

Ipsos MORI



The National Business Survey

National Report

16 January 2008

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Contents

Executive Summary	3
The Current Business Climate	3
Headline Topic: Considerable pressure on business profits due to falling output and lower pricing.....	4
Headline Topic: Lower demand and excess capacity will drive up unemployment in 2009	5
Other Key Business Factors	6
Introduction	8
Background and objectives.....	8
Methodology and sample sizes	8
Report content, layout and contextual information.....	9
Publication of the data	10
Acknowledgements.....	10
Business Climate	11
National Economic Performance	11
Business Confidence	12
Key Economic Indicators, 2003-2009	18
Prices and Inflation	19
Price Trends	19
Business Costs.....	22
Investment Prospects.....	27
National Business Survey Index of Business Confidence.....	28
The Development of the Index.....	28
National Business Survey Index of Business Confidence Findings	29
National Statistics: Investment Levels	35
Planned Investment: Business Location	37
Labour Market	38

Unemployment Levels	38
Other Key Business Metrics	42
Business Location: Importance Factors	42
Business Location: Satisfaction Factors	45
Strategic Business Planning.....	47
Business Networks: University and Industry	48
New Product/Process Innovation.....	51
Environmental Performance	53
Appendices.....	57
Appendix A. Topline Results.....	57
Appendix B: Guide to Statistical Reliability	65
Appendix C: Bibliography	67

Summary

Executive Summary

The Current Business Climate

- The November 2008 wave of The National Business Survey¹ found that business confidence has fallen further from the June 2008 level, with more than a half of businesses expecting the business climate to deteriorate in the next 12 months (55% compared to 48% in June 2008), and only one in ten (10% compared to 12% in June 2008) expecting it to improve². This challenging picture is widespread, with little difference by English region. Pessimism is most strongly felt in the construction sector where seven in ten businesses expect deterioration in the business climate over the next 12 months, followed by the retail/distribution and hotels/catering sectors in which six out of ten businesses expect deterioration.
- The Index of Business Confidence has fallen in all regions and sectors. Businesses in London and the North East are slightly more optimistic, otherwise there are no significant regional differences. At the sectoral level, confidence is lowest in the construction sector and highest in the public and personal services sector, with the range between these highest and lowest sectors having increased between the waves.
- The overwhelmingly negative picture presented in the National Business Survey is unsurprising, given unprecedented weakness in UK economic conditions. Since June 2008, official statistics have shown a dramatic deterioration in the UK economy and the general consensus is that the UK economy is now in recession. The turmoil in the international banking system has created widespread uncertainty and anxiety over the future direction of the economy. Business surveys from the Confederation of British Industry and British Chambers of Commerce, along with a range of national balances and labour market indicators all point towards economic contraction, accompanied by sharply rising unemployment and the prospect of deflationary pressures. It remains to be seen how effective the emergency package of monetary and fiscal stimulus measures are in countering these threats, but it is clear that UK businesses face the most challenging economic climate in recent times.

¹ All findings in this report are from the National Business Survey unless otherwise stated

² June 2008 fieldwork conducted May-June 2008

Headline Topic: Considerable pressure on business profits due to falling output and lower pricing

- Since June 2008 concerns over inflationary pressures have eased significantly, reflected in a drop in interest rates from 5.0% in July 2008 to 1.5% in January 2009. National Statistics show price growth for energy and food has slowed as reflected in the fall in inflation (Consumer Price Index) from 5.2% (September 2008) to 4.1% (January 2009) over the period of the two waves. The National Business Survey reflects this, with three in ten businesses reporting increased prices charged to customers over the past 12 months, compared to four in ten in June 2008. However in all sectors other than public/personal, at least a half of businesses report lower profits in the past 12 months. The most affected sectors are hotels and catering where seven in ten businesses report this, followed by construction and retail/distribution where more than six in ten report lower profits. Overall the proportion of businesses reporting lower profit margins in the past 12 months has increased from 45% in June 2008 to 55% in November 2008. Although there is some evidence that cost pressures have eased - and the weakness of Sterling may benefit the hotels/catering sector from inbound tourism - there is no evidence that this has positively impacted on business confidence or profit margins.
- In June 2008, three out of ten businesses reported higher volumes of output, and in November 2008 this has fallen to less than a quarter (23%). In June 2008 a quarter of businesses reported higher domestic orders (24%), but this has now fallen to one in five (19%), and the expected trends for the next 12 months are along similar lines. These trends are confirmed by the Confederation of British Industry Monthly Industrial Trends Enquiry which reports increasingly negative balances in domestic and export order books. National balances published by the HM Treasury confirm negative and falling levels for the last 7 quarters in whole economy for business and manufacturing investment. Investment in the service sector is falling though still positive, whilst very high investment in the government sector may reflect policy initiatives aimed at stimulating the economy.
- The net overall score³ for output levels over the past 12 months in June 2008 was +3%, falling to -10% in November 2008, showing that negative output levels which pressured the hotels/catering and retail/distribution sectors in June 2008, have now spread to other industries. The sectors most affected are retail/distribution (-28% /

