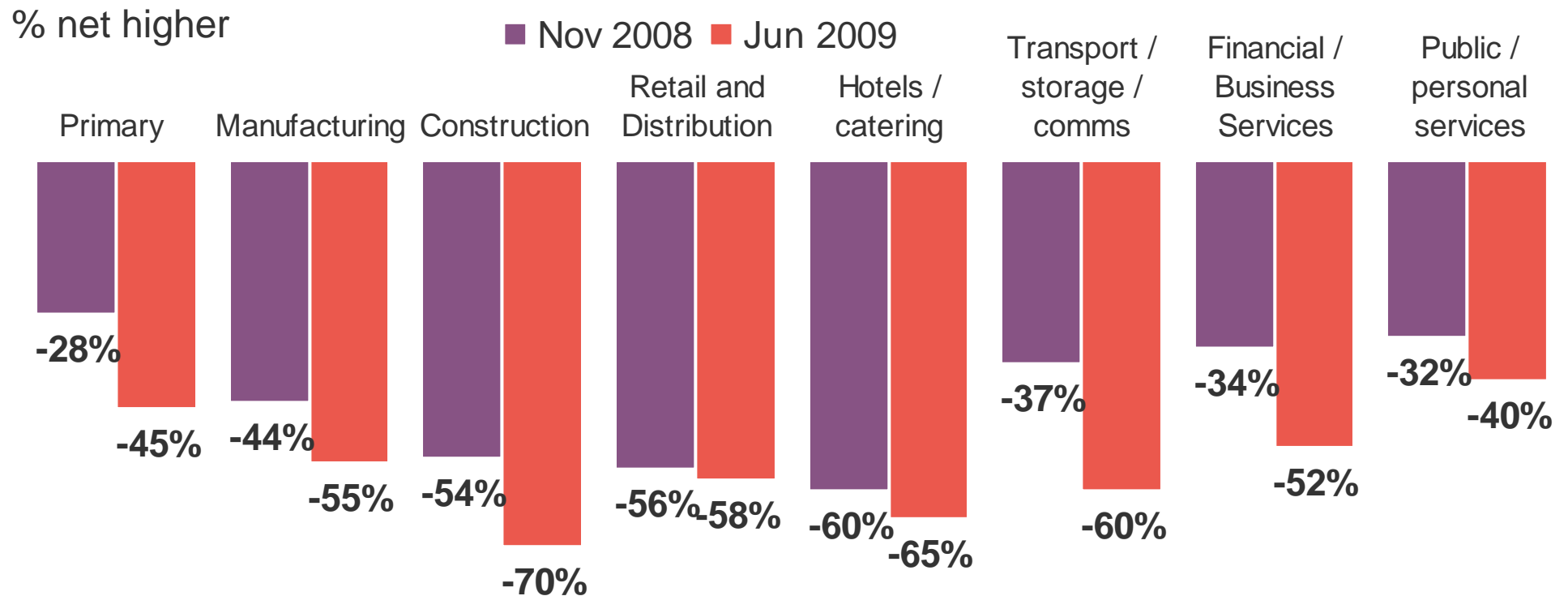
Sales, by home sales and orders, within manufacturing and servicing sectors



Source: BCC Quarterly Economic Survey (UK)

The NBS highlights that profit margins were under considerable pressure in November 2008, but have deteriorated further in June 2009

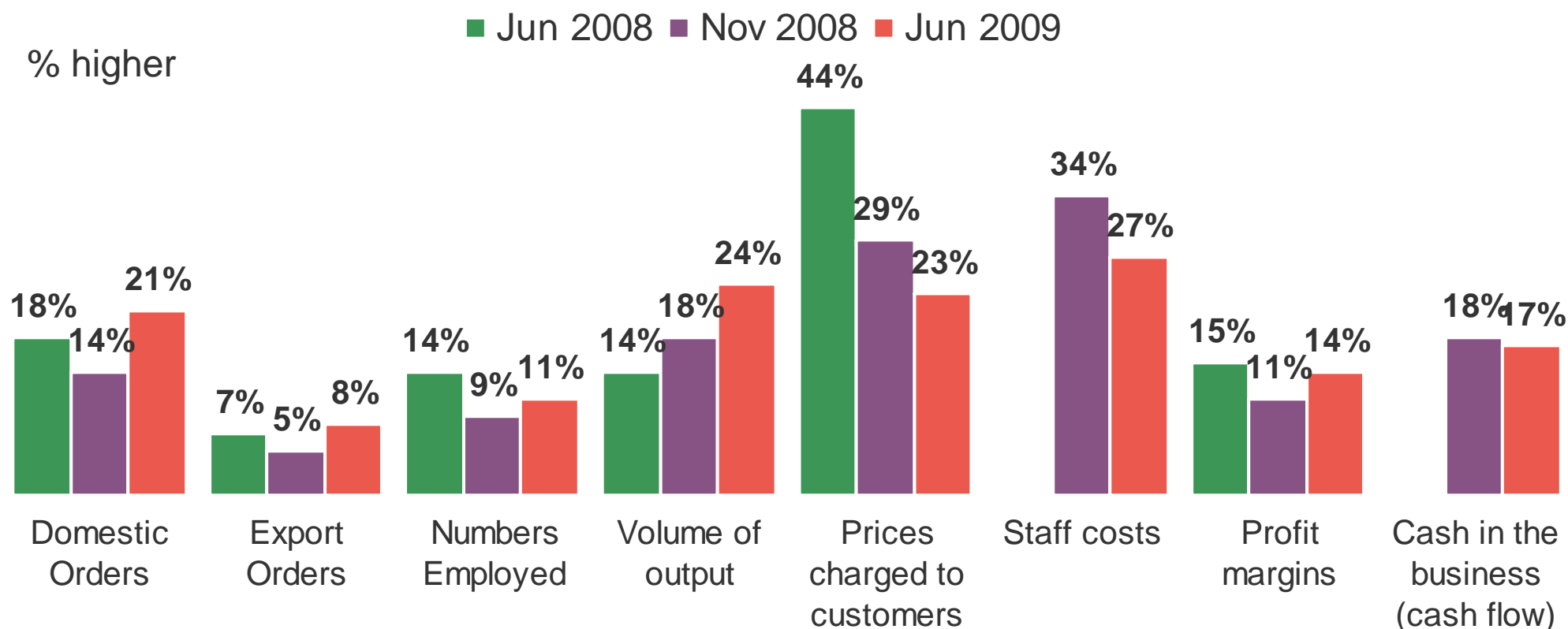
Q Excluding seasonal variations, what has been the trend during the past 12 months with regard to... Profit margins



All sectors have suffered from weakening profit margins, although the lowest balance is within the construction (-70%) and transport (-60%) sectors. These sectors have had to contend with weak demand but are also most likely to have charged lower prices to customers in the last 12 months, which has clearly impacted on profit margins

Despite weak historic performance, businesses report a more positive outlook going forward. All key metrics – orders, output and margins - are expected to be higher in the next 12 months

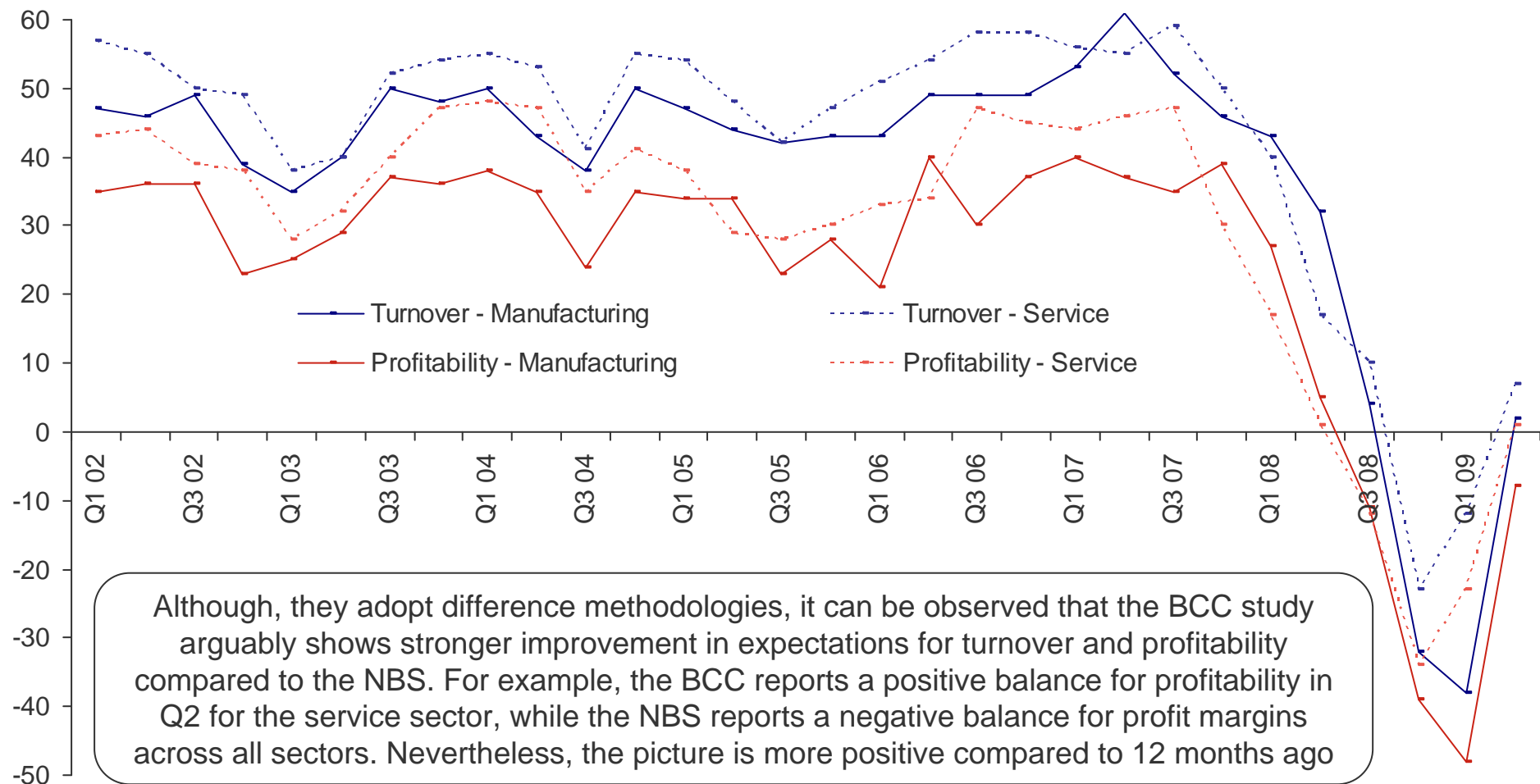
Q Excluding seasonal variations, what are the expected trends for the next 12 months with regard to...



Signs of improvement include an increase in the number of businesses expecting domestic orders to rise – from 14% to 21% in June 2009, output volume is also expected to increase. However, firms are clearly intending to keep prices charged down to boost demand – the proportion of firms expecting higher prices has fallen sharply from 44% in June 2008 to 23% in June 2009

The trend of the BCC Quarterly Economic Survey is consistent with expected trends in the NBS, showing a 'bounce back' in expectation for turnover and profitability

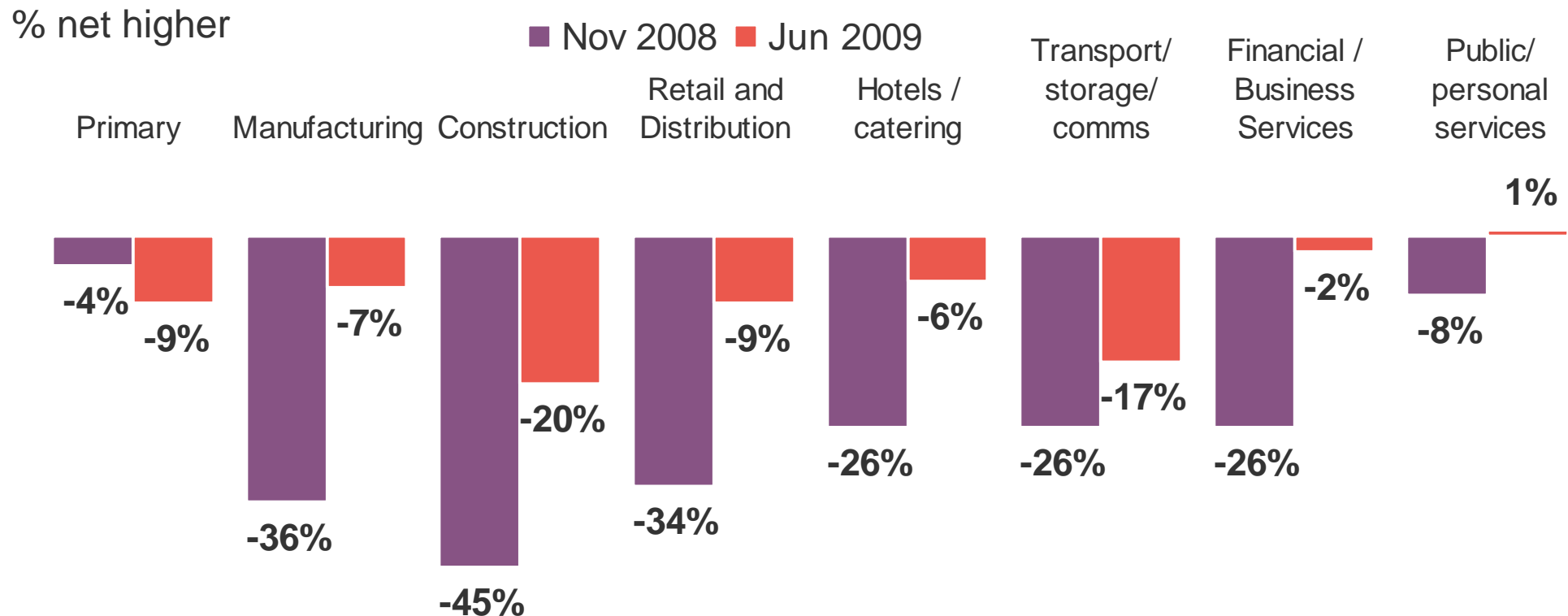
Confidence, by turnover and profitability, within manufacturing and servicing sectors



Source: BCC Quarterly Economic Survey (UK)

The NBS reports that all sectors are expecting to see an improvement in domestic orders, however the balance remains negative across all sectors apart from the public sector

Q Excluding seasonal variations, what are the expected trends for the next 12 months with regard to... Domestic orders



Construction firms remain the most pessimistic in domestic order expectations for the next 12 months – with a net higher score of -20% in June 2009, however, this represents a strong improvement compared to November 2008.

Section 3

What have businesses experienced as a result of the downturn?

The downturn has clearly altered competitive dynamics; most businesses have experienced stronger price pressure and a higher level of competition which has eroded profits

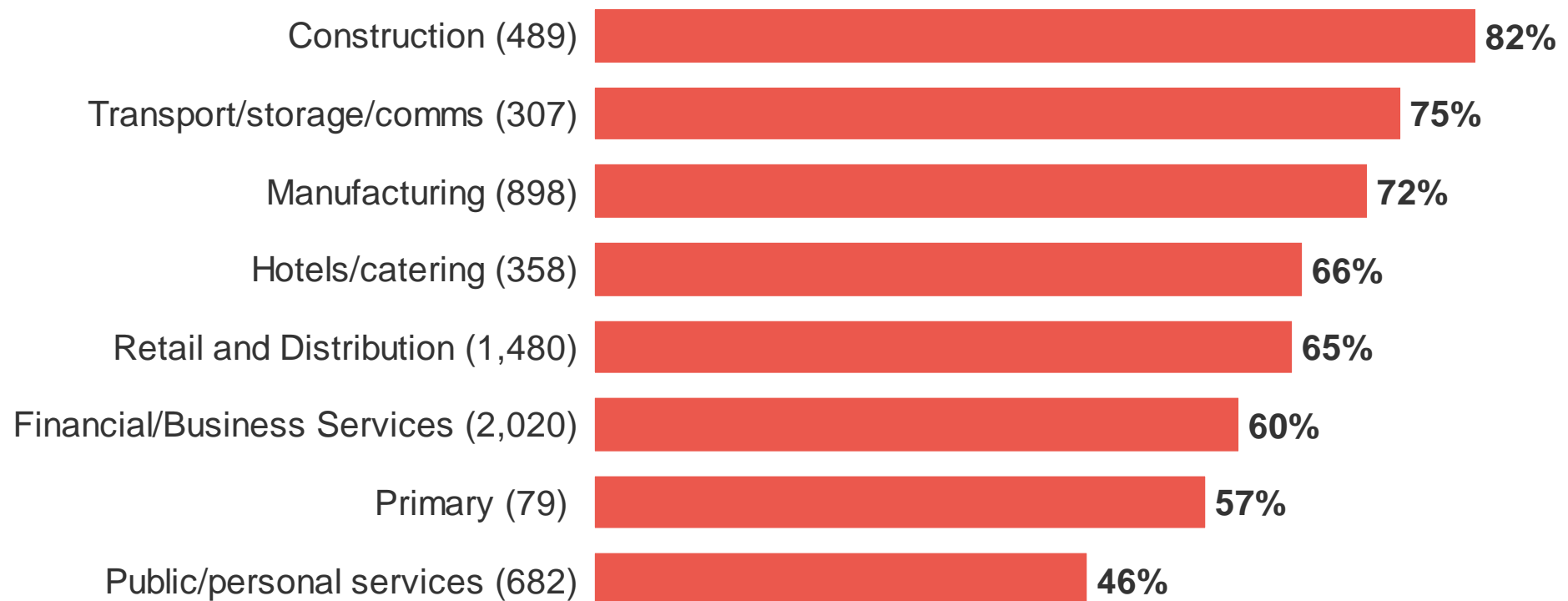
Q As a direct result of current economic conditions, has your business experienced any of the following in the past 12 months?



