

United Kingdom

Manufacturing Sector

- Outlook for business prospects in the manufacturing sector is highly optimistic.
- Employment set to rise only modestly, despite expected marked increases in new orders and activity.
- Inflationary pressures forecast to be the strongest since data collection began.

February survey data signalled an improvement in positive sentiment regarding business prospects in the UK manufacturing sector over the next twelve months. Both activity and new orders are expected to rise markedly, which will help to sustain job creation in the sector. However, a sharp rise in input costs is expected to restrict profit growth somewhat.

UK manufacturers are optimistic that activity will increase over the next year, with the degree of positive sentiment (+60.4) the strongest since data collection began in January 2006.

Expected growth of new business,

forecasts for which are the strongest since February 2010, is set to support the rise in activity. In turn, revenues are anticipated to increase markedly and at the strongest rate predicted in the survey history.

The sharp expected rise in activity is set to increase capacity utilisation. Employment is also forecast to increase, but at the weakest rate predicted in four survey periods. This suggests that a degree of spare capacity persists at manufacturing companies.

Inflationary pressures are set to intensify for UK manufacturers, with input costs projected to rise

substantially. Potentially higher raw material and fuel prices were frequently highlighted as concerns by respondents. However, panellists expect to be able to pass on a substantial part of their higher costs to customers, with output prices forecast to increase markedly. Both costs and charges are predicted to rise at the fastest rates in their respective series histories.

Reflective of higher revenues and an expected ability to pass on a large part of their cost increases, profits are expected to increase solidly. However, the projected rise in profits remains weaker than that of revenues.

Service Sector

- Positive sentiment regarding future business activity strongest since April 2007.
- Revenues and profits set to increase at only slightly faster pace than predicted in October.
- Sharp rise in input costs expected.

UK service companies were optimistic in February that business activity will rise over the next twelve months. The sharpest expected increase in new business (+45.0) for nine survey periods is expected to boost activity. Furthermore, employment is set to rise at the strongest rate predicted since April 2007. However, a marked increase in input costs is expected to curtail the positive impact on profits.

Ongoing recovery in general economic conditions, consolidation in the market and increasing overseas opportunities are all predicted to support business revenue growth over the next twelve months. Correspondingly, the expansion of

business activity is set to be solid (+44.8).

Employment is forecast to increase at the fastest pace in nine survey periods. Meanwhile, service companies anticipate only a marginal rise in outsourced work.

Input prices are projected to increase markedly, and at the strongest rate since data collection began in April 2006. Staff costs are set to be the fastest growing element, although the extent of the forecast rise is only slightly stronger than predicted in the previous survey period. Higher service costs (such as energy) and non-staff costs (like food for hotels & restaurants) are

anticipated to increase their impact on overall input prices over the next twelve months.

Expectations for output prices are the highest in eight survey periods. Nonetheless, they are predicted to rise at only a slightly faster rate than forecast in October, and to a lesser extent than costs.

Reflective of only a slight projected improvement in revenue growth and a limited ability to pass on higher costs, the expected increase in profits is broadly unchanged from the previous survey period.

UK service companies plan marginal growth of capital expenditure in the next twelve months.

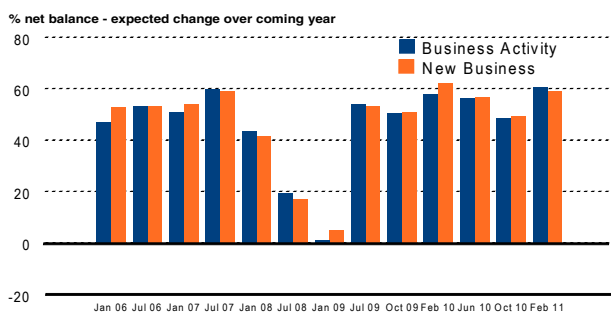
United Kingdom – Manufacturing

UK Manufacturing Summary

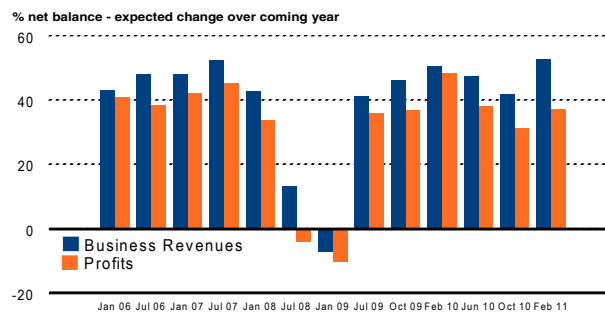
Net balance (% expecting an increase in the next 12 months minus % expecting a decrease)