³ Net score: the balance of negative and positive responses.

-12% in June 2008), followed by construction (-20% / -4% in June 2008), and hotels/catering (-19% / -21% in June 2008). Approaching two thirds of businesses (64%) report that their present level of output is below capacity, up from six in ten in June 2008 (59%). Half of businesses in the construction and distribution sectors expect their levels of output to fall in the next 12 months, which will increase fears of further business collapses and redundancies, exacerbated by the difficulties in acquiring credit and financial assistance due to the international banking crisis. Though the picture is negative overall, these findings are not as gloomy as might have been expected, and it is of some encouragement that just over a half of businesses either reported output levels as unchanged or higher in the past 12 months.

Headline Topic: Lower demand and excess capacity will drive up unemployment in 2009

- Latest forecasts from HM Treasury⁴ predict that the UK economy will contract by 1.7% in 2009, with claimant unemployment rising to 1.6 million by the end of the year, an increase of more than 60% on 2007. Data from the National Business Survey found that 26% of businesses expected to employ a lower number of staff compared to 19% in June 2008.
- The research also sheds light on the types of businesses where unemployment is likely to rise at the fastest rate. In November 2008, the transport/storage/comms, primary/manufacturing and public/personal services sectors saw the biggest increase in the number of businesses stating they would be employing fewer people compared to June 2008, illustrating the pressure these sectors are under to cut costs in the face of falling demand. Indeed, over one third of businesses in the construction (36%) and hotel/catering (34%) sectors expect to employ less people in 2009.
- Larger (50+ employee) businesses are much more likely to employ fewer people in the next 12 months. Nearly half (49%) of this group stated that they expect to employ a lower number of staff in the next 12 months, compared to 31% who stated this in June 2008.
- In the face of weakening demand, it is particularly notable that close to two in three (64%) businesses report that their current level of output is below capacity, which represents a greater deterioration from June 2008 where this sentiment was reported by fewer than six in ten businesses (59%).

- The National Business Survey has found that businesses are planning to spend more on marketing and sales, rather than training or product development, which reflects the need to maintain output and counteract an increased level of price-led competition at a time of recession. There is less concern about filling staff vacancies compared to June 2008, unsurprising given the squeeze on profit margins and the increasing pool of skills in the labour market caused by rising unemployment.

Other Key Business Factors

- When asked about factors important for their organisations competitiveness, businesses responded with the following top four responses
 - Management skills
 - Workforce skills
 - Labour costs
 - Government regulations
- These findings were similar to June 2008, and satisfaction with government regulations and business support from government remains at a quarter or less, though this represents a slight improvement since June 2008. It is too early to say whether the fiscal stimulus announced in November 2008 will improve the perceptions of business towards support from Government.
- The National Business Survey has found that businesses which have formal business growth plans and co-operation networks with industry and higher education tend to be less pessimistic about the business climate in the next 12 months. These firms are also more likely to implement product or process innovations in the next 12 months which may assist these businesses to weather the economic storm. Smaller businesses are less likely to undertake these initiatives and there is scope for further support to be provided for this sector, which may be more restricted from building networks and knowledge transfer, due to resourcing and risk factors.
- The November 2008 wave has seen a fall in the number of businesses undertaking actions to improve environmental performance. In some cases this may be because such actions have become a part of mainstream part of working practices and are

⁴ Based on an average of forecasts made by leading UK economic commentators in the City, government and academia.

therefore not reported to the same extent. It may also be due to the increasing pressure on resources caused by the economic downturn. However more businesses are planning to undertake actions that involve environmental accreditations and accessing consultancy, advice and external funding to improve environmental performance.