More than 6 in 10 (62%) of businesses have come under pressure from their customers to reduce prices and the same proportion have reported a higher level of price competition in the market (61% in Northern Ireland). Medium sized firms with 10-49 employees were more likely to report stronger price pressures compared to smaller businesses with 1-9 employees

The construction, transport and manufacturing sectors are more likely to report higher price competition, also explaining the even weaker trend in profit margins in these sectors

Q As a direct result of current economic conditions, has your business experienced any of the following in the past 12 months? A higher level of price competition in your market

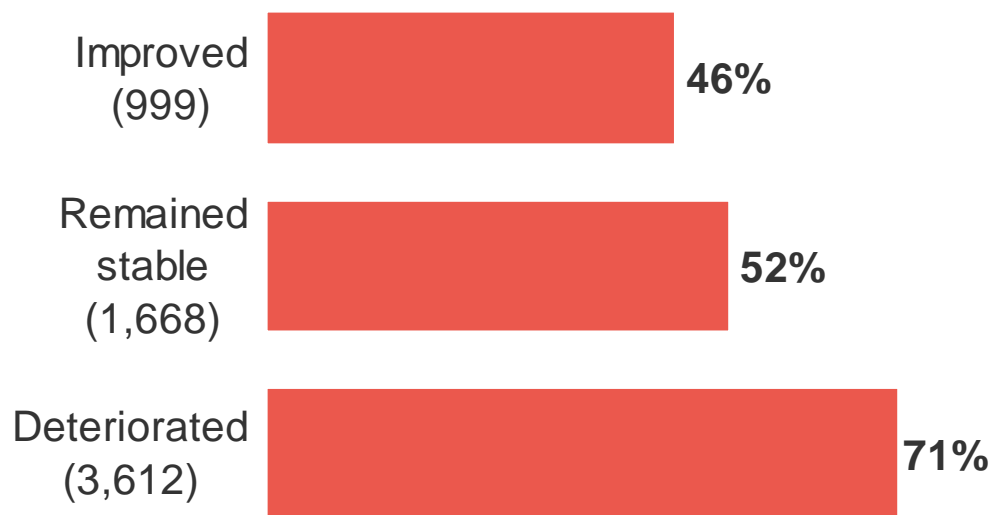


Firms in the construction and manufacturing sectors, who are often competing for large, tendered contracts are more likely to report a higher level of price competition. A lower proportion of firms from the primary industries experienced stronger price competition compared to other sectors, although over half of firms in the sector (57%) still reported this

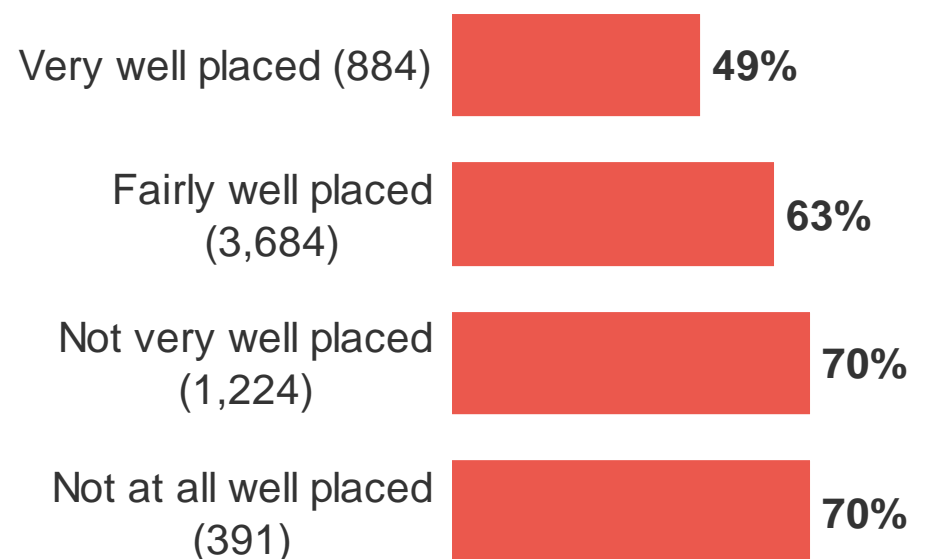
The NBS has highlighted a clear relationship between price competition and performance. Firms that had experienced higher price competition were much more likely to report deteriorating performance over the last 12 months

Q As a direct result of current economic conditions, has your business experienced any of the following in the past 12 months? A higher level of price competition in your market

Business performance over the past 12 months



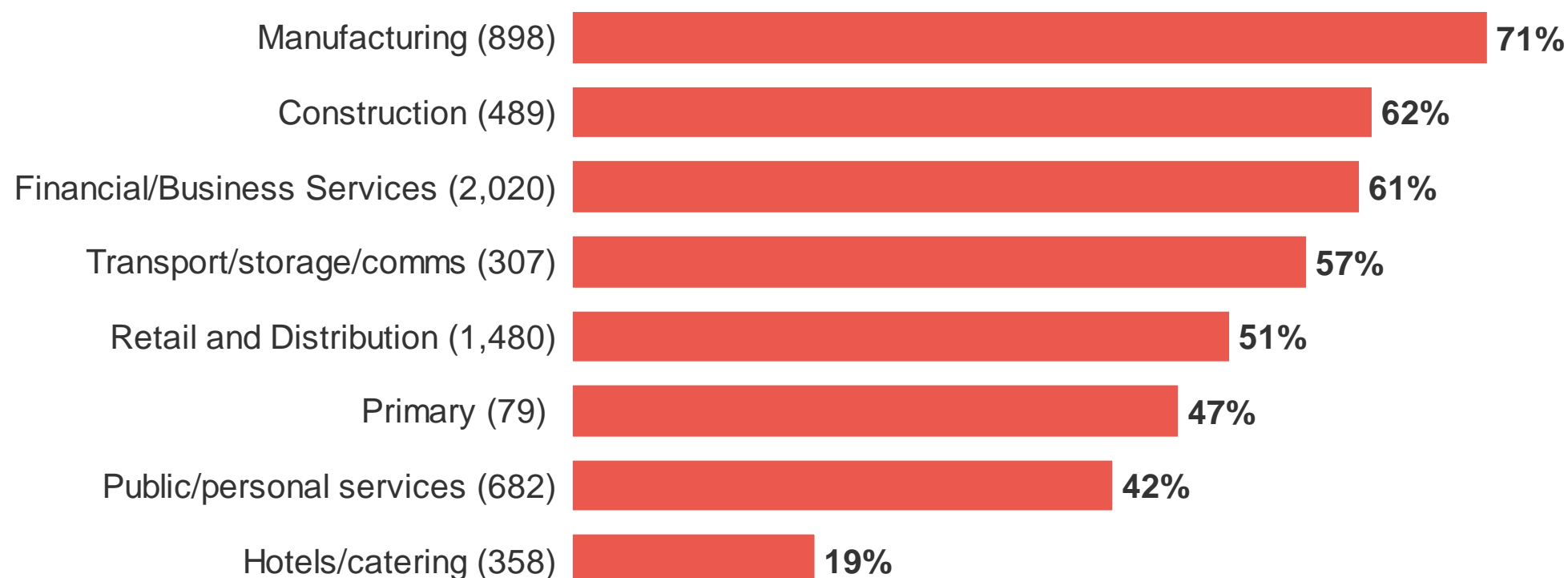
Weathering the downturn



Those businesses who saw their business performance deteriorate over the past 12 months are more likely to have experienced price competition (71% compared to 46% of businesses whose business performance has improved). Pricing pressure also had a strong impact on a firms ability to weather any further downturn - 70% of firms who stated they were not at all well placed had also higher competition on pricing

Firms in the manufacturing sector are the most likely to have experienced delayed payments from customers overall, further adding to pressures on cash flows

Q As a direct result of current economic conditions, has your business experienced any of the following in the past 12 months? Delayed payments from your customers

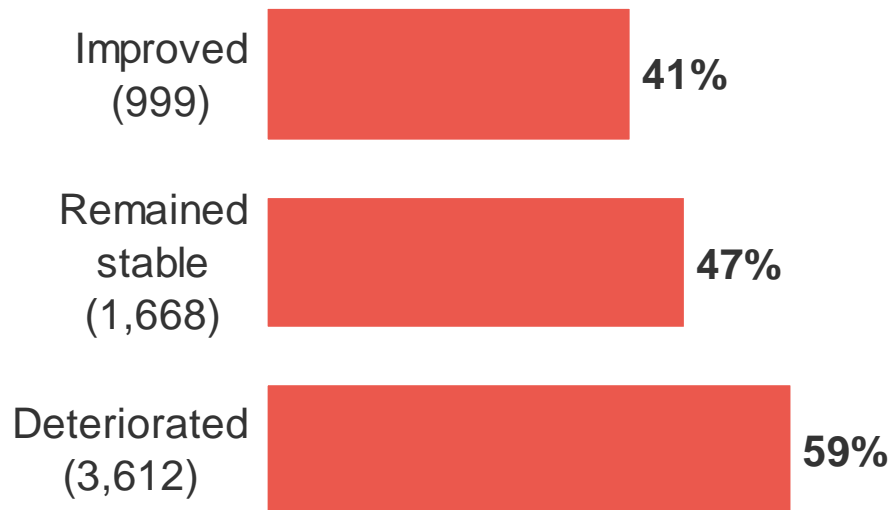


The majority of firms in the manufacturing, construction and financial/business services sectors have experienced delayed payments from customers. Given that transactions in the hotels/catering sector are made at the point of purchase, it is unsurprising that most firms in this sector have not experienced delayed payments from customers

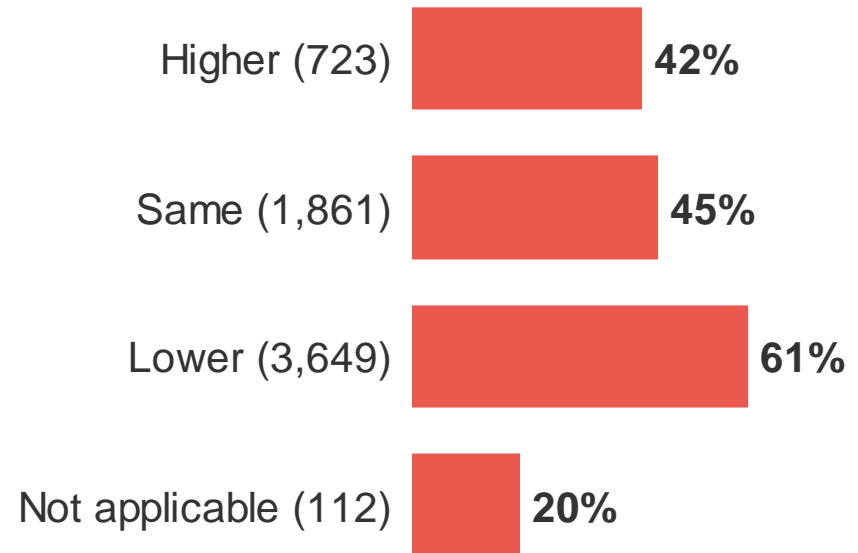
Delayed payments from customers also has a clear impact on business performance and cashflows

Q As a direct result of current economic conditions, has your business experienced any of the following in the past 12 months? Delayed payments from your customers

Business performance over the past 12 months



Cash flow in the past 12 months



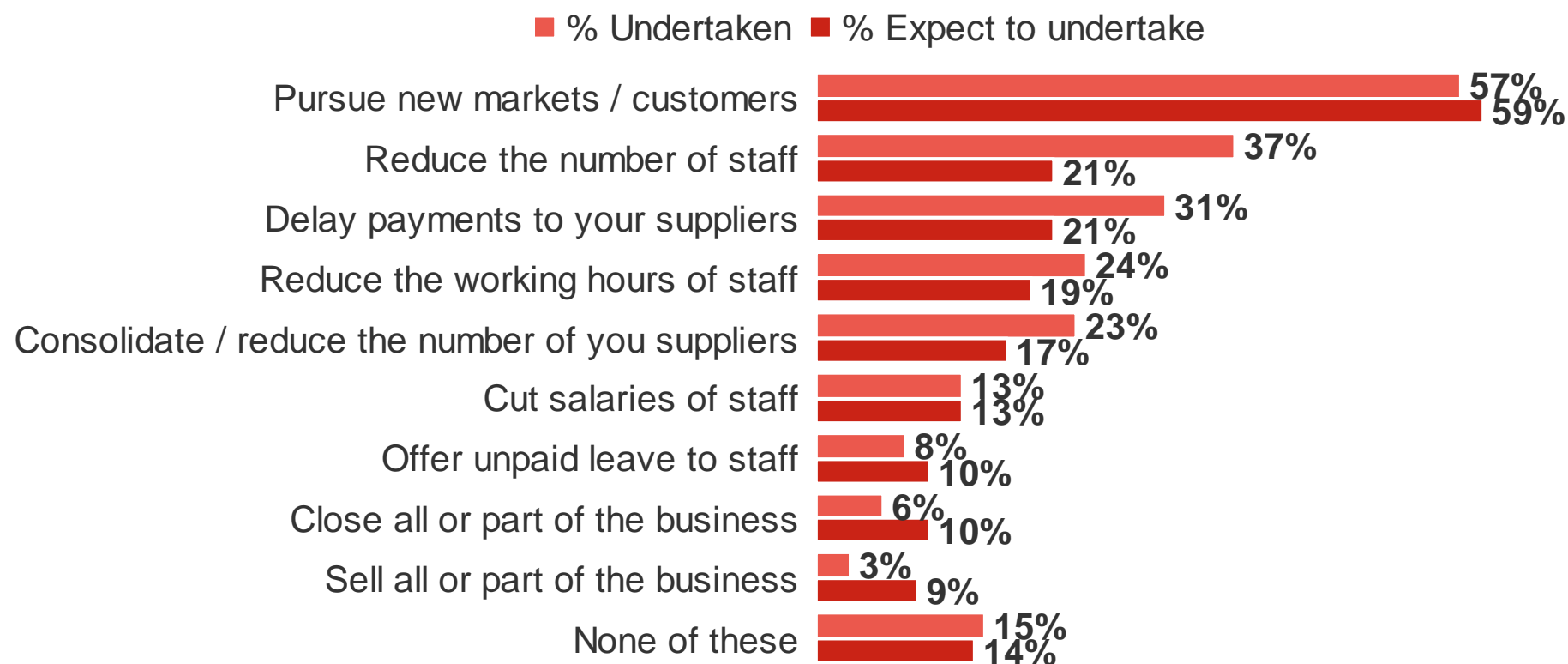
59% of firms reporting deteriorating performance also reported delayed payments from suppliers, compared with 41% which reported improved performance. Levels of cash flow in the business is also affected by delayed payments – 61% who experienced lower cashflows also had experienced delayed payments from customers

Section 4

How have businesses reacted to the downturn?

Businesses have undertaken a number of actions in reaction to the downturn. While many firms took measures to cut staff costs in the past 12 months, fewer plan to undertake such measures in the coming year

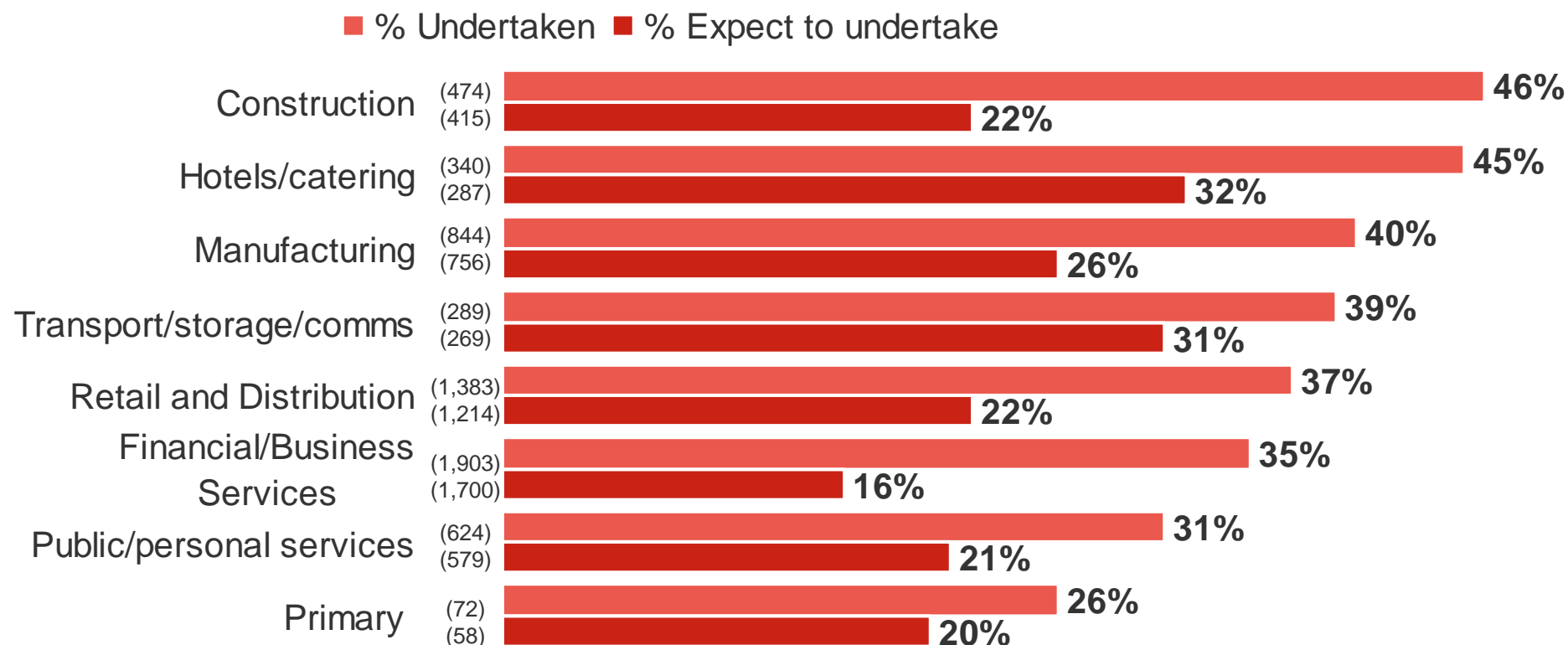
Q As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months / does your business expect to undertake in the next 12 months?



In reaction to the downturn, 57% of businesses have undertaken new business development efforts by actively pursuing new markets / customers in the past twelve months (47% in Northern Ireland). Businesses have also undertaken a number of measures to reduce staffing costs but fewer expect to undertake these activities in the next 12 months, perhaps in anticipation of improving business climate and stronger demand

Across all sectors, fewer businesses expect to reduce staff in the next 12 months, compared to the past 12. Therefore, while UK unemployment has clearly not peaked, these data point to a possible slowing of unemployment growth going forward

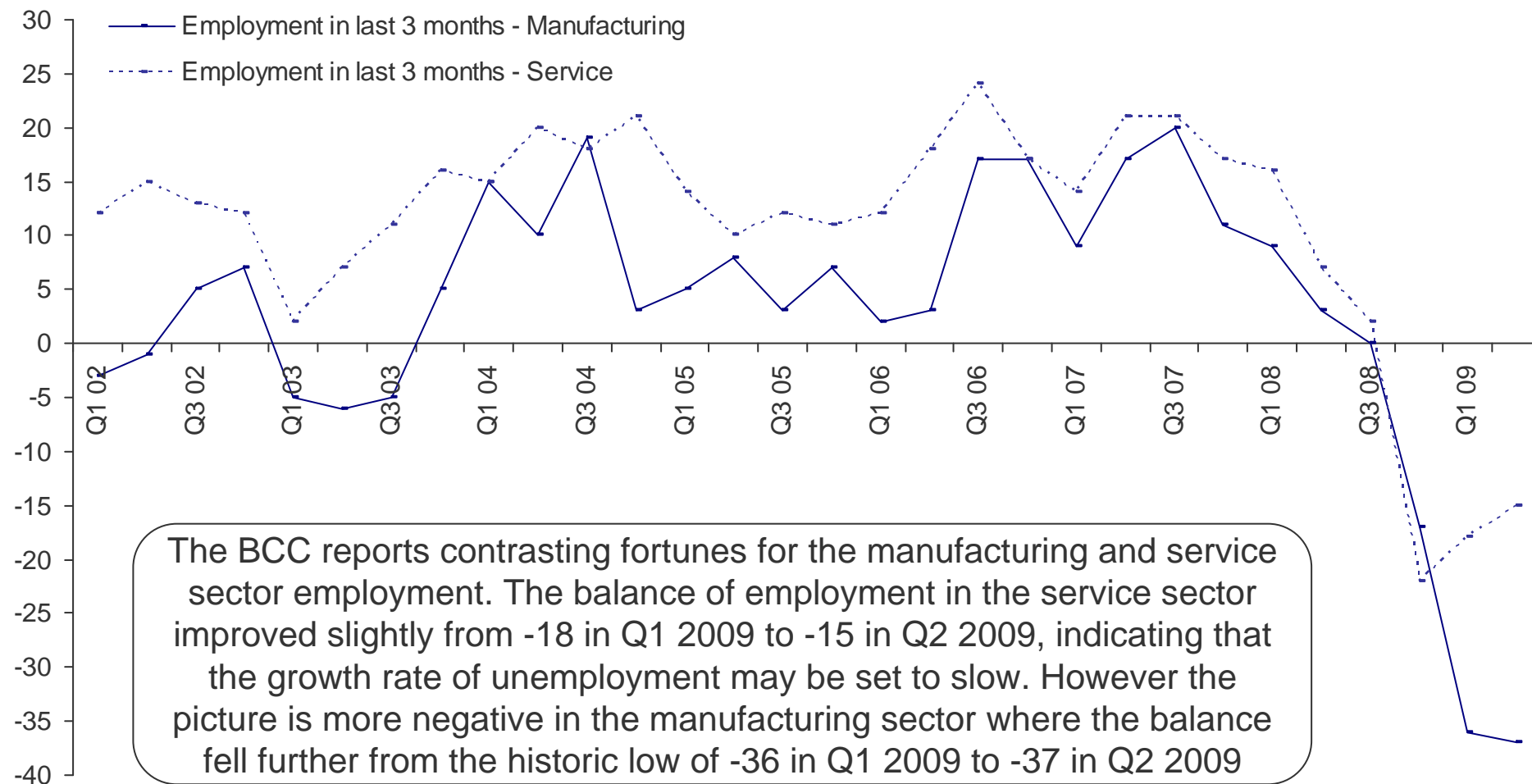
Q As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months / does your business expect to undertake in the next 12 months? Reduce the number of staff



Firms in the construction and hotels/catering sectors are most likely to have reduced the number of staff in the past 12 months - 46% and 45% respectively. However the next twelve months look more positive for the workforce with only 22% of construction firms expecting to reduce staff and 32% in hotels/catering

The BCC survey indicates that the unemployment growth rate in the service sector may have peaked, while manufacturing unemployment growth may be set to increase further

Employment in the 'last 3 months', within manufacturing and servicing sectors



Source: BCC Quarterly Economic Survey (UK)

While firms that are not well placed to weather the downturn have taken measures to cut costs, they are less likely to have actively pursued new markets or customers to improve sales

Q As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months?