	Oct-09	Feb-10	Jun-10	Oct-10	Feb-11
Business Activity	+50.4	+57.9	+56.2	+48.5	+60.4
Business Revenues	+46.4	+50.6	+47.4	+41.7	+52.6
New Orders	+51.0	+62.1	+56.5	+49.2	+59.1
Profits	+37.0	+48.5	+38.2	+31.4	+37.2
Employment	+7.7	+20.6	+25.8	+23.3	+19.8
Capacity Utilisation	+42.1	+52.1	+46.1	+40.1	+45.2
Capital Expenditure	+5.4	+14.4	+8.5	+12.6	+18.9
R&D Expenditure	+10.0	+16.6	+11.1	+15.5	+16.4
Input Prices	+33.6	+46.3	+49.7	+52.8	+67.8
Output Prices	+30.2	+41.2	+43.5	+40.8	+54.2
Inventory: Output Ratio	-19.4	-13.4	-8.5	-12.0	-11.8

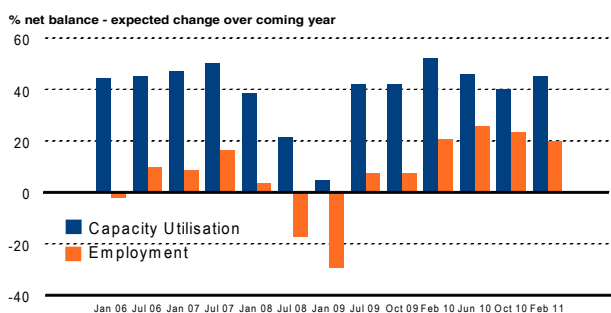
Business Activity / New Orders



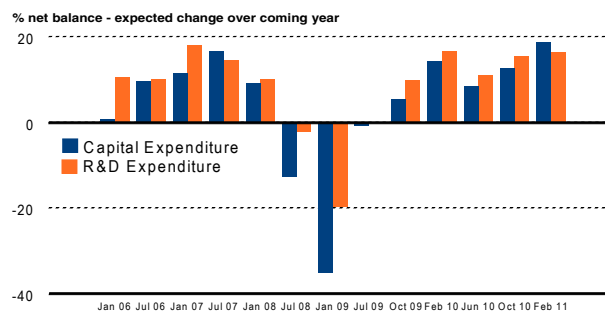
Business Revenues / Profits



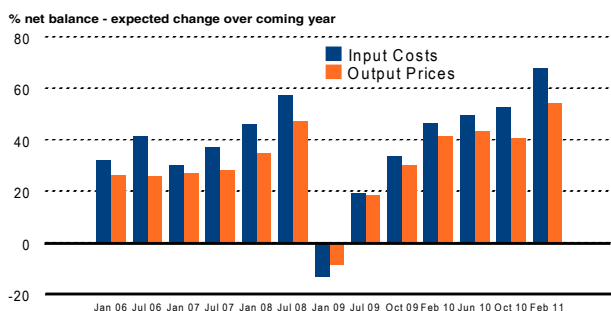
Employment / Capacity Utilisation



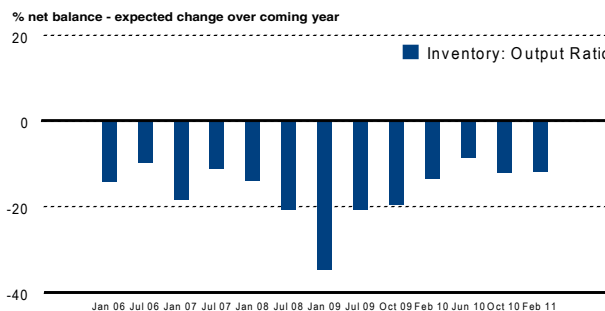
Capital Expenditure / R&D Expenditure



Input / Output Prices



Inventory: Output Ratio



Comments from panellists – Manufacturing

Business opportunities for the next 12 months

<i>“Opportunity to expand into new markets by offering different packaged products.”</i>	<i>“Improved economic conditions will lead to positive consumer confidence and a return to premium brands.”</i>	<i>“Green issues encouraging more sourcing within UK.”</i>
Food & Drink	Food & Drink	Chemicals & Plastics
<i>“Continued growth in Asia and growth in exports.”</i>	<i>“Increase sales team.”</i>	<i>“Product development, internationalisation.”</i>
Transport	Electrical & Optical	Clothing & Textiles
<i>“Sales growth in Europe.”</i>	<i>“New products, expanding markets in countries such as India and China.”</i>	<i>“Photovoltaic products.”</i>
Clothing & Textiles	Mechanical Engineering	Basic Metals
<i>“R&D investment over the past 3 years looking likely to pay off.”</i>	<i>“Improve the supply chain.”</i>	<i>“Investment in capital equipment should realise additional business opportunities.”</i>
Electrical & Optical	Basic Metals	Timber & Paper
<i>“Low cost sourcing.”</i>	<i>“Value of sterling remaining low.”</i>	<i>“Further change in government subsidies for renewable energy products due in July 2011.”</i>
Other Manufacturing	Mechanical Engineering	Electrical & Optical
