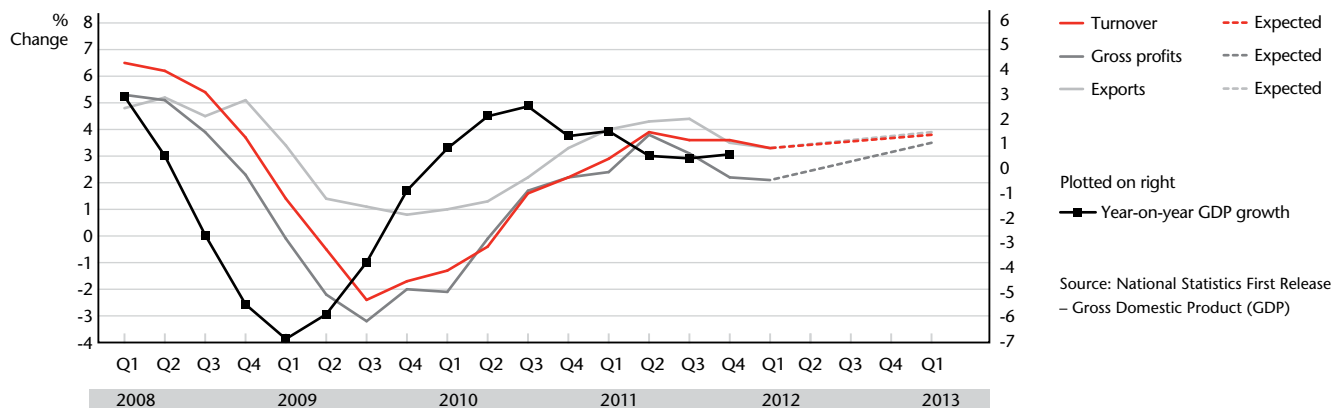


BUSINESS FINANCIAL PERFORMANCE

FIG. 4 AVERAGE % CHANGE OVER 12 MONTHS TO ...



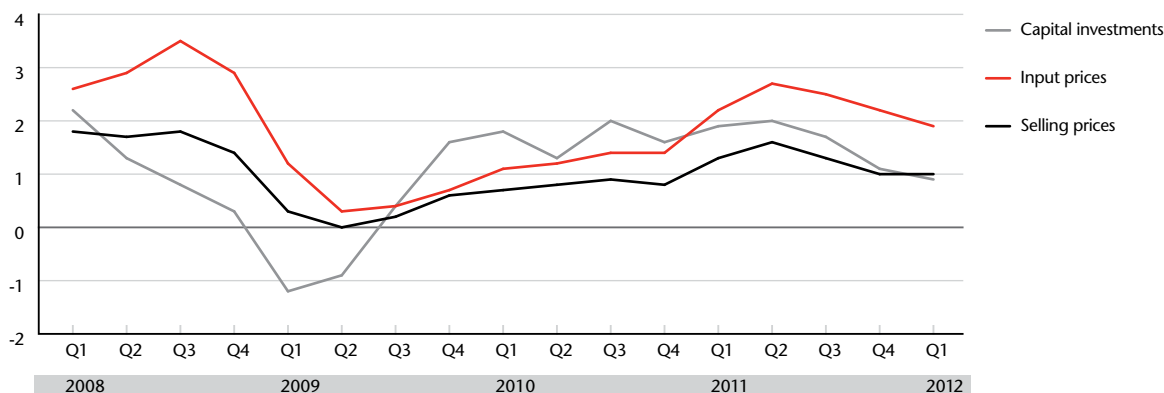
Key indicators show business performance broadly unchanged in Q1 2012, in line with the stable Confidence Index seen this quarter. Gross profits have grown by 2.1% in the 12 months to Q1 2012, while reported annual turnover growth stands at 3.3% this quarter. Expectations for growth over the next 12 months are also broadly unchanged from last quarter.

EXPECTED EXPORT GROWTH HOLDS UP DESPITE EUROZONE CRISIS

Although exporters have seen growth in exports slow over the last year, their expectations for the coming 12 months are for a consistent level of expansion, with businesses expecting exports to grow by 3.9%, unchanged from the level of growth expected in Q4 2011. Overall, this suggests that exporters may still be hopeful that the ongoing eurozone sovereign debt crisis will not significantly impair demand for UK exports over the next year, so exports could still be a driver of economic growth in 2012.

Notably, expected export growth has returned to levels comparable with the pre-recession average. This is in sharp contrast to expected turnover growth (3.8%) and expected gross profits growth (3.5%), which are both significantly below pre-recession levels, suggesting that the majority of businesses do not expect a return to pre-recession growth levels any time soon.

FIG. 5 AVERAGE EXPECTED % CHANGE IN ... next 12 months



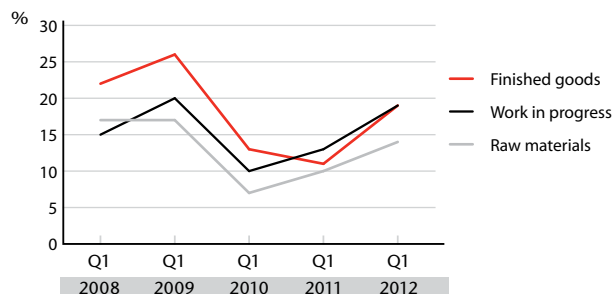
This quarter, businesses expect capital investment to grow by just 0.9% over the next 12 months, down from a recent peak of 2.0% in Q2 2011. Capital investment growth expectations have now fallen for three consecutive quarters, suggesting that businesses are becoming increasingly reluctant to invest in the future, probably related to cautiousness over the economic outlook.