	Very well placed	Fairly well placed	Not very well placed	Not at all well placed
Pursue new markets / customers	53%	60%	56%	47%
Reduce the number of staff	21%	36%	47%	56%
Consolidate / reduce the number of your suppliers	12%	22%	32%	38%
Delay payments to your suppliers	11%	27%	49%	61%
Reduce the working hours of staff	11%	22%	35%	45%
Cut salaries of staff	5%	11%	20%	30%
Offer unpaid leave to staff	4%	7%	11%	17%
Close all or part of the business	3%	4%	9%	18%
Sell all or part of the business	1%	2%	5%	8%

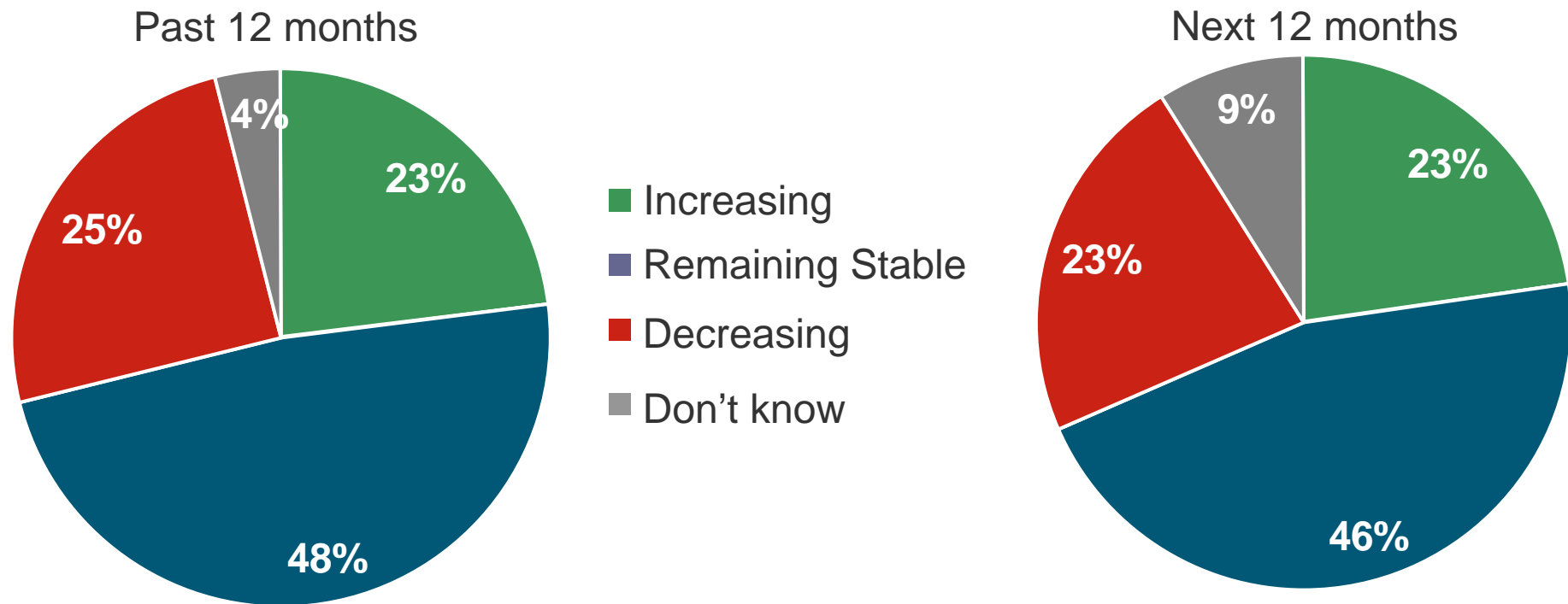
There are some interesting results when comparing actions undertaken with how well placed the firm is to weather a further downturn. There appears to be a greater degree of inertia among some 'at risk' firms, as they are less likely to pursue new markets to boost sales, compared to businesses which are in a stronger position. However, at risk firms are much more likely to take actions to reduce costs such as reducing staff or reducing working hours

Section 5

How has the downturn affected business investment?

Businesses are still cautious over increasing capital investment levels, unsurprising given the challenging current conditions

Q On balance, has the overall level of investment you have made in your business over the past 12 months and next 12 months been...

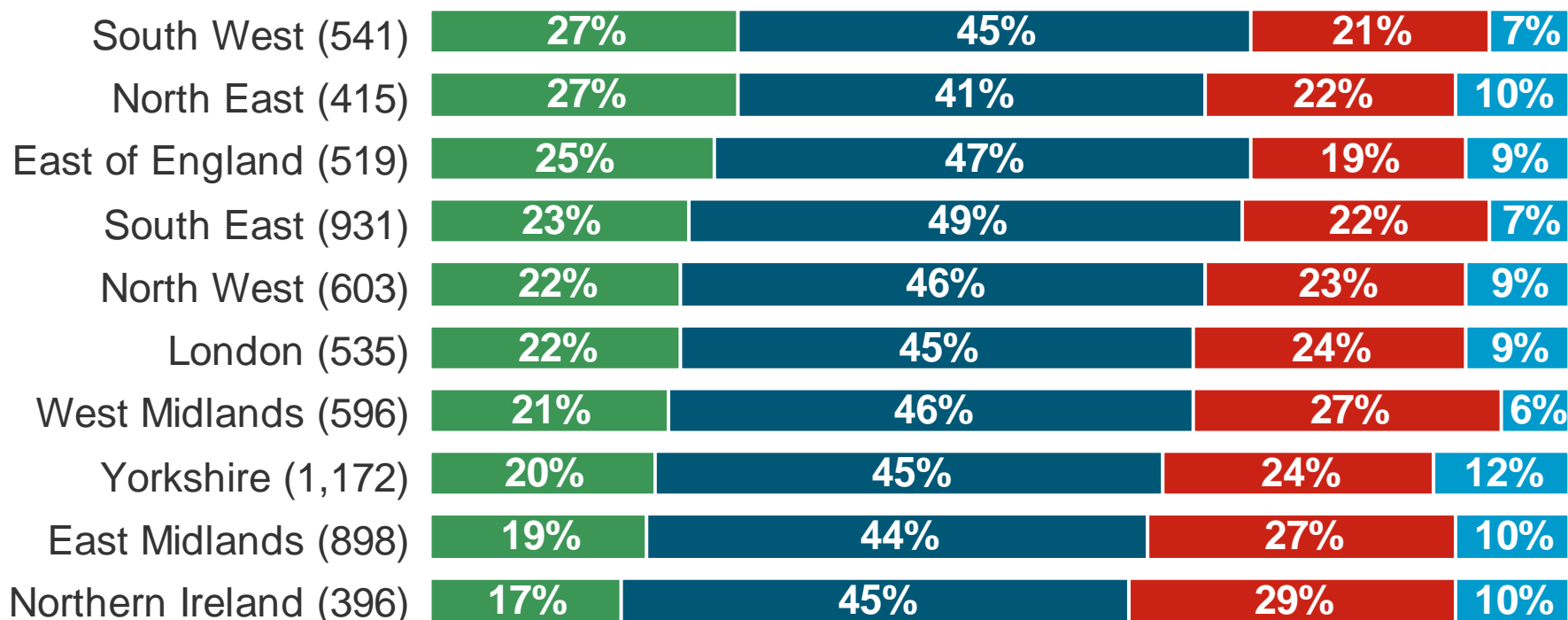


Investment levels over the past 12 months have remained stable or increased for the majority (71%) of businesses (68% in Northern Ireland), surprising given the challenging conditions. Interestingly, roughly the same proportion expect investment to be stable or increase in the next 12 months. While businesses are exhibiting a degree of caution and are not increasing overall investment levels they are still not being reduced, quite a positive result given the economic context

Looking to the future, businesses in the South West and North East expect to invest more in their business compared to other regions

Q On balance, has the overall level of investment you have made in your business over the next 12 months been...

■ Increasing ■ Remaining stable ■ Decreasing ■ Don't know



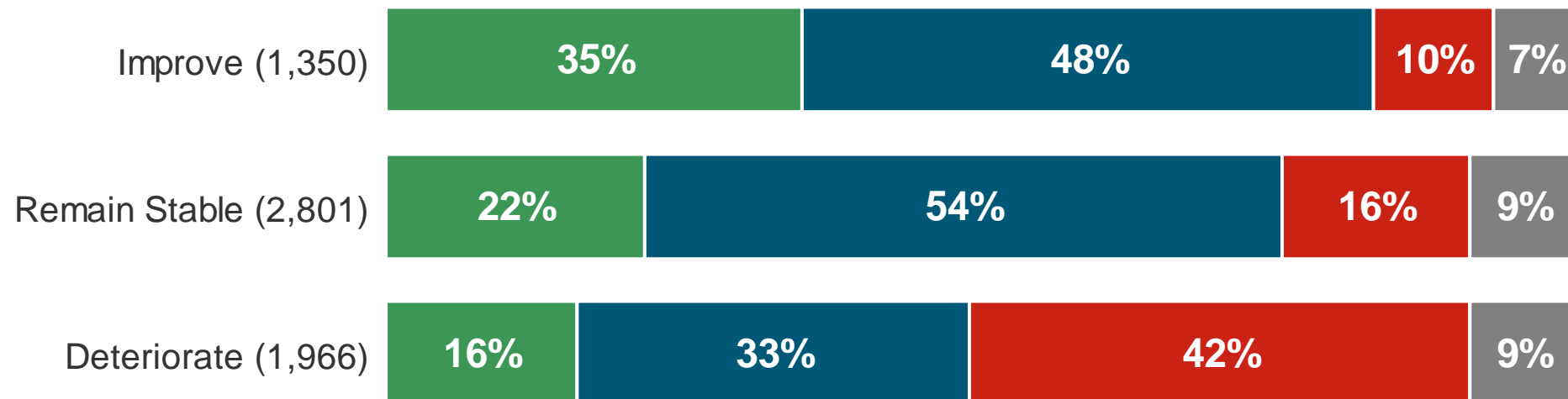
Businesses across all regions are being cautious in their levels of investment. Those in the East Midlands and West Midlands are least likely to invest more with more than a quarter of businesses expecting to invest less in their business in the next 12 months

There is a clear relationship between positive expectations in the business climate and levels of business investment

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?

Level of investment in the past 12 months

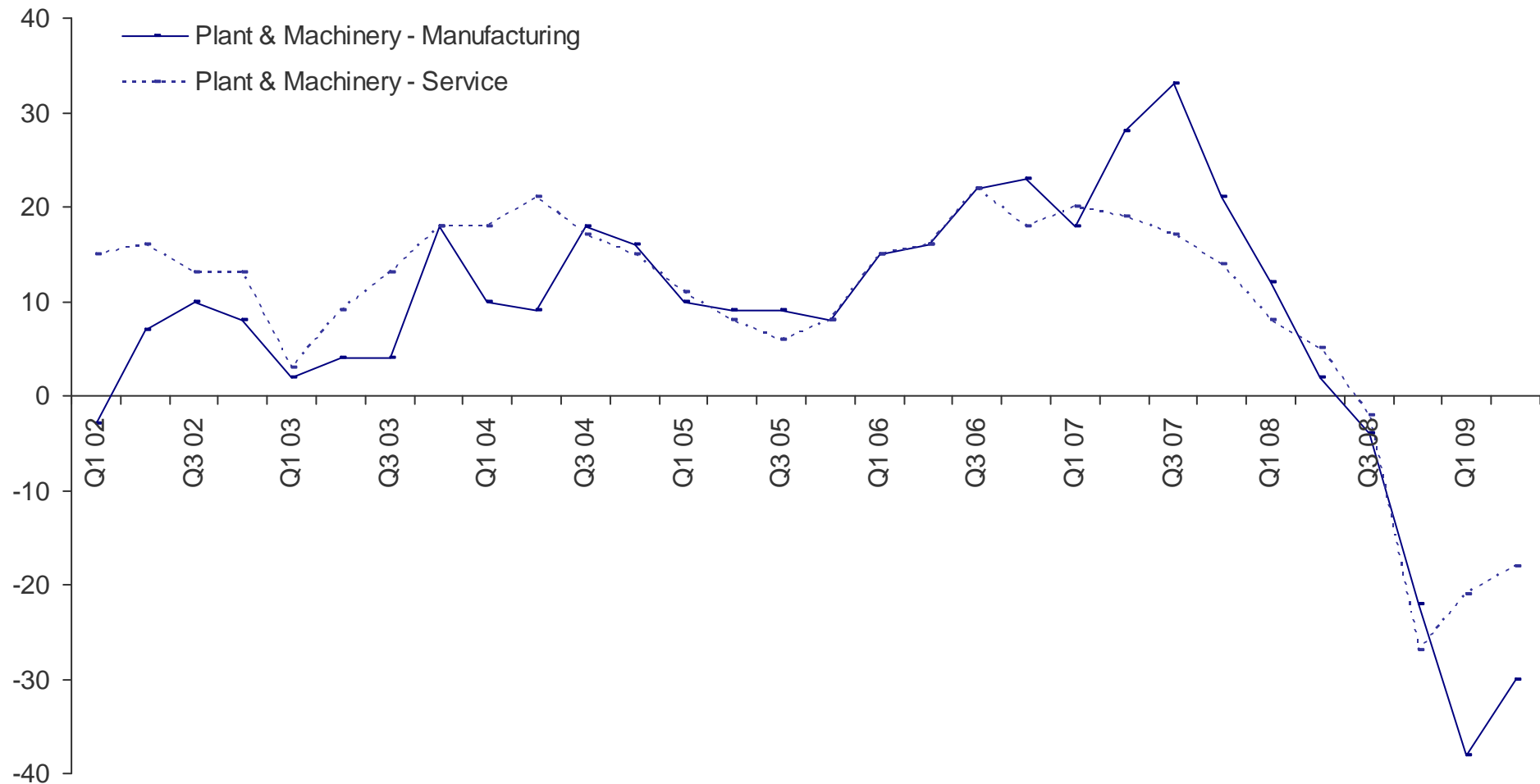
■ Increasing ■ Remaining Stable ■ Decreasing ■ Don't know



Business who feel optimistic about the current business climate are more likely to invest more in their business in the next 12 months. Of those who feel that the business climate will improve, 35% expect to invest an increasing amount in their business over the next 12 months, this can be compared to those who expect conditions to deteriorate where 42% decreased the level of business investment

Similar to the NBS, the BCC Quarterly Economic Survey, highlights the depressed investment levels in the UK. Although investment improved a little in Q2, the balance remains negative

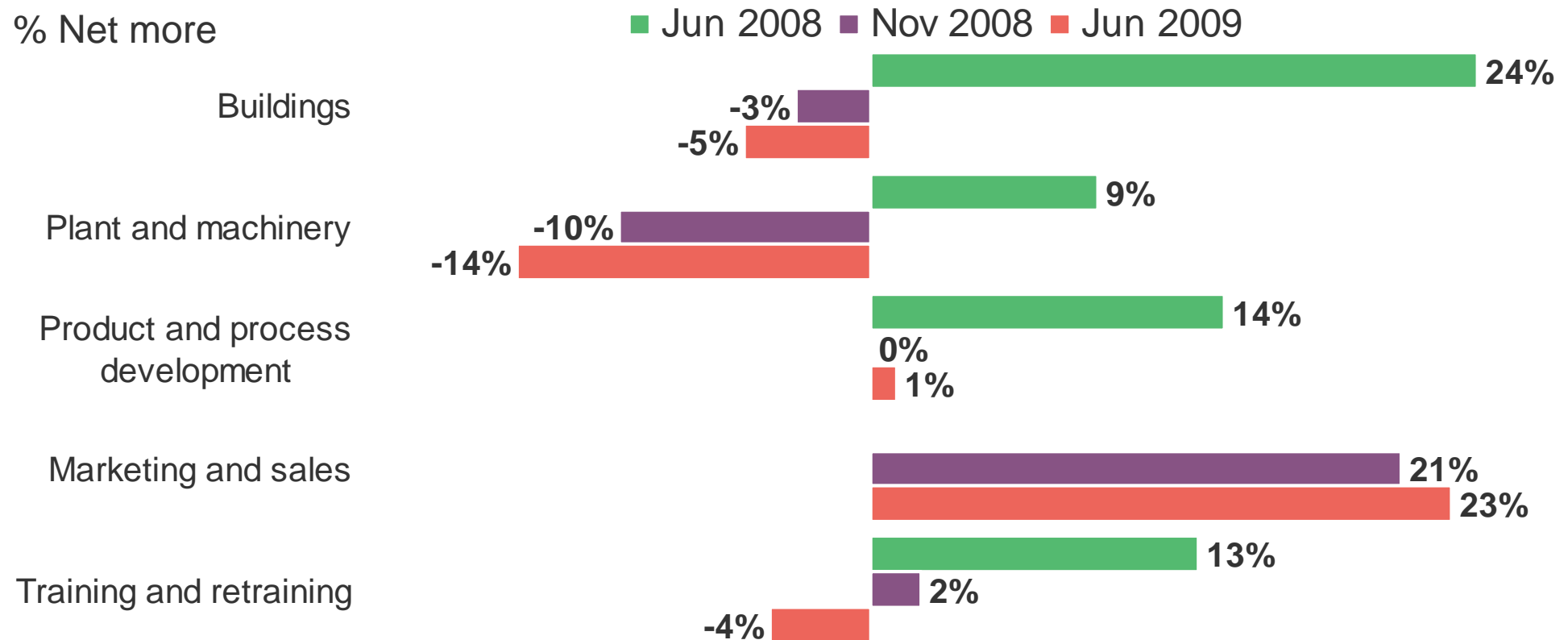
Investments, by Plant & machinery, within manufacturing and servicing sectors