<i>“Consolidation of market as weaker competitors drop out.”</i>	<i>“With greater uncertainty in the supply chain of Asia and transport costs, more manufacturing will return to the UK.”</i>	<i>“Global stability driving developing world luxury consumption.”</i>
Timber & Paper	Electrical & Optical	Transport
<i>“Cost of freight reducing differentials with Far East production.”</i>		
Chemicals & Plastics		

Business threats for the next 12 months

<i>“Oil price and raw material shortages driving up input costs.”</i>	<i>“Government budget cuts.”</i>	<i>“Competition from India and China.”</i>
Chemicals & Plastics	Chemicals & Plastics	Electrical & Optical
<i>“Strengthen of sterling would hurt our competitive position in mainland Europe.”</i>	<i>“Increased interest rates would be a problem with our borrowings.”</i>	<i>“Defence spending cuts.”</i>
Timber & Paper	Timber & Paper	Transport
<i>“Lower demand due to farm and food commodities prices starting to cause ‘demand burn-off’.”</i>	<i>“MoD consolidating existing contracts.”</i>	<i>“Supplier failure creating a volatile supply chain.”</i>
Food & Drink	Transport	Timber & Paper
<i>“Worldwide shortage of cotton and production capacity due to China becoming a big consumer country.”</i>	<i>“Continued tax duty escalator 2% above inflation.”</i>	<i>“Bank lending.”</i>
Clothing & Textiles	Food & Drink	Electrical & Optical
<i>“Commodity and food price rises.”</i>	<i>“The lack of clear direction in new housing is a major concern.”</i>	<i>“Civil unrest in the Middle East.”</i>
Food & Drink	Other Manufacturing	Chemicals & Plastics
<i>“Main competitors cutting margins to win business.”</i>	<i>“Continued downturn in UK sales.”</i>	<i>“New competition entering UK market.”</i>
Electrical & Optical	Mechanical Engineering	Timber & Paper
<i>“Lack of confidence.”</i>	<i>“Double dip recession.”</i>	<i>“Exchange rates, and lead times for goods from China.”</i>
Timber & Paper	Electrical & Optical	Basic Metals
	<i>“Very competitive market and higher costs.”</i>	<i>“Cash flow tight with clients’ payments taking longer to come in.”</i>
	Basic Metals	Mechanical Engineering