Introduction

- This report is based on findings from the National Business Survey, November 2008, conducted by Ipsos MORI on behalf of the Regional Development Agency Network. It explores perceptions of businesses across England and Northern Ireland, on current and recent business conditions as well as looking forward to potential issues and views on projected change over the coming months. The findings from November 2008 have been compared with June 2008, and the key trends and emerging areas of difference between waves have been highlighted.

Background and objectives

- The National Business Survey is a large scale research study conducted across England with businesses and organisations from all sectors of the economy (both private and public sector). The survey is conducted on behalf of the Regional Development Agency Network and as such, fieldwork is divided between England's nine Government Office Regions along with Northern Ireland, with varied sample sizes within each region (as set out in the sample profile appended to this report).
- The survey builds on the findings and work of the survey carried out in June 2008 and of the previously titled, "UK Survey of Regional Economic Trends" which ran over nine consecutive waves, from spring 2003. The methodology and questionnaire remain largely unchanged from this previous study to ensure consistency of approach between survey waves and data (see below for more information on research methods).

Methodology and sample sizes

- 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, supplementary postal reminders were sent out to all organisations which had not responded to the original mailing, as well as email reminders to all organisations with email contact details.
- Fieldwork was conducted between October and December 2008 and the final achieved sample size was 5,003, divided between all regions including Northern Ireland. The table below shows how responses were broken down by each region.

Region	Sample size
Yorkshire and Humber	843
West Midlands	327
South West	425
South East	569
North West	538
North East	343
London	505
East Midlands	738
East of England	380
England	4,668
Northern Ireland	335
TOTAL (England and Northern Ireland)	5,003

- Data has been weighted by size (employee numbers) and region, to reflect the national profile.
- Ipsos MORI have also undertaken an online booster survey of businesses utilising sample from Business Link and Ipsos MORI's access panels. Data in the National Report only uses responses from the postal survey and does not include responses from the online booster survey.

Report content, layout and contextual information

- The report includes a number of sections which highlight the key findings from the survey, and makes extensive use of secondary data and comparator information in order to contextualise the findings. The sections include:
 - **Introduction:** Introduction to the survey objectives, methods and notes on interpreting the findings and using the report.
 - **Executive summary:** A stand-alone interpretive summary of the key survey findings.
 - **Business climate:** The National Business Survey findings on business climate are placed within the context of national statistics on economic performance.
 - **Prices and Inflation:** The National Business Survey findings on prices and costs are placed within the context of inflationary trends.

- **Investment Prospects:** The National Business Survey findings on output levels and planned spending are placed within the context of national statistics on output and investments levels.
 - **Labour Market:** The National Business Survey findings on employment levels and skills gaps are placed within the context of a range of labour market statistics.
 - **Other Key Business Metrics:** This section includes findings on satisfaction with a range of key business location factors.
 - **Strategic Business Planning:** This section includes findings on the usage and attitudes of a range of support services.
 - **Environmental Performance:** National Business Survey findings on actions taken to improve environmental performance are placed with the context of national level progress in reducing environmental emissions.
- The appendices contain a copy of the questionnaire used in the study, marked up with topline findings for each question. They also contain a statistical guide relating to the interpretation of data.

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 misinterpretation 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.

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Ronan Smyth

Joe Marshall

Business Climate

National Economic Performance

Economic growth and output

It is expected that in January 2009, data from National Statistics⁵ will confirm the UK economy is in recession. In Q2 2008 the economy stagnated with 0.0% GDP growth⁶. GDP then fell by 0.5% Q3 2008, and if as expected Q4 shows further contraction, the official definition of a recession as two consecutive quarters of negative growth will have been reached. Major economic indicators are in negative territory: industrial production dropped by 3.6% in the three months to October; whilst manufacturing output fell by 3.5%; and whole economy investment fell by 2.0% in the year⁷ to October. The service sector is still growing, though at an output rate of only 1.7%.