Source: BCC Quarterly Economic Survey (UK)

The expected level of capital investment in key categories – buildings, plant and machinery - remains depressed, although investment in marketing and sales is healthy

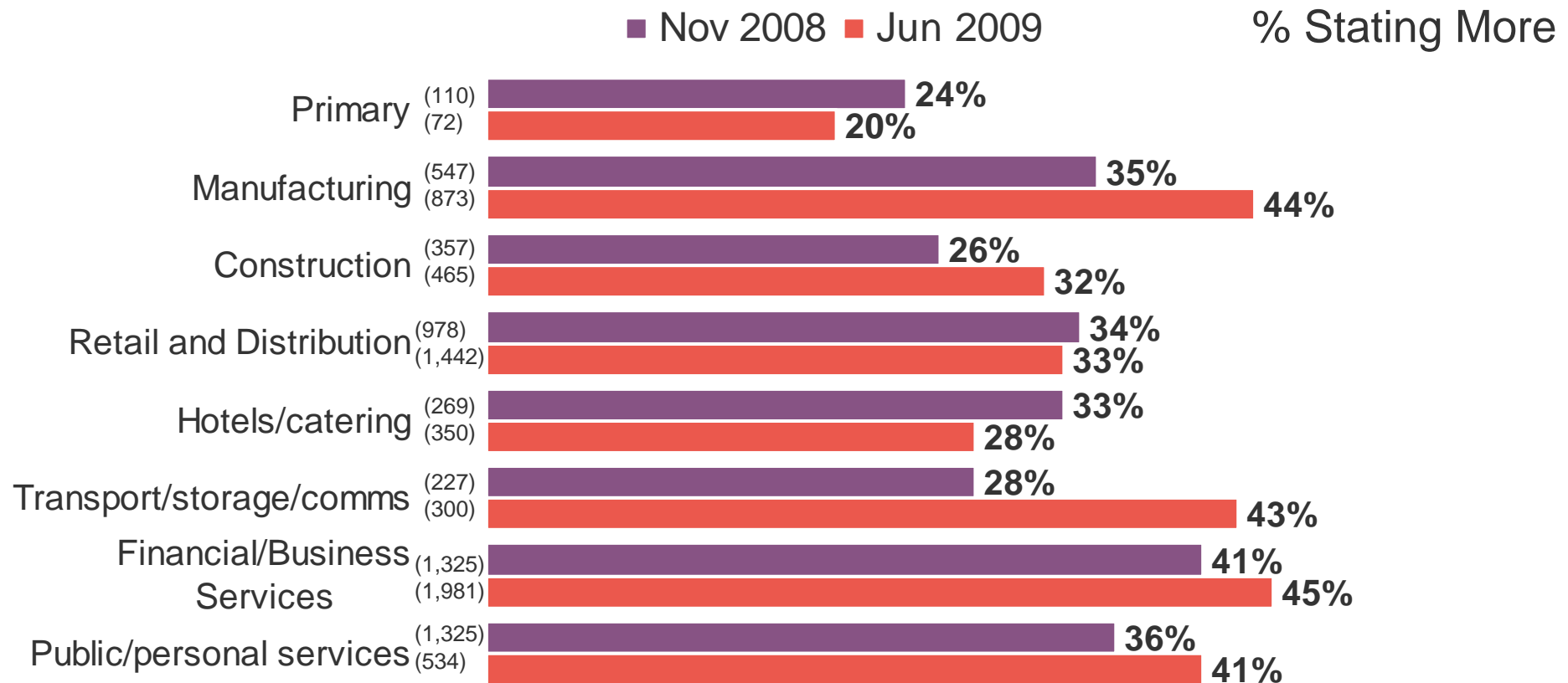
Q Do you expect to invest more or less in the next 12 months than you invested in the last 12 months on...



Firms are clearly unwilling to invest in capital equipment when conditions remain uncertain - expected investment levels in buildings and plant and machinery has steadily declined since June 2008. This points to continuing challenges in sectors such as construction which rely on health levels of business investment in facilities and offices.

Investment in Marketing and Sales is being driven by several key sectors - manufacturing and financial/businesses services, who clearly see this as critical to improving business performance

Q Do you expect to invest more or less in the next 12 months than you invested in the last 12 months on... Marketing and Sales

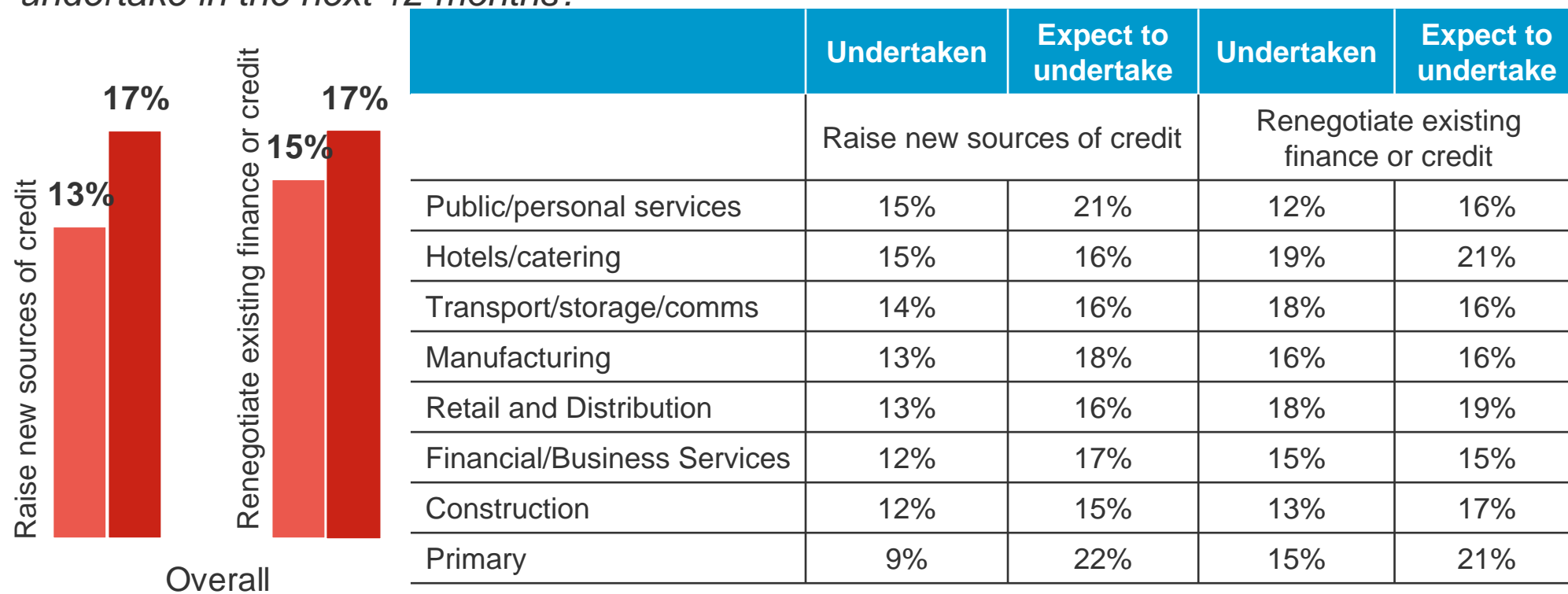


Section 6

Access to finance and credit

As a result of the downturn, some organisations have needed to raise new sources of finance or credit. Organisations in the primary sector are most likely to expect to raise new sources of credit in the next 12 months

Q As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months / does your business expect to undertake in the next 12 months?



■ % Undertaken ■ % Expect to undertake

A higher proportion of firms (17%) expect to raise new sources of finance or credit compared to those who actually undertook the activity in the previous year (13%). These differences are strongest in the primary sector where just 9% actually raised new finance compared to 22% who expect to in the coming year. This sector was also one of the most negative in it's expectations on the future business climate and may be reacting to more challenging conditions

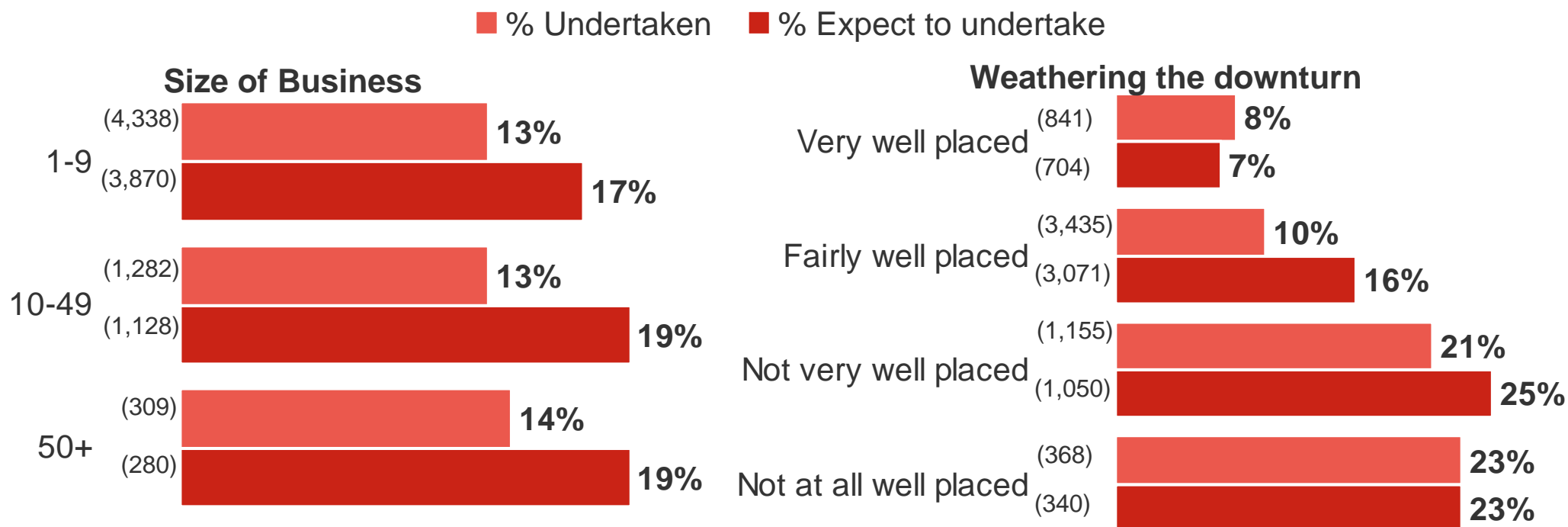
Ipsos MORI

Base: All businesses in England answering (shown in brackets)



While there are few differences by size of business, firms which are not well placed are more likely to have undertaken raising new finance or credit or expect to in the next 12 months

Q As a direct result of the current economic conditions, which of the following actions has your business undertaken in the past 12 months / does your business expect to undertake in the next 12 months? Raise new sources of finance or credit

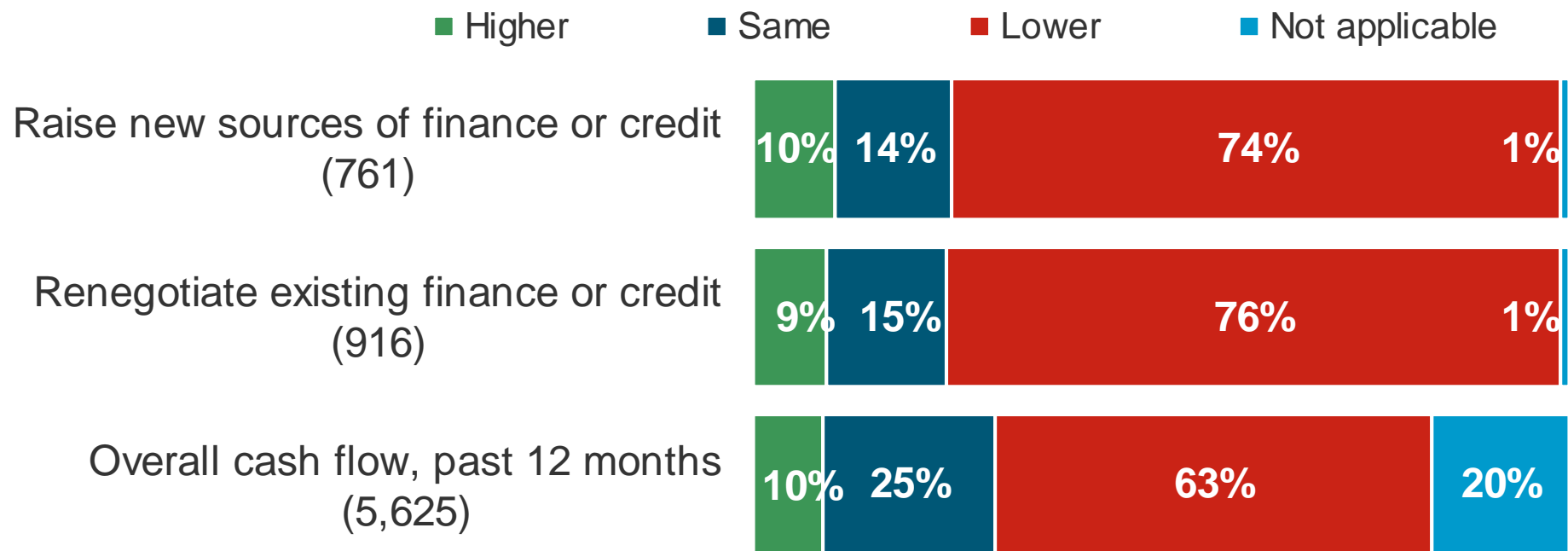


It is clear that finance is going to be in demand among those 'at risk' firms and less so among firms which are less concerned about their ability to weather a further downturn. 23% of firms which are not at all well placed expect to raise new finance in the next 12 months, compared to just 7% of those who are well placed. These at risk firms are also more likely to need to renegotiate existing finance or credit in the next 12 months.

Weaker cash flow is a key driver for the need to raise or renegotiate finance or credit. Firms which have undertaken this are more likely to have suffered from lower cashflows in the last 12 months compared to the average

Q. As a direct result of current economic conditions, which of the following actions has your business undertaken in the past 12 months?

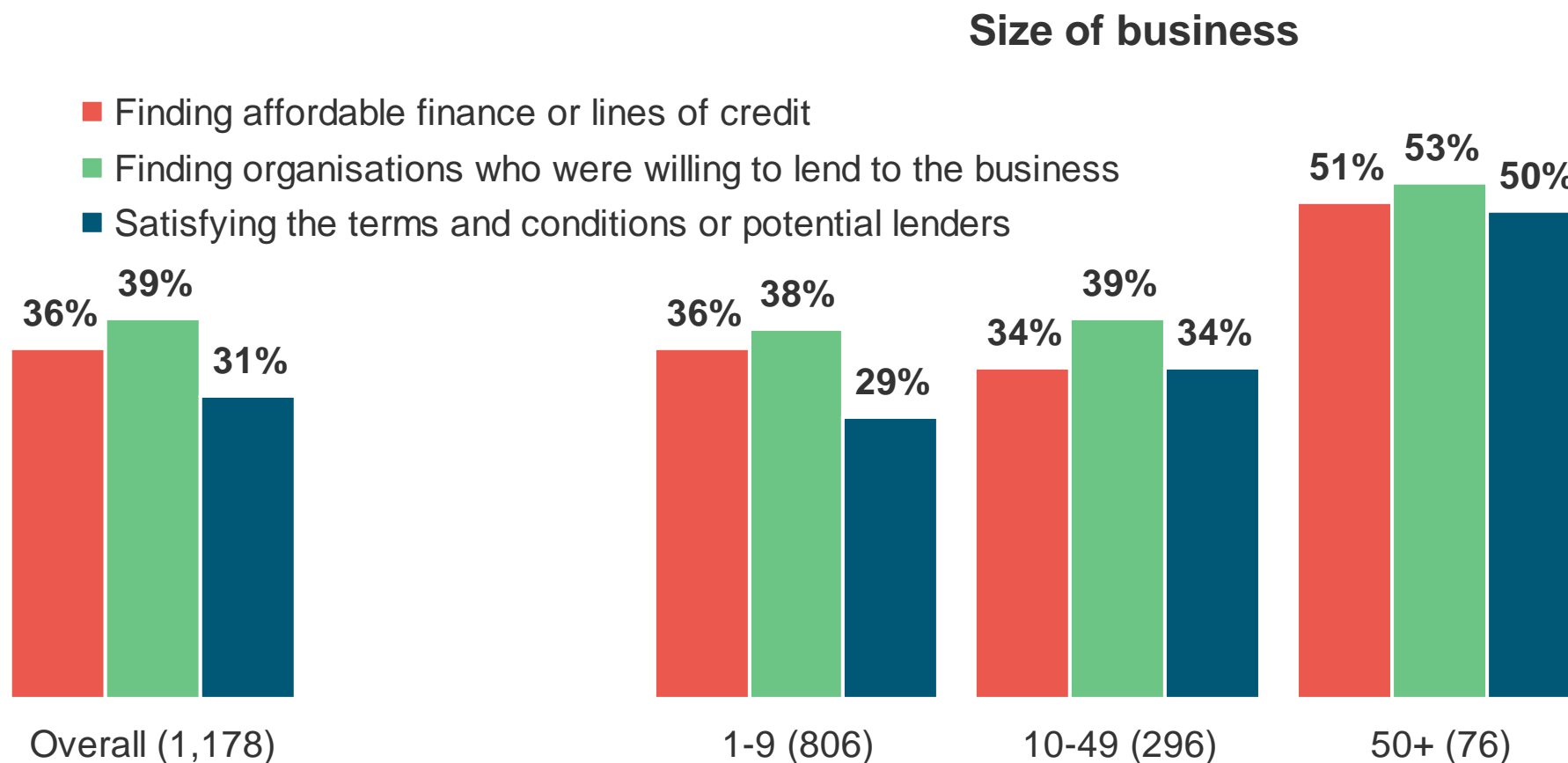
Trend in the past 12 months: Cash Flow



Around three quarters of businesses who raised new sources of finance or credit, or renegotiated existing finance or credit in the past twelve months have, unsurprisingly, seen lower cash flow in the past twelve months. This compares to only 63% of companies overall who have seen lower cash flow.