INFLATION LIKELY TO FALL

Businesses expect input prices to grow by 1.9% over the next 12 months; this is down from a recent peak of 2.7% in Q2 2011. Similarly, businesses expect selling prices to grow by 1.0% over the next 12 months, down from 1.6% in Q2 2011. Overall this supports the view that consumer price inflation is likely to fall back over the coming

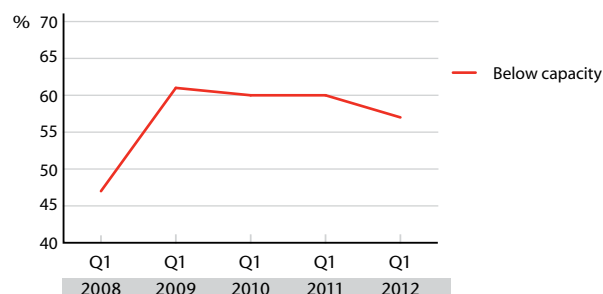
year, as demand in the economy remains weak and cost pressures on firms show signs of easing. The effects of last year's VAT rise will also drop out of the annual rate of consumer price growth this year, which will also bear down on the annual rate of selling price inflation.

FIG. 6 PROPORTION OF FIRMS WITH STOCK CURRENTLY ABOVE NORMAL LEVELS



Stock levels of finished goods and work in progress are increasing. The share of businesses reporting these at above normal levels has increased significantly, compared to a year ago. In Q1 2012, almost one in five (19%) businesses report their stock levels of finished goods and work in progress above normal.

FIG. 7 PROPORTION OF FIRMS CURRENTLY RUNNING BELOW CAPACITY



DESTOCKING COULD LIE AHEAD

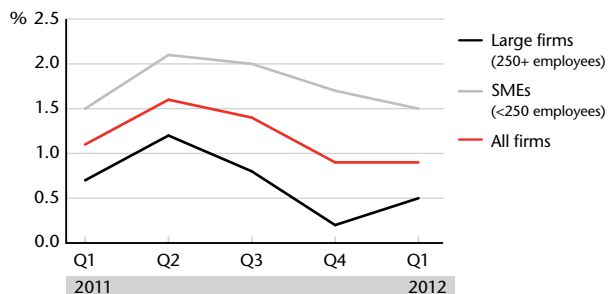
The rise in the stock level of finished goods is particularly important, as it suggests there could be insufficient demand to shift the current level of produced goods, implying that destocking could be around the corner.

Such a mismatch between the supply and demand for goods occurred through 2008 as the financial crisis led to reduced levels of demand. The consequence was particularly profound as firms running down their stock levels led to lower demand through the supply chain, and had further knock-on effects on the

economy. So, as more businesses now report stock levels standing above normal, there is a risk that through 2012 firms will cut back demand through the supply chain as they run down existing inventory. While there is no sign in BCM of this yet, this needs to be closely watched in the coming quarters.

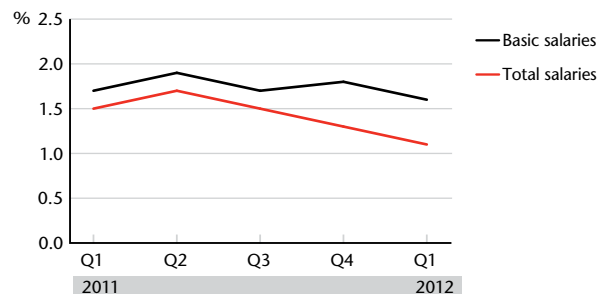
At the same time, most businesses still report operating below capacity this quarter. The proportion of firms operating below capacity rose sharply as the UK economy entered recession in 2008, and has yet to return to levels seen before that.

FIG. 8 AVERAGE EXPECTED % CHANGE IN EMPLOYEE NUMBERS ... NEXT 12 MONTHS



SMEs remain most optimistic in expectations of employee headcount growth. This quarter, SMEs (firms with fewer than 250 employees) expect to increase headcount by 1.5% over the next 12 months, compared with 0.5% growth expected by large firms (firms with at least 250 employees).

FIG. 9 AVERAGE EXPECTED % CHANGE IN SALARIES ... NEXT 12 MONTHS



LABOUR MARKET REMAINS FRAGILE

BCM Q1 2012 indicates continuing fragility in the labour market. Businesses remain cautious in their hiring intentions, expecting to increase headcount by just 0.9% over the next 12 months. It is unclear whether private sector job creation will be sufficient to offset the job cuts in the public sector which the Office for Budget Responsibility (OBR) expects to total 110,000 in the 2012/13 fiscal year.

In addition to restrained headcount growth, businesses are planning only modest increases in salaries over the next 12 months. Basic salaries are

expected to increase by 1.6%, with total salaries expected to increase by an average of 1.1%. Expected total salary growth stands at its lowest level since Q3 2009, suggesting that the poor economic outlook is likely to curtail bonus payments over the coming year. With the OBR expecting consumer price inflation (CPI) to average 2.7% this year, salary growth looks set to continue trailing behind the rising cost of living over the coming year – implying further deterioration in living standards for many UK households.