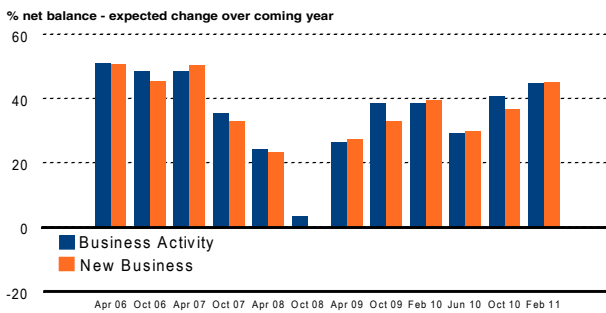
United Kingdom – Services

UK Services Summary

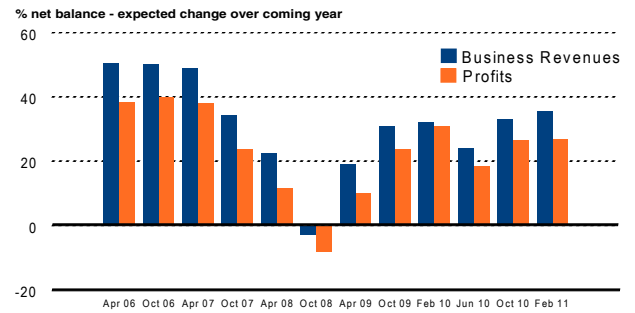
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New Orders	+32.9	+39.4	+29.8	+36.6	+45.0
Profits	+23.8	+31.1	+18.6	+26.5	+26.8
Employment	+9.1	+9.2	+7.8	+15.1	+23.2
Capital Expenditure	+0.3	+2.8	-0.7	+4.5	+6.6
Outsourcing	+0.6	+2.8	-2.0	+4.8	+7.2
Input Prices	+35.4	+40.6	+39.0	+44.0	+55.5
Output Prices	+21.3	+21.2	+18.0	+22.0	+26.5
Staff Costs	+33.9	+36.3	+34.9	+45.6	+48.9
Services Costs	+12.2	+18.5	+18.0	+20.4	+28.5
Non-Staff Costs	+25.4	+26.8	+25.4	+24.4	+36.7