Larger (50+ employee) businesses are more likely to have experienced problems accessing finance or credit

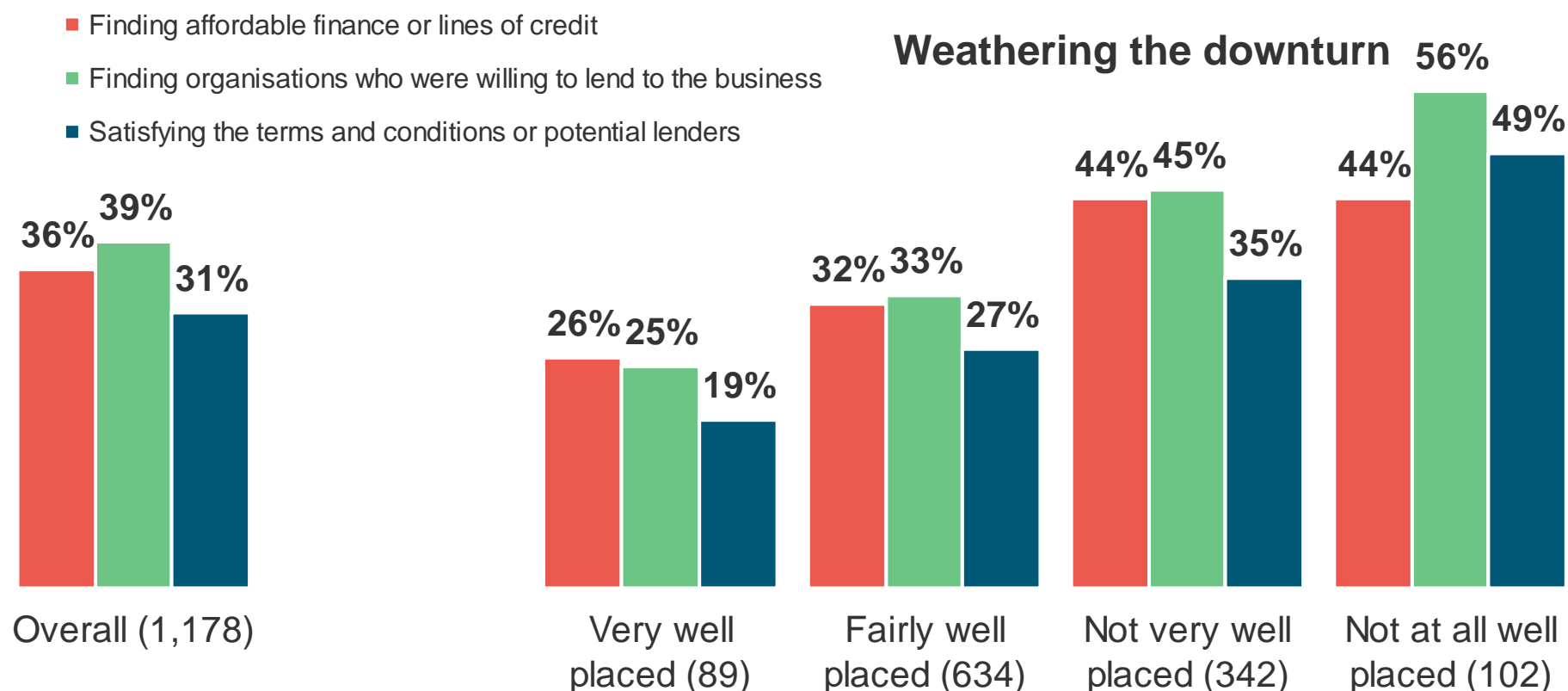
Q What problems, if any, did your business experience in accessing finance or credit?



Base: All businesses in England answering who have raised new sources of finance or credit or renegotiated existing finance or credit in the past 12 month (shown in brackets)

The less well placed firms are more likely to have experienced problems with finance or credit. Banks are unable to provide finance at affordable rates due to the risk of lending to these firms

Q What problems, if any, did your business experience in accessing finance or credit?



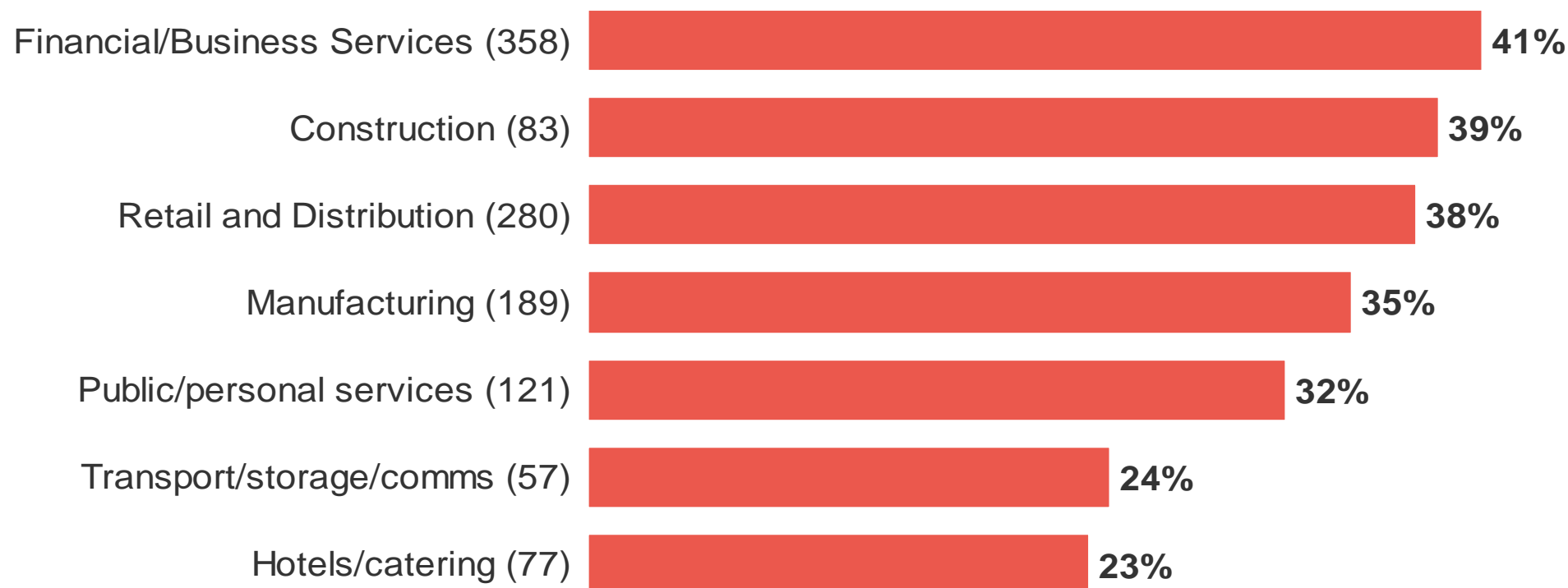
There is a strong relationship between the degree to which the firm can weather a further downturn and if they experienced problems in accessing finance or credit. 56% of firms which are not at all well placed experience difficulties in finding organisations willing to lend to their business, compared to 25% who were very well placed.

Base: All businesses in England answering who have raised new sources of finance or credit or renegotiated existing finance or credit in the past 12 month (shown in brackets)

Firms within the financial / business services, construction and retail sectors are more likely to have experienced difficulties in finding affordable lines of credit

*Q What problems, if any, did your business experience in accessing finance or credit? Finding affordable lines of finance or lines of credit**

**Primary sector excluded due to low base sizes*



Firms in the hotels/catering and transport sector are much less likely to have experienced problems finding affordable lines of credit from lenders, just 23% and 24% respectively reported this. Perhaps this is due to a different need for finance compared to financial/business services and construction sectors where affordable finance is more challenging

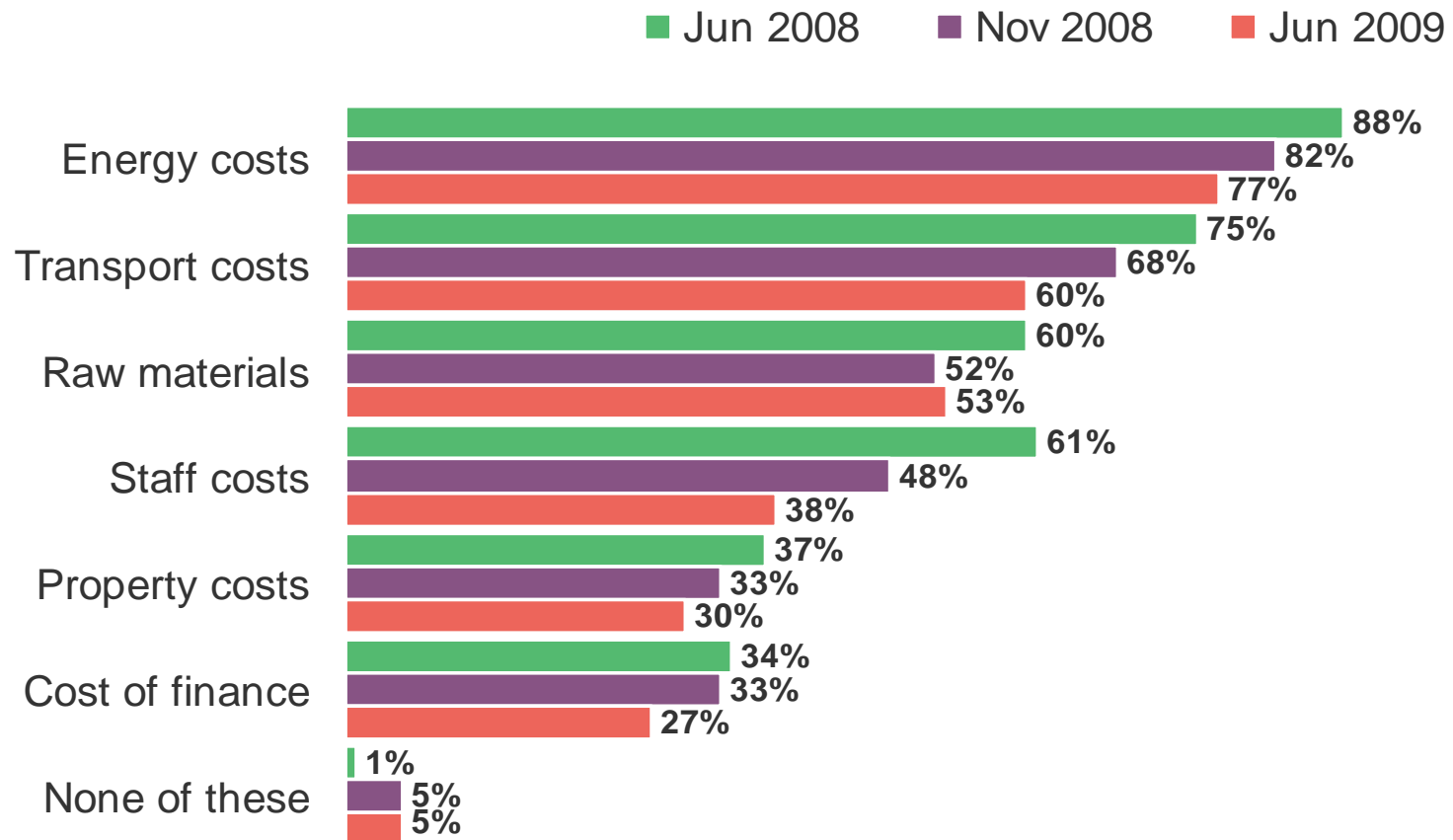
Base: All businesses in England answering who have raised new sources of finance or credit or renegotiated existing finance or credit in the past 12 month (shown in brackets)

Section 7

Business cost pressures

Cost pressures appear to be easing reflecting more competitive supply conditions and general tighter control by firms. Staff costs have seen the biggest change, due the range of measures implemented in the downturn

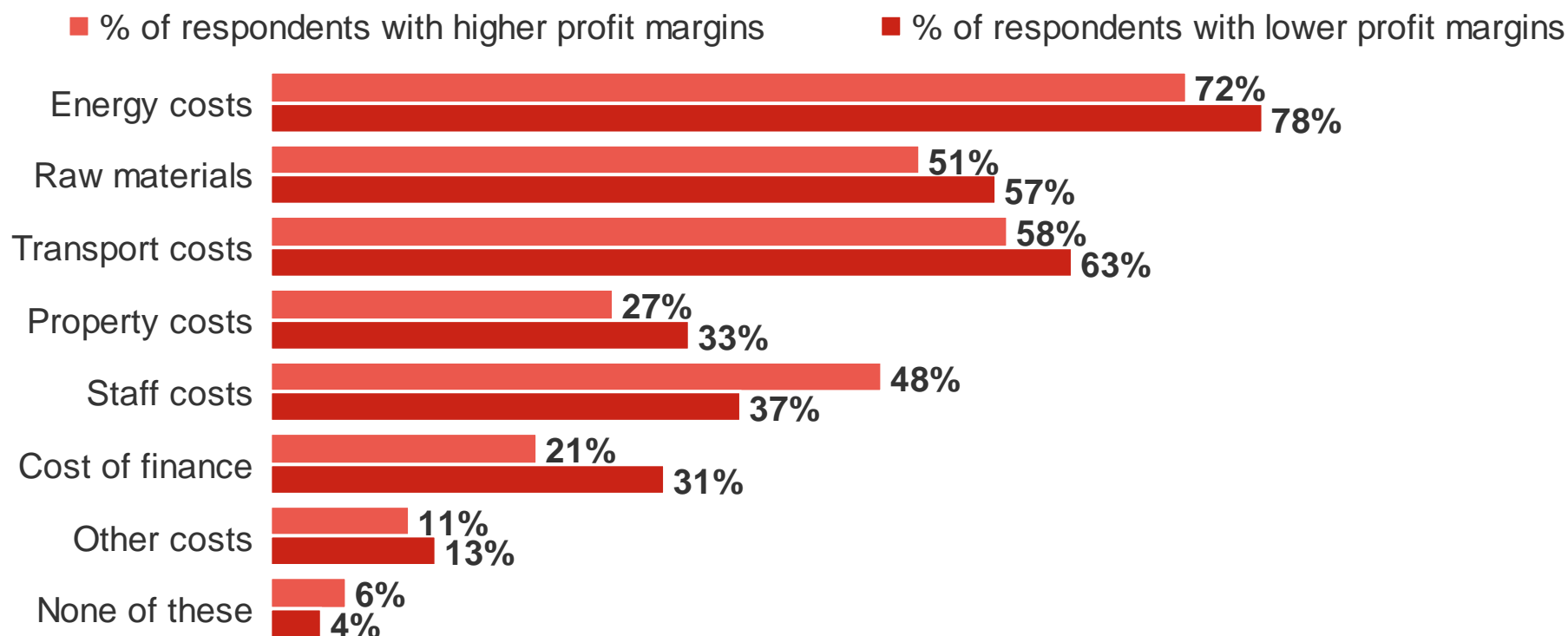
Q Which of the following costs have increased for your business over the past 12 months?



The data highlights a general trend of reducing cost pressure on business. The proportion of businesses reporting that staff costs increased has fallen from 61% in June 2008 to 38% in June 2009 (64% and 37% in Northern Ireland), reflecting actions such as reductions in head count and a freeze on hiring. Fewer firms now report that energy costs have increased, reflecting falling wholesale utility prices.

Increasing costs clearly weaken an organisations profit margins; a greater proportion of those who reported increasing costs across a number of categories, also reported lower profit margins

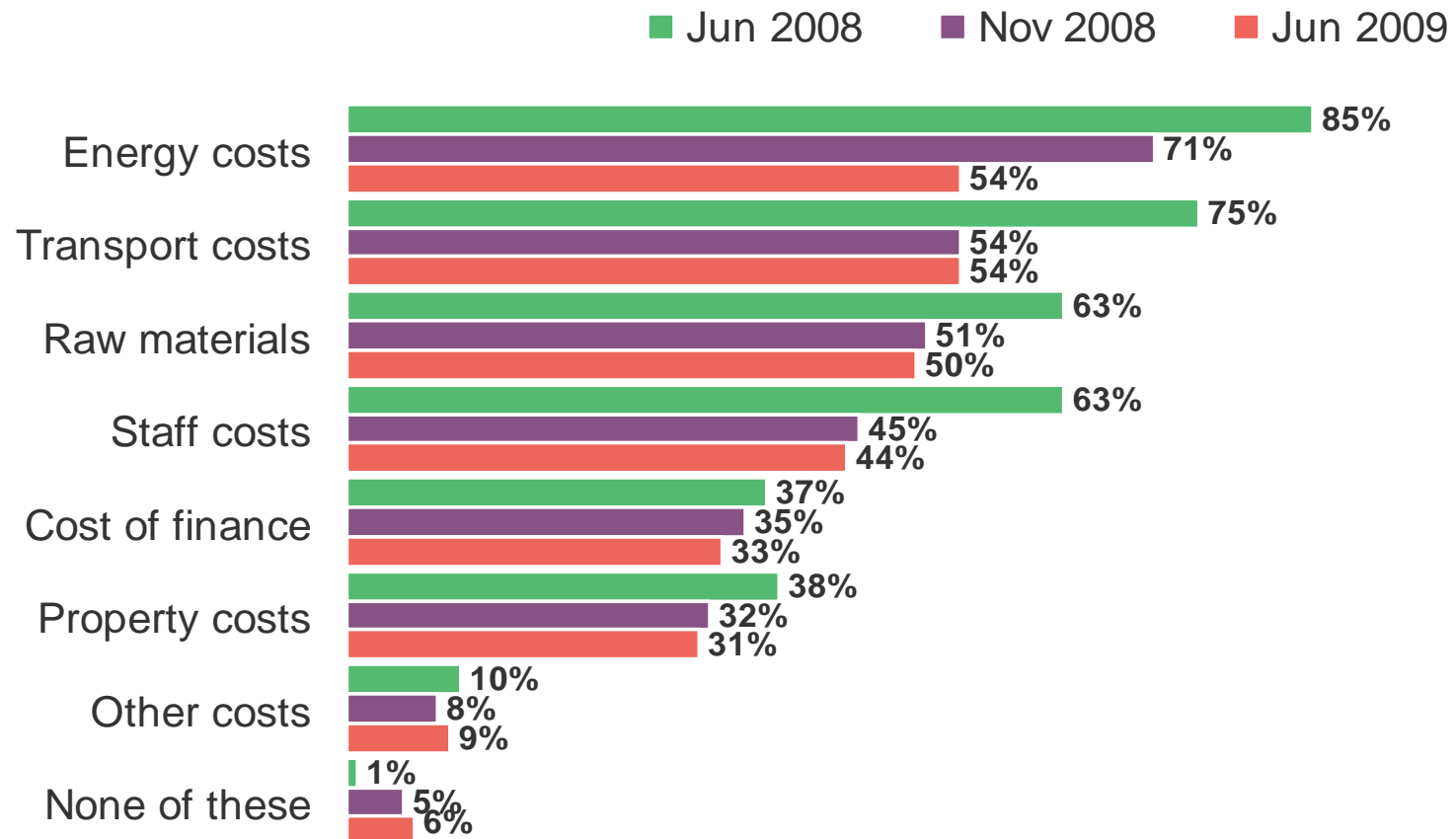
Q Which of the following costs have increased for your business over the past 12 months?



Increased cost of finance shows the strongest impact on profit margins overall, with 31% of firms who reported higher finance costs also reporting lower profits compared to just 21% who reported higher costs and higher profits. Increased energy costs show less of an impact on profit margins; among those businesses that reported increased energy costs the proportion of business which also reported higher vs. lower profit margins was quite similar.

Businesses expect costs to continue to follow a downward trend, reflecting an increased focus on harder negotiations to get the best value for money from suppliers to lower their overall cost base

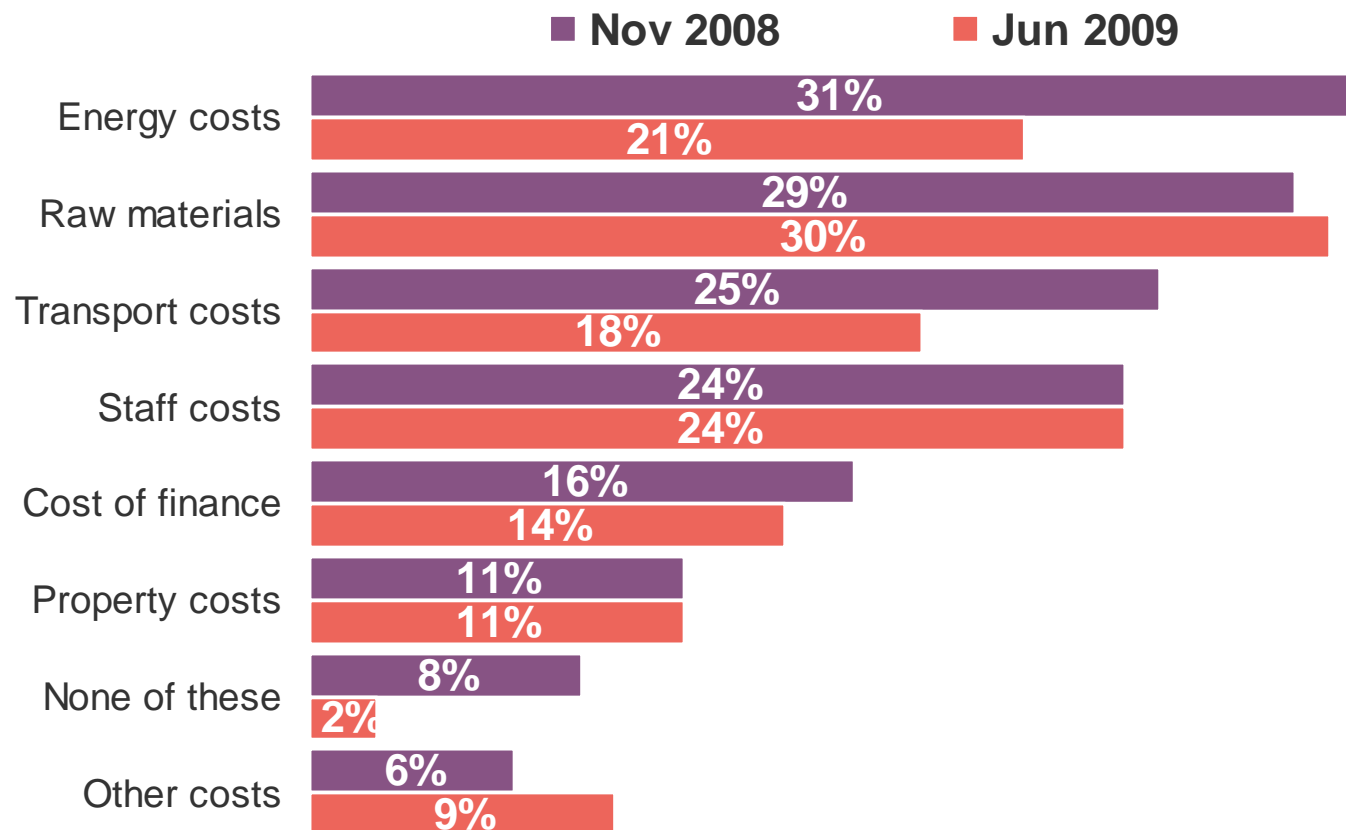
Q Which of the following costs do you expect to increase over the next 12 months?



While all areas of cost are expected to be on a downward trend, energy costs is the only category where the proportion of businesses expected costs to be higher has fallen significantly between November 2008 (71%) and June 2009 (54%) (81% vs. 65% in Northern Ireland). This may be due to energy firms communicating their intentions to lower prices, reduced usage among businesses or a focus on finding new suppliers who charge less for energy.

Raw materials are the main upward cost pressure for businesses overall, but there is significant variation by sector. Hotels/catering firms are much more likely to report that energy costs are the main upward pressure, while construction firms are more likely to cite raw materials

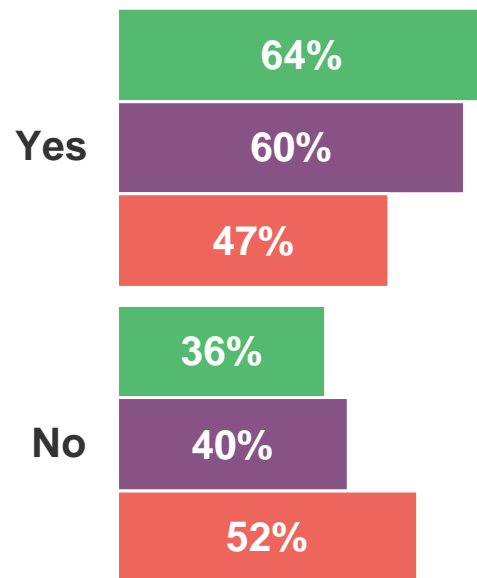
Q Which of the following presents the main upward cost pressure on your business at present?



The increasingly price competitive environment has made firms less willing to pass on increased costs to customers. Companies are taking this directly on their bottom line which is squeezing profit margins further

Q Have you passed on any increased costs to your customers in the past 12 months?

■ Jun 2008 ■ Nov 2008 ■ Jun 2009



	All Increases	Some Increases
Retail and Distribution	9%	58%
Manufacturing	6%	52%
Primary	3%	50%
Transport/storage/comms	4%	45%
Construction	5%	41%
Hotels/catering	4%	43%
Public/personal services	5%	40%
Financial/Business Services	3%	30%

The proportion which have not passed on cost increases to customers has increased from 36% in June 2008 to 52% in June 2009 (32% vs. 53% in Northern Ireland), highlighting that firms do not want to risk being perceived as uncompetitive in the market place. The retail / distribution sector is most likely to pass on cost increases, while the financial / business services sector is least likely to pass on extra costs

Ipsos MORI

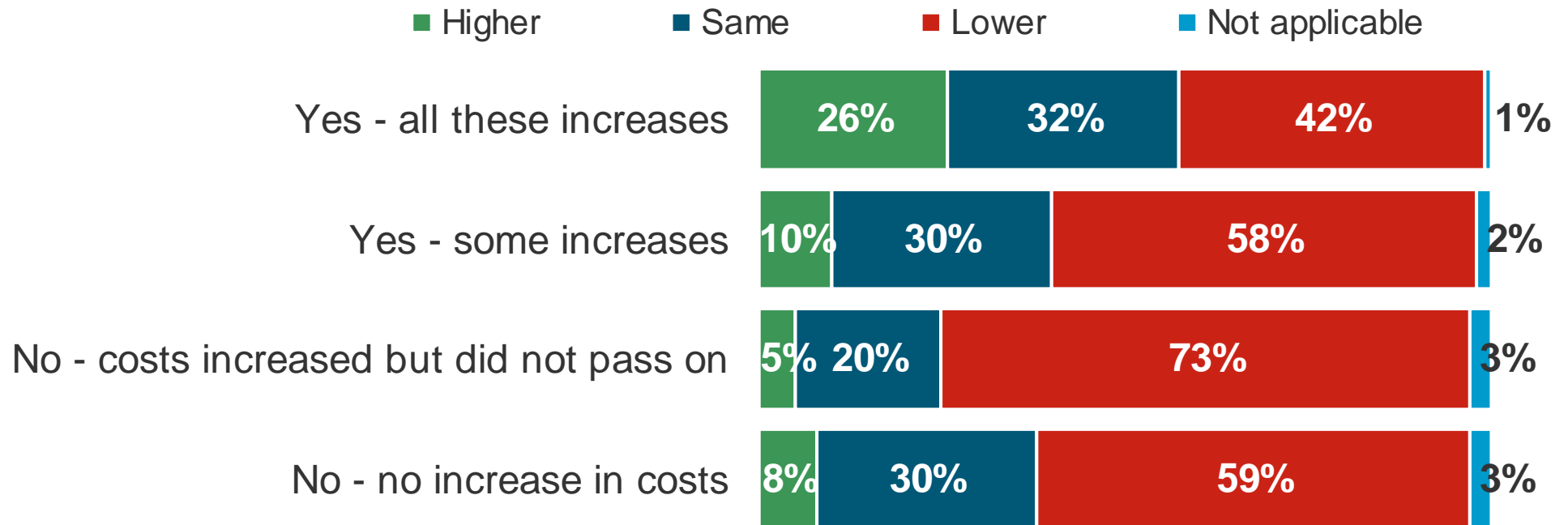
Base: All businesses in England answering (June 2008: 4,743; November 2008: 4,622; June 2009 6,315)



There is a clear link between a firm's profitability and whether they have passed on additional costs to customers

Q. *Have you passed on any increased costs to your customers in the past 12 months?*

Trend in the past 12 months: Profit Margins



Just 5% of firms who did not pass on any costs that increased also reported higher profit margins over the last 12 months. This compares with firms which passed all cost increases onto customers where 26% reported higher profit margins

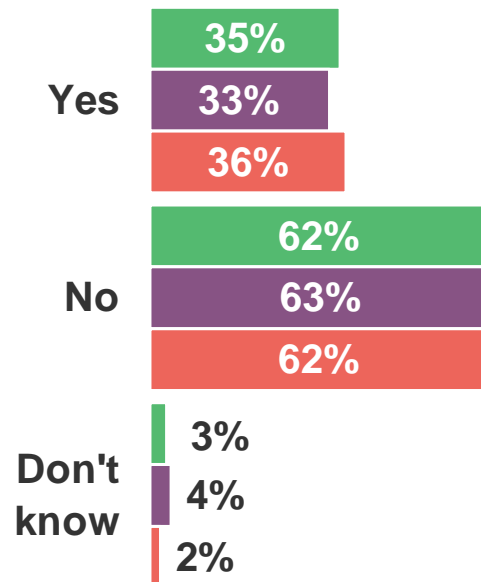
Section 8

Business strategies to weather the downturn

Surprisingly, given the current economic climate, most firms do not have a formal growth plan in place. Indeed, the sectors which have faced more challenging conditions – construction, hotels / catering – are less likely to have growth plans compared to other sectors

Q Does your company have a formal business growth plan?

■ Jun 2008 ■ Nov 2008 ■ Jun 2009



	Yes	No	Don't know
Public/personal services	47%	51%	2%
Manufacturing	43%	55%	2%
Transport/storage/comms	41%	57%	2%
Financial/Business Services	37%	61%	2%
Retail and Distribution	31%	66%	3%
Hotels/catering	28%	69%	3%
Construction	24%	73%	3%
Primary	24%	74%	1%

Firms in the public sector (47%) are more likely to have a formal growth plan in place, and the primary sector (24%) is least likely. Larger businesses, 50+ employee firms (73%) more likely to have a formal growth plan compared to smaller 1-9 employee firms (31%)

Ipsos MORI

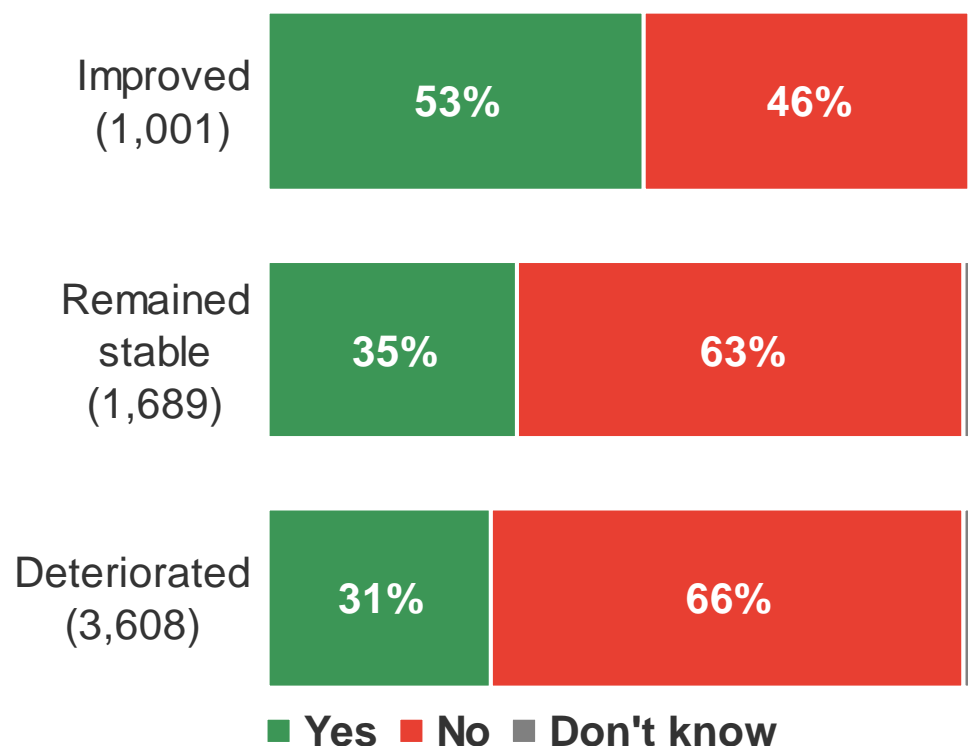
Base: All businesses in England answering (June 2008: 4,704; November 2008: 4,614; June 2009: 6,332)



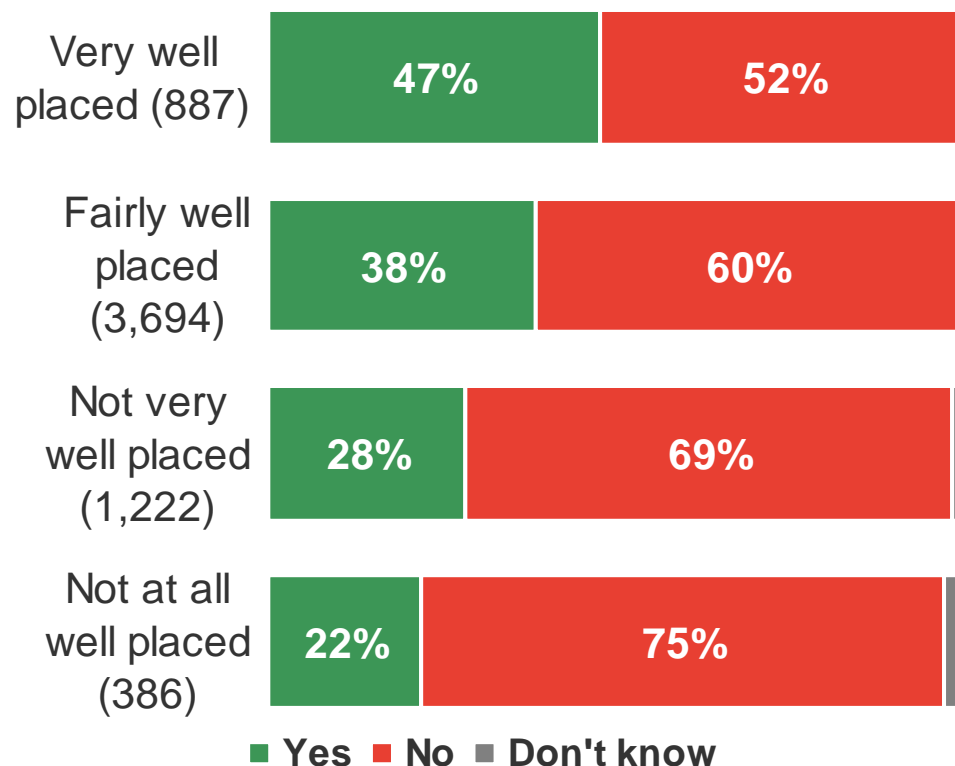
Businesses with a formal growth plan are more likely to report improved performance over the last 12 months. Critically, firms with growth plans are also much more likely to be better placed in a further downturn

Q Does your company have a formal growth plan?

Business performance over the past 12 months



Weathering the downturn



The NBS highlights the benefits of effective planning – 53% of businesses reporting that their performance improved over the last 12 months also had a growth plan in place compared to 31% for firms where performance had deteriorated. Moreover, 47% of firms which are very well placed to weather the downturn also had a formal growth plan compared to 22% of firms which are not at all well placed.

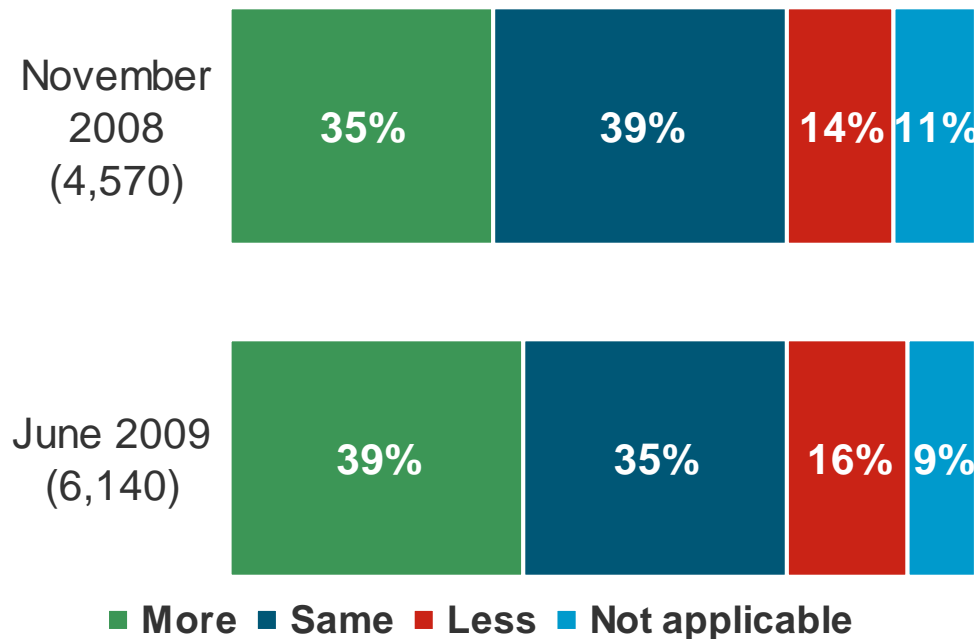
Ipsos MORI

Base: All businesses in England answering (shown in brackets)

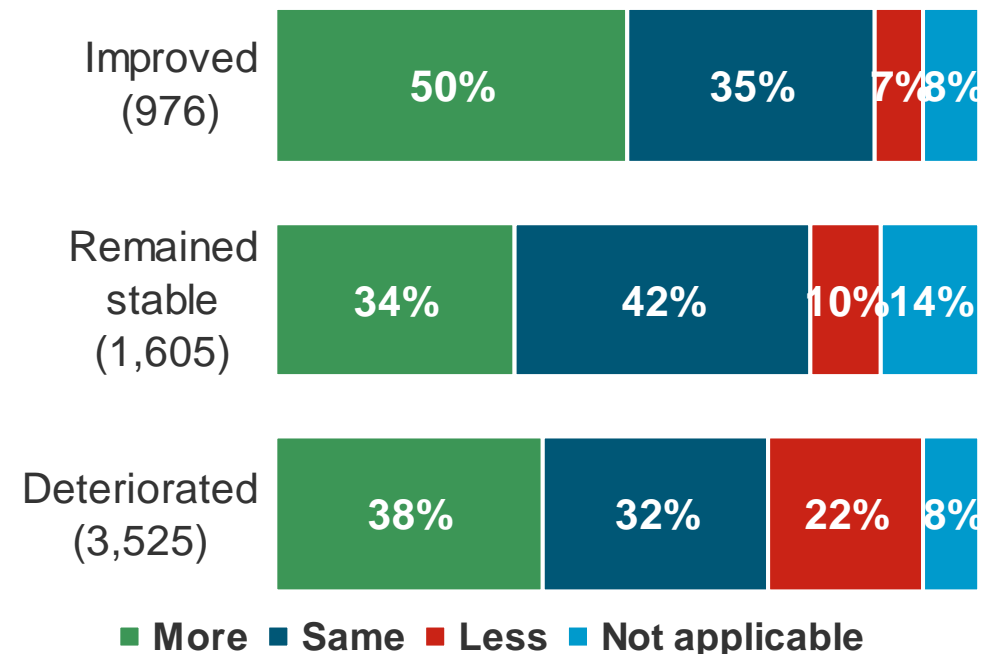


Expected levels of investment in marketing and sales activity have remained fairly stable, although firms which have spent more on marketing are also more likely to have experienced improved performance over the past 12 months

Q Do you expect to invest more or less in the next twelve months than you invested in the last twelve months on marketing and sales?