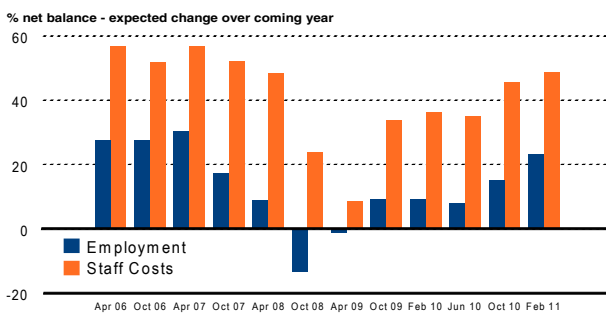
Business Activity / New Orders



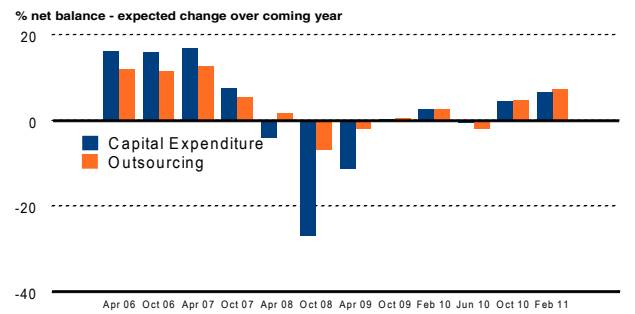
Business Revenues / Profits



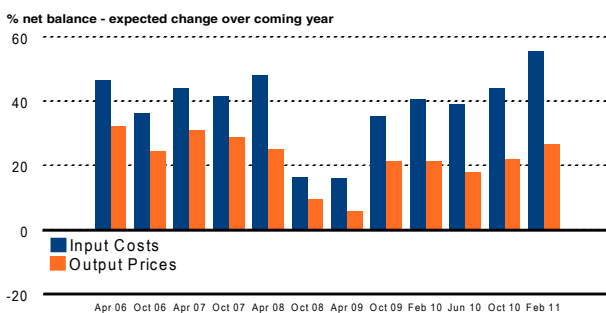
Employment / Staff Costs



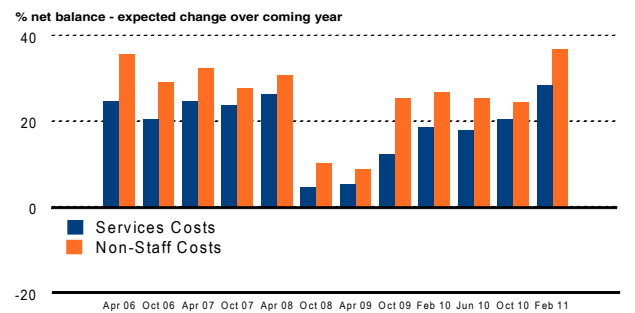
Capital Expenditure / Outsourcing



Input / Output Prices



Services / Non-Staff Costs



Comments from panellists – Services

Business opportunities for the next 12 months

“With inflation high, wage increases low, people will stay in the UK.”

Hotels & Restaurants

“Overseas consultancy.”

Renting & Business Activities

“Marketing.”

Other Services

“Public sector outsourcing services to third sector organisations.”

Renting & Business Activities

“Competition failures opening up new opportunities.”

Transport & Storage

“Economic recovery.”

Renting & Business Activities

“Competitor weakness.”

Hotels & Restaurants

“Changes in practice to become more streamlined and effective.”

Transport & Storage

“Competition may become less.”

Renting & Business Activities

“If the government can force mortgage lenders to help first-time buyers then the whole market will start moving again.”

Financial Intermediation

“Weakness of the pound is giving increasing export opportunities.”

Renting & Business Activities

“Return of corporate business.”

Hotels & Restaurants

“Airport in our area is expanding.”

Transport & Storage

“Potential acquisitions of distressed competitors.”

Renting & Business Activities

“Offer our services abroad.”

Post & Telecommunication

“Interest from overseas clients.”

Renting & Business Activities

“Emerging economies seeking to do business in UK.”

Financial Intermediation

“Many IFAs are expected to exit the profession due to increased minimum qualification requirements.”

Financial Intermediation

“Increasing job creation.”

Renting & Business Activities

“Olympics 2012.”

Hotels & Restaurants

“Internet marketing enabling us to reach greater market.”

Transport & Storage

“Opportunity of growth through acquisition.”

Transport & Storage

“E-commerce.”

Post & Telecommunication

Business threats for the next 12 months

“Competition from low cost EU countries.”

Renting & Business Activities

“Bank requiring much tighter credit facilities so affecting cash.”

Hotels & Restaurants

“Downward pressure on prices we can charge against upward pressure on our costs, in particular staff costs.”

Post & Telecommunication

“Banks still restricting lending.”

Financial Intermediation

“Poor cash flow. Business-to-business payments have slowed up greatly.”

Transport & Storage

“Too much legislation and red tape.”

Renting & Business Activities

“Bad debts.”

Transport & Storage

“Increase in interest rates and bank charges.”

Financial Intermediation

“Customers unable to pay.”

Renting & Business Activities

“Impact of increased VAT on discretionary spending.”

Hotels & Restaurants

“Increased competition with lower charge out rates.”

Renting & Business Activities

“Rising fuel prices.”

Transport & Storage

“Unfavourable exchange rate variations.”

Renting & Business Activities

“Reduced public sector demand.”

Financial Intermediation

“Double dip recession.”

Renting & Business Activities

“Increase in interest rates.”

Hotels & Restaurants

“Civil unrest in North Africa/Middle East.”

Transport & Storage

“Both UK & EU regulation.”

Financial Intermediation

“Any downturn in global trade.”

Transport & Storage

“Lack of confidence in the economy will prevent consumers spending.”

Other Services

“Shortage of good quality experienced staff.”

Renting & Business Activities

“Price increases on all products and food.”

Hotels & Restaurants