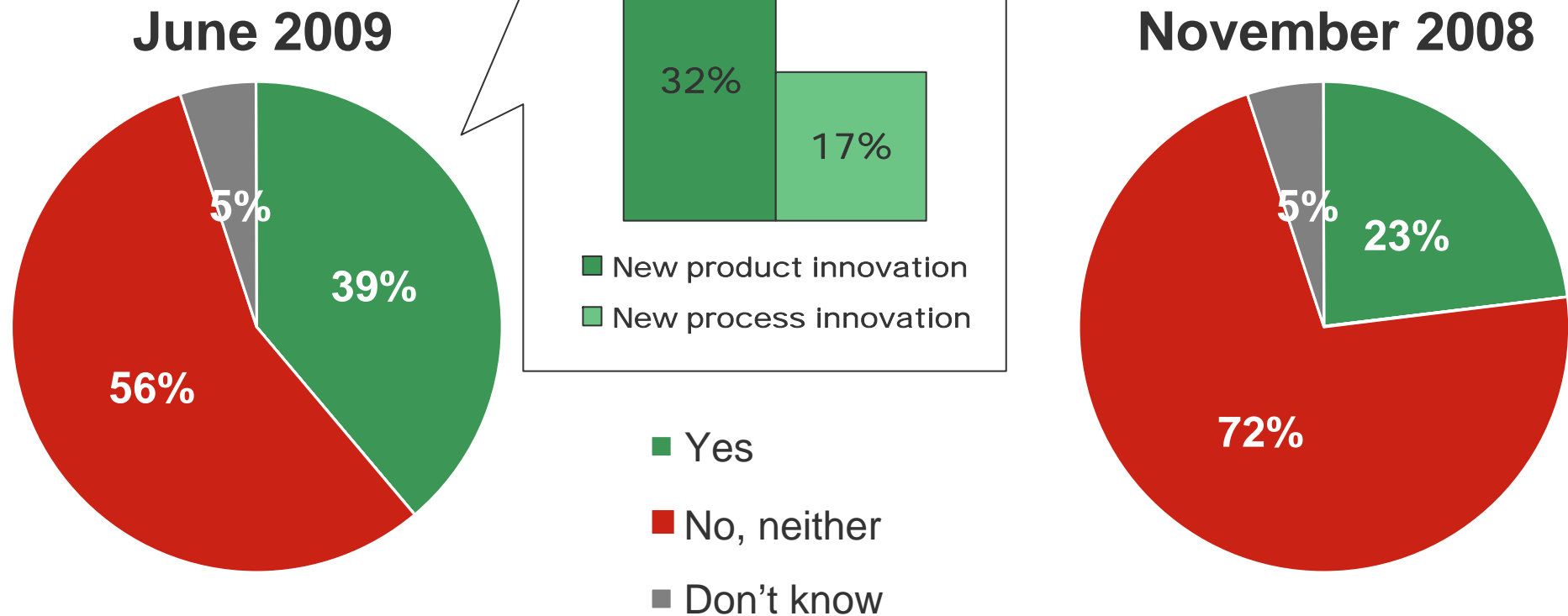


Business performance over the past 12 months



The downturn has motivated businesses to introduce new innovations, driven by the need to reduce costs or boost demand from customers

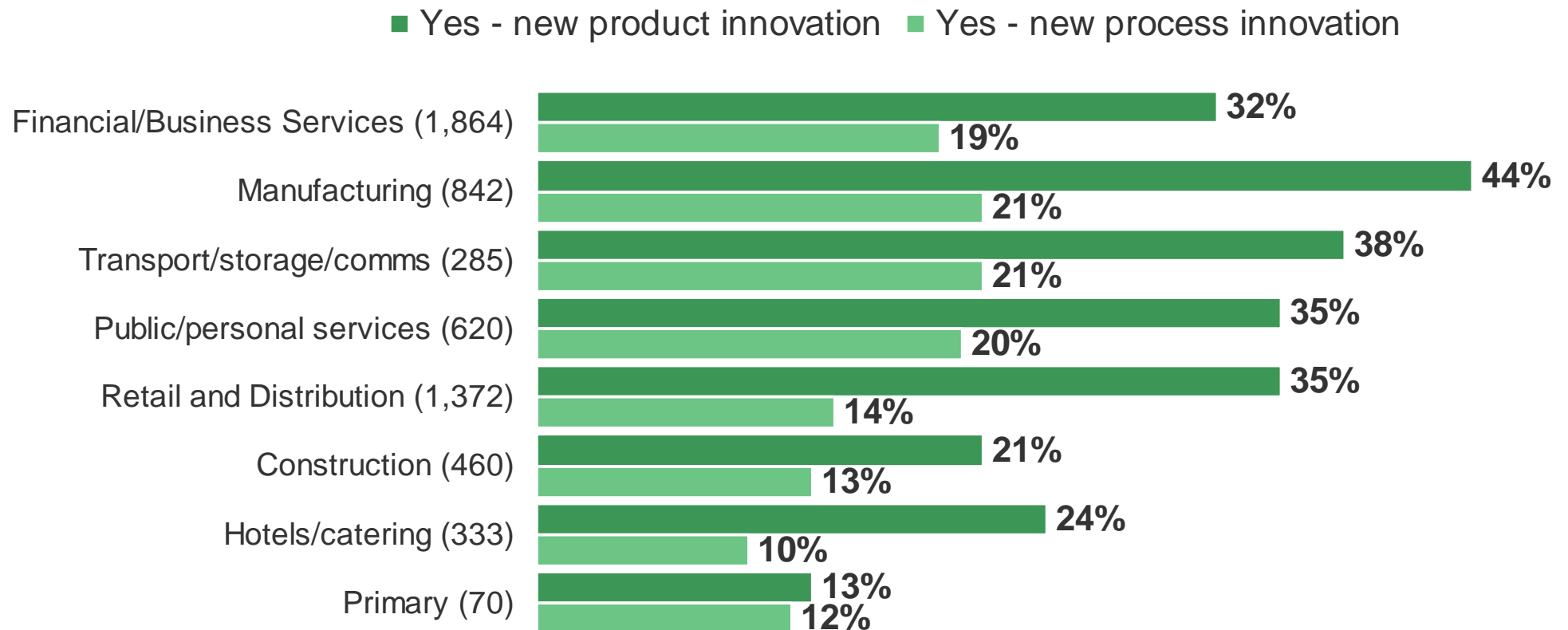
Q Has your business introduced a new product or process innovation in the past 12 months?



The proportion of firms introducing a product or process innovation has almost doubled between November 2008 and June 2009, clearly a reaction to more challenging economic conditions. Smaller firms with 1-9 employees are less likely to implement a product or process innovation compared to larger firms.

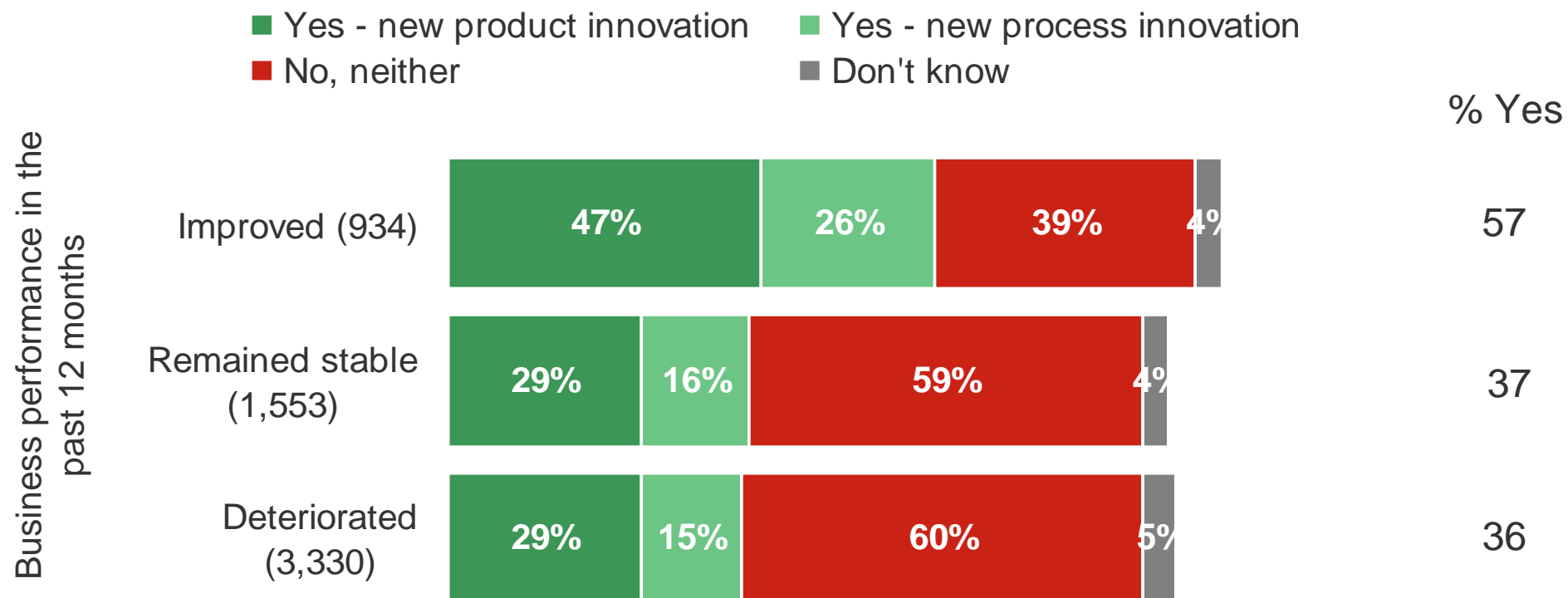
Firms in the manufacturing sector are most likely to introduce new product innovations overall, followed by the transport sector

Q Has your business introduced a new product or process innovation in the past 12 months?



Organisations derive a clear benefit from introducing a new innovation in the form of improved performance

Q Has your business introduced a new product or process innovation in the past 12 months?

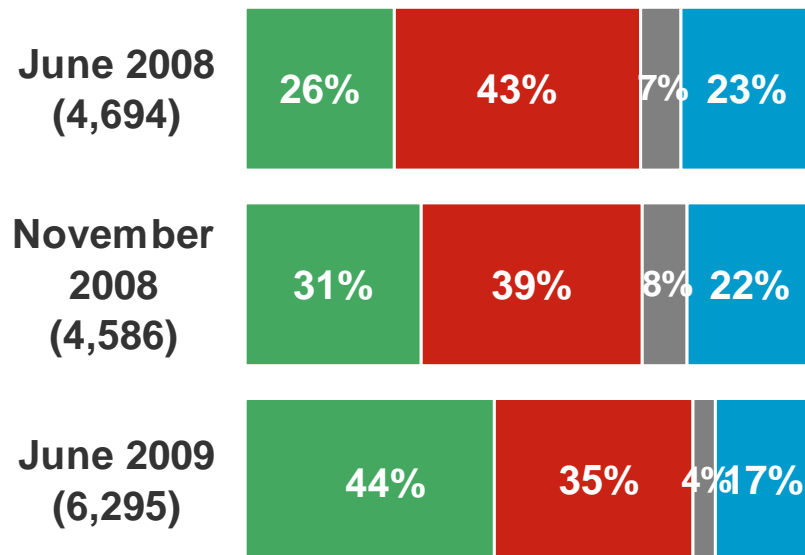


The benefits of new innovation are clear - 47% of firms which reported that their performance had improved in the last 12 months also introduced a new product innovation, while a lower proportion - 29% - reporting that their performance had deteriorated introduced a new product innovation

The proportion of firms undertaking steps to reduce their level of CO₂ emissions continues to grow. Firms may be seeing the cost benefits of reducing emissions, providing a strong business case in the downturn

Q Have you taken any steps to reduce the CO₂ emissions of your business?

■ Yes ■ No ■ Don't know ■ Not applicable



	Yes	No	Don't know	Not applicable
Public/personal services (689)	52%	28%	4%	16%
Hotels/catering (361)	48%	32%	7%	12%
Manufacturing (891)	43%	40%	3%	14%
Transport/storage/comms (309)	43%	37%	6%	14%
Primary (77)	42%	41%	0%	17%
Retail and Distribution (1,474)	42%	35%	5%	18%
Financial/Business Services (2,011)	41%	36%	3%	20%
Construction (483)	39%	40%	6%	15%

The proportion of firms who are actively trying to reduce their level of CO₂ emissions has increased from 26% in June 2008 to 44% in June 2009 (23% vs. 45% in Northern Ireland). Unsurprisingly, the public sector leads the way with 52% of firms undertaking these measures, while construction firms (39%) are the least likely to reduce CO₂.

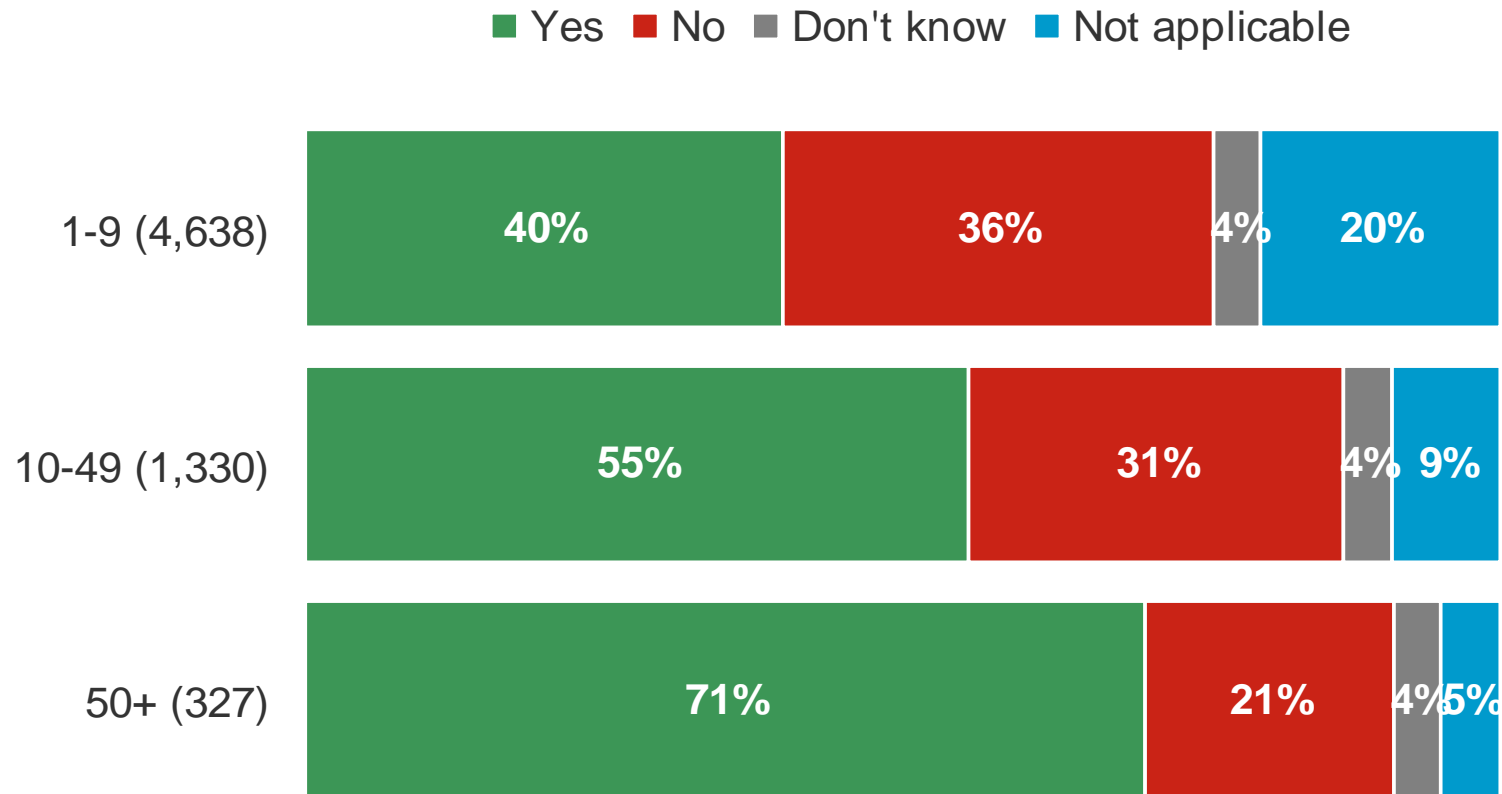
Ipsos MORI

Base: All businesses in England answering (shown in brackets)



Larger firms are still leading the way for undertaking measures to reduce CO₂. Smaller organisations are much less likely to be actively reducing CO₂ emissions.

Q Have you taken any steps to reduce the CO₂ emissions of your business?

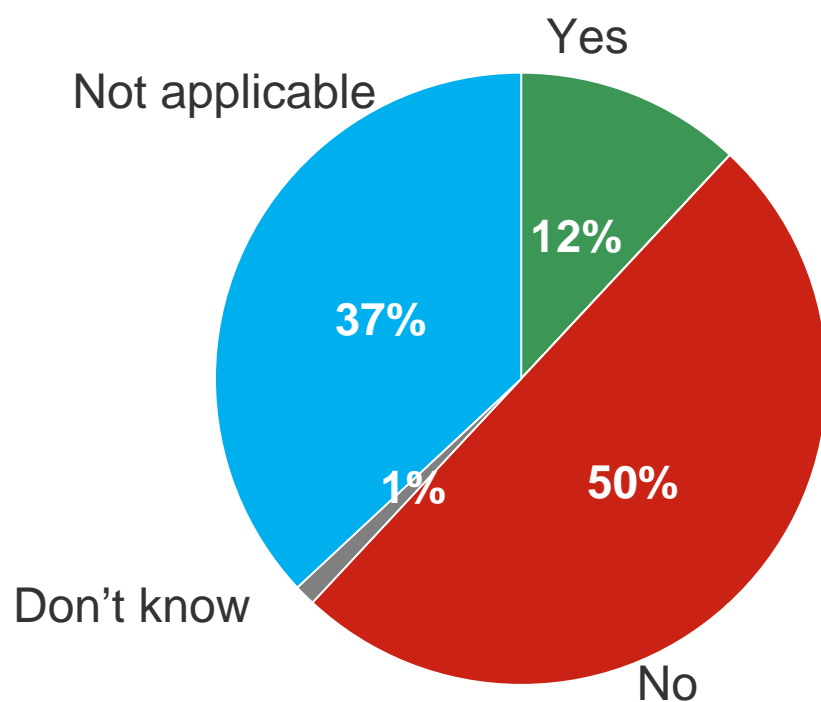


Section 9

Business collaboration and support

Only a small proportion of organisations co-operate with universities for research and development, although the public sector is much more likely to compared to other sectors

Q Does your business co-operate with universities for research and development activities?

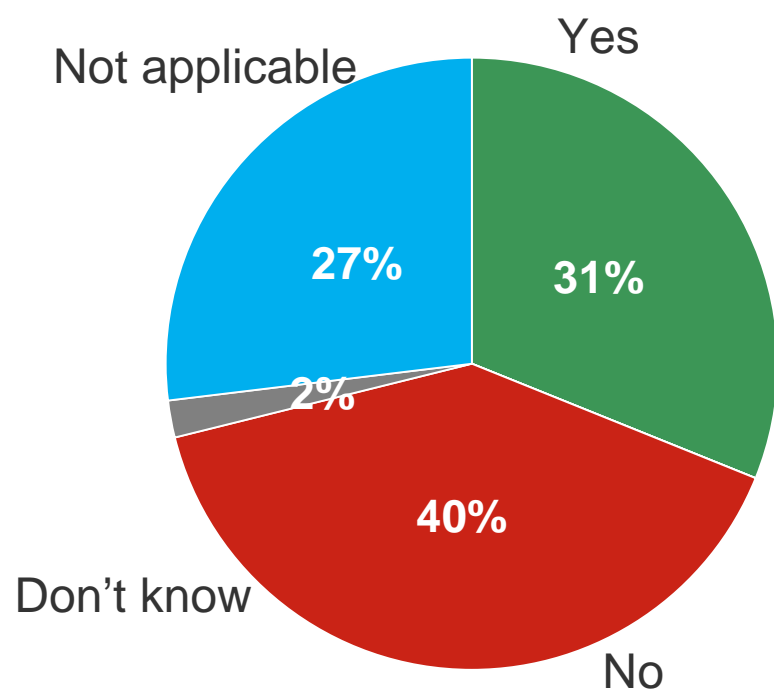


	Yes	No	Don't know	Not applicable
Public/personal services (688)	23%	46%	2%	30%
Manufacturing (896)	15%	61%	1%	23%
Financial/Business Services (2,018)	13%	52%	1%	34%
Primary (79)	8%	52%	1%	38%
Retail and Distribution (1,475)	7%	50%	1%	42%
Transport/storage/comms (308)	6%	56%	1%	37%
Hotels/catering (364)	6%	39%	3%	53%
Construction (487)	4%	50%	1%	45%

Only 12% of businesses co-operate with universities (13% in Northern Ireland), with little significant difference between November 2008 and June 2009 of the NBS. There are some differences by sector, with co-operation at around a quarter (23%) of public and personal services organisations. Construction, transport and hotels/catering are less likely to work with universities

Just under a third of firms (25% in Northern Ireland) belong to industrial networks overall, with the construction sector most likely to engage in partnerships to keep up to date with new technologies

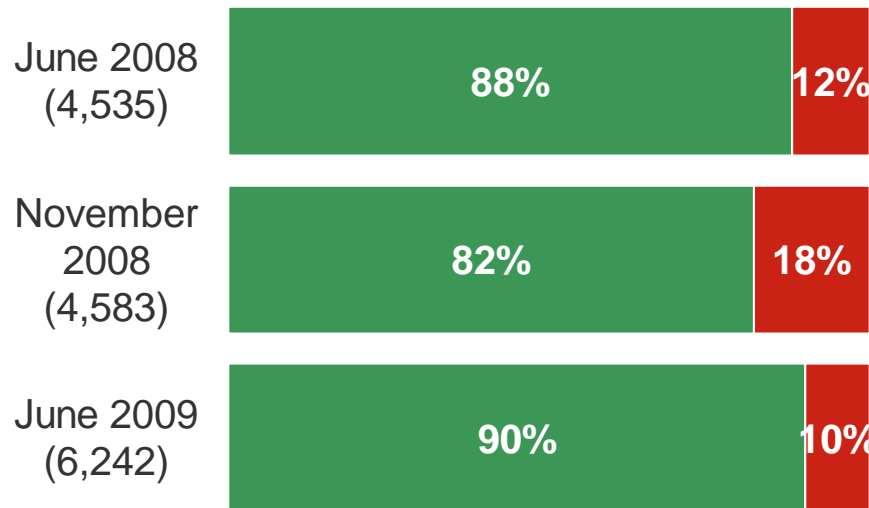
Q Do you belong to any specialist networks designed to help you to keep up-to-date with emerging technologies?



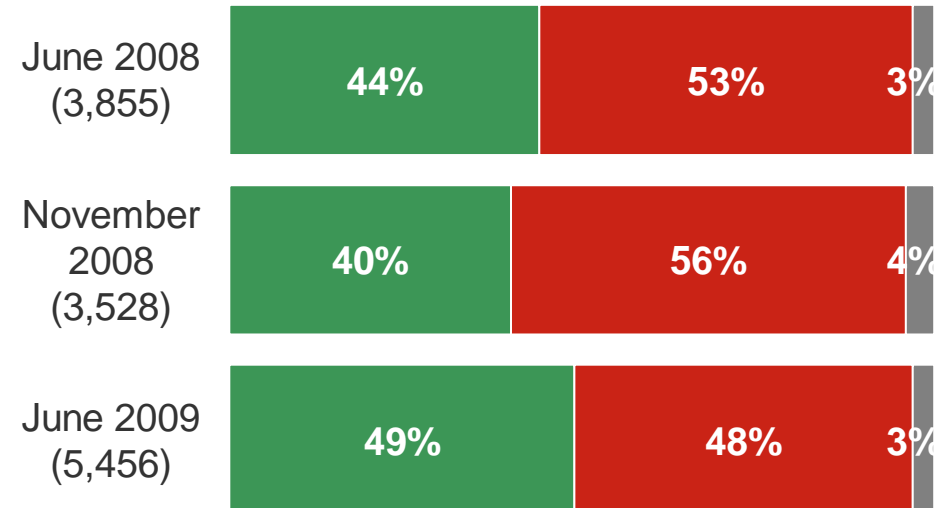
	Yes	No	Don't know	Not applicable
Construction (487)	38%	38%	2%	22%
Financial/Business Services (2,018)	36%	40%	1%	23%
Transport/storage/comms (310)	34%	38%	1%	27%
Manufacturing (896)	32%	53%	2%	13%
Primary (77)	31%	38%	3%	28%
Public/personal services (684)	30%	35%	3%	32%
Retail and Distribution (1,477)	23%	44%	2%	30%
Hotels/catering (360)	17%	36%	4%	43%

Awareness and usage of Business Link has increased slightly, which may be a result of stronger communications for business support services in the downturn

Q Have you heard of Business Link?



Q Have you used Business Link?



Q Do you plan to use Business Link in the next 12 months?



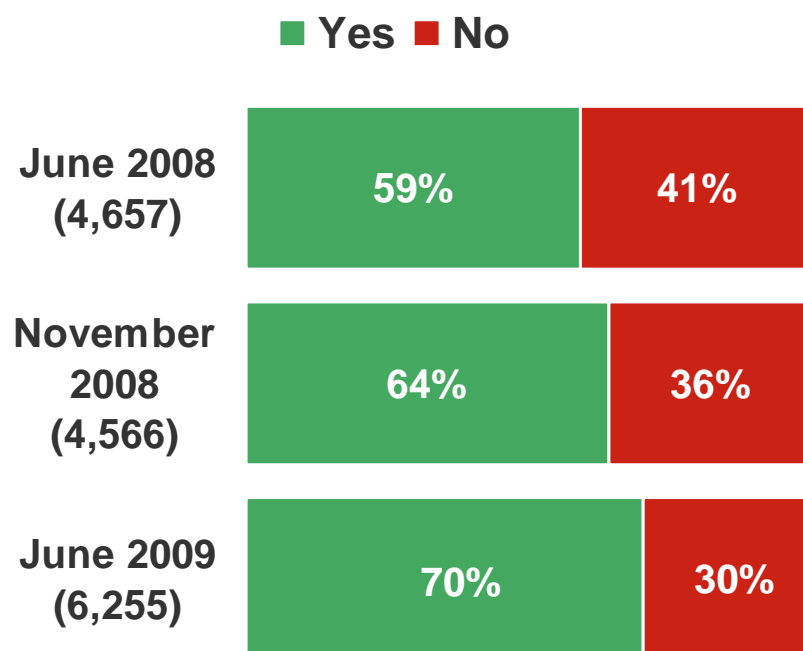
While awareness of Business Link has increased overall, those firms which report they are not at all well placed to weather the downturn are less likely to have heard of Business Link (83%) compared to firms which are very well placed (92%). Equally, while overall usage increased from 40% in November 2008 to 49% in June 2009, those at risk firms which require more support are no more likely to have used Business Link than the average.

Section 10

Human resources in the downturn

Despite a reduction in staffing levels in response to the downturn, the number of firms with excess capacity continues to grow as demand has weakened

Q Is your present level of output below capacity?



	Yes	No
Manufacturing (895)	82%	18%
Hotels/catering (353)	81%	19%
Construction (488)	74%	26%
Transport/storage/comms (303)	73%	27%
Retail and Distribution (1,443)	70%	30%
Financial/Business Services (2,018)	70%	30%
Primary (77)	66%	34%
Public/personal services (678)	60%	40%

The proportion of firms reporting that their present output is below capacity has increased from 59% in June 2008 to 70% in June 2009 (60% vs. 65% in Northern Ireland). Firms in the manufacturing (82%) and hotels/catering (81%) sectors are the most likely to report having excess capacity compared to other sectors. Smaller firms with 1-9 employees (71%) are more likely to be operating below capacity compared to larger firms with 50+ employees (61%)

Ipsos MORI

Base: All businesses in England answering (shown in brackets)

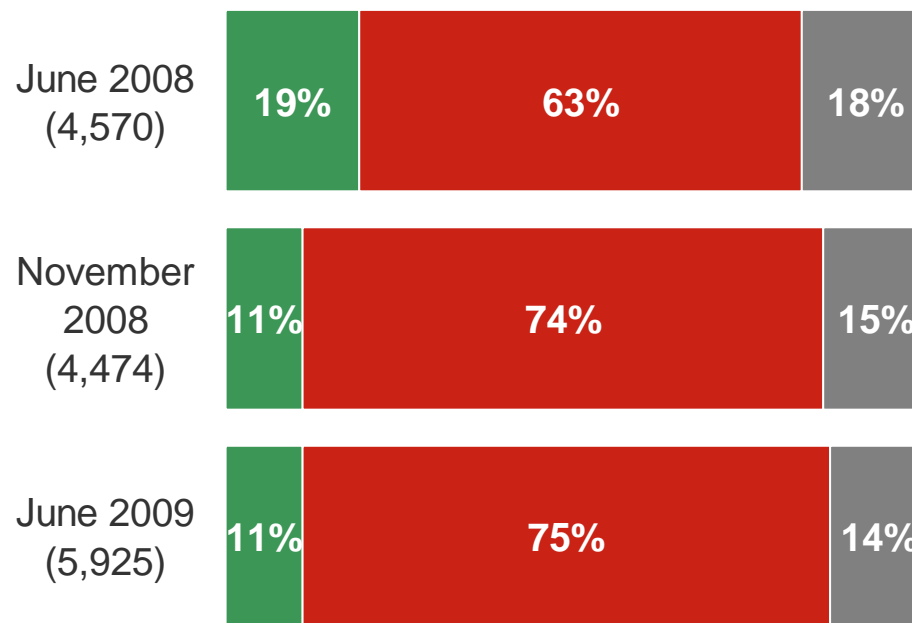
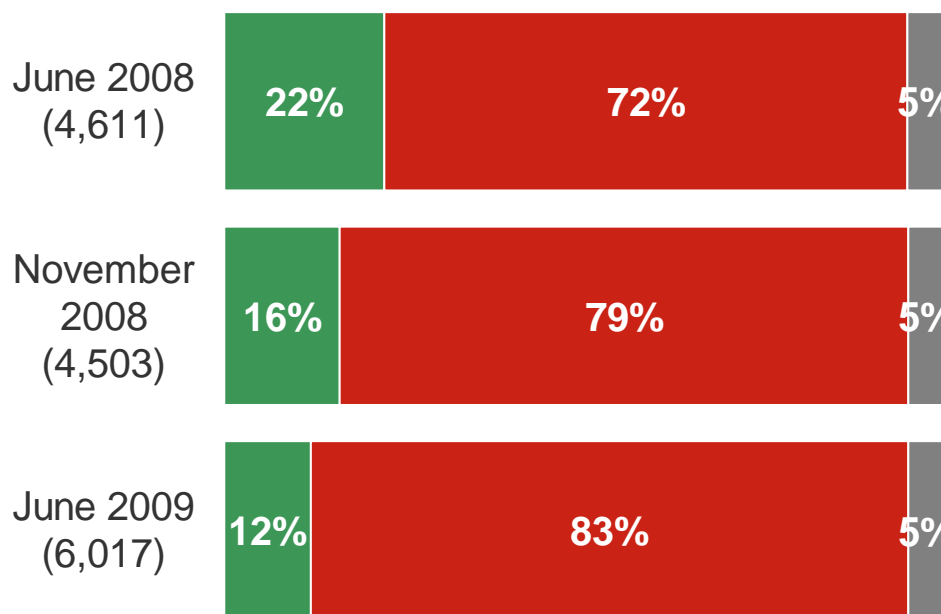


The combination of firms scaling back their recruitment activities alongside an emerging buyers market for labour means that companies are less likely to report having staff vacancies that are difficult to fill

Q Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months?

Q And do you expect to have any in the next 12 months?

■ Yes ■ No ■ Don't know



The proportion of firms reporting staff vacancies which are hard to fill has steadily reduced from 22% in June 2008 to 12% in June 2009 (20% vs. 8% in Northern Ireland). Larger 50+ employee firms are much more likely to report difficulties compared to smaller 1-9 employee firms. Public sector firms are also more likely to have vacancies that have been hard to fill

Ipsos MORI

Base: All businesses in England answering (shown in brackets)

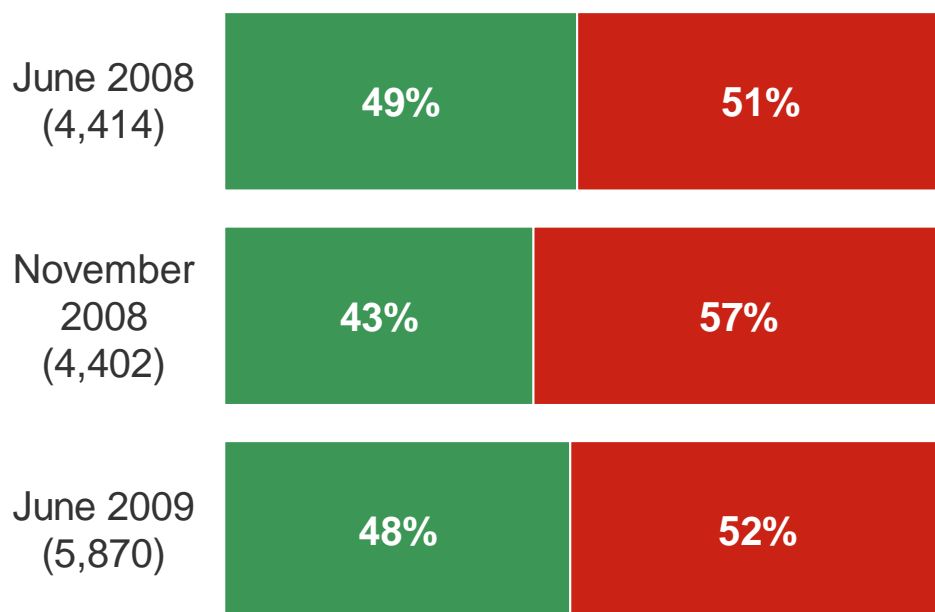


The downturn appears to have had little impact on the number of firms providing external and internal training provision for their staff

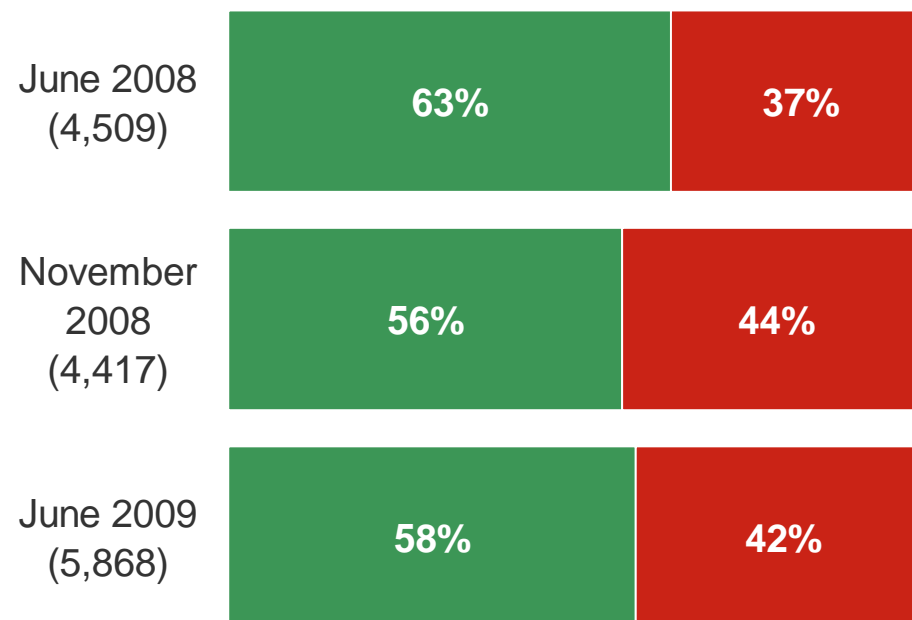
Q Did you provide any formal external or internal training for your staff during the last 12 month?

■ Yes ■ No

External



Internal



The number of firms undertaking external and internal training of their staff has changed little over the last year, standing at 48% and 58% respectively in June 2009 (41% and 48% in Northern Ireland). While larger firms are much more likely to provide training for their staff, the number of firms providing training has remained steady across all sizes of business over the last year

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Base: All businesses in England answering (shown in brackets)



Appendix

Guide to statistical reliability

Guide to Statistical Reliability -1

- The variation between the sample results and the “true” values can be predicted from knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the “true” value will fall within a specified range, based on a random ‘pure’ sample of the population.
- The table below illustrates the predicted ranges for different sample sizes and percentage results at the “95% confidence interval”.

	Approximate sampling tolerances applicable to percentages at or near these levels		
Sample Size	10% or 90 %	30% or 70%	50%
	<u>±</u>	<u>±</u>	<u>±</u>
5,000	1	1	1
2,500	1	2	2
1,000	2	3	3
800	3	4	4

Guide to Statistical Reliability -2

- Therefore, with a total sample size of 1,000 completed interviews, where 50% give a particular answer, the chances are 19 in 20 that the “true” value (which would have been obtained if the whole population had been interviewed) will fall within the range of ± 3 percentage points from the sample result; in fact the actual result is proportionately more likely to be closer to the centre (50%) than the extremes of the range (47% or 53%).
- When the results are compared between separate sub-groups within a sample, different results may be obtained. The difference may be “real,” or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is “statistically significant” - it is again necessary to know the total population, the size of the samples, the percentage giving a certain answer, and the degree of confidence chosen. Assuming the “95% confidence interval”, the differences between the two sub-sample results must be greater than the values given in the table on the next slide:

Guide to Statistical Reliability -3

	Differences required for significance at or near these percentage levels		
Sample sizes	10% or 90%	30% or 70%	50%
	<u>±</u>	<u>±</u>	<u>±</u>
5000 vs 5000	1	2	2
2500 vs 2500	2	3	3
4000 vs 1000	2	3	4

- For example, if 50% of the 4,000 sample give a particular answer, and 51% of the 1,000 sample give the same answer, there is not a statistically significant difference between the responses of the two groups. If however there is 54% of the 1,000 sample giving the same answer there is a significant difference as there is at least 4 points difference

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