The recession which the UK is facing is a global one, affecting all major Western economies. The greatest contraction has been in the UK (-0.5%), along with Japan and Germany (-0.5%), whilst the largest economy, the US, fell by 0.1%⁸. This may affect growth in export markets, further affecting the profit margins of UK businesses. The Confederation of British Industry Monthly Industrial Trends Enquiry recorded the Export Order Book in negative balance at -31 in November, having fallen from -5 in July⁹. However the hotel and catering sector is hoping that the weak pound value will attract more overseas visitors.

There has been limited growth in the consumer market: household consumption increased by 2.3% in the year to Q2 2008 and retail sales volumes increased by 2.0% in the year to October 2008. However, the British Retail Consortium reported that like-for-like retail sales for December 2008 were down 3.3% on a year ago, while total sales shrank 1.4%. In recent months a number of high profile retail businesses have gone into administration or liquidation with mounting job losses as a result. These difficulties have created fears that the retail market is approaching a slump, with consumer confidence and spending power eroded by the continuing fall in house prices and the risk of negative equity and rising debts.

Inflation and interest rates

Leading indicators show inflationary pressure is sharply receding as businesses turn to discounting to boost demand. Data from National Statistics show Consumer Price Inflation at

⁵ All national statistics in this section are from the HM Treasury Databook 18 Dec. 2008

⁶ Quarter on quarter

⁷ 'in the year' is defined as % change on a year earlier

⁸ All quarter figures refer to quarter by quarter growth, Pg. 24, HMT Databook.

4.1% in the year to November 2008, compared to 5.2% in September, which was the highest level recorded this year. December's inflation figures are expected to show a sharp decrease, due to deep discounting by retailers over the Christmas period.

Producer output prices increased by 5.1% in the year to November 2008, but the rate of increase has fallen from the 2008 peak of 10.0% in July.

The rate of headline average earnings growth has eased from 3.9% in the three months to April 2008 to 3.6% in the three months to September 2008, below the latest year on year inflation figures. However fears exist that further falls in inflation levels and the risk of deflation, could create turmoil for businesses, as pay settlements made when inflation was higher become unsustainable resulting in falling profits and redundancies.

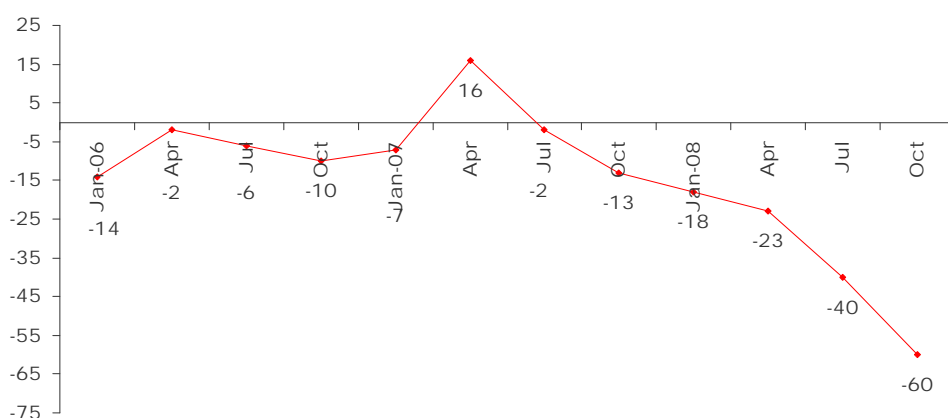
To stimulate the lending between financial institutions and boost demand, the Bank of England took the unprecedented step of reducing interest rates from the 5% level in July 2008 to 1.5% in January 2009. Many consumers are worried about negative housing equity, as year-on-year house prices have fallen by 14.9% to November 2008¹⁰.

Business Confidence

Figure 1

Business Optimism, CBI Quarterly Industry Trends Survey, Jan 2006 – Oct 2008

Balance is a percentage difference between negative and positive responses



Source: CBI Quarterly Industry Trends Survey

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⁹ The balance between negative and positive responses

¹⁰ Both the Nationwide and Halifax house price measures fell by 14.9% in the year to November 2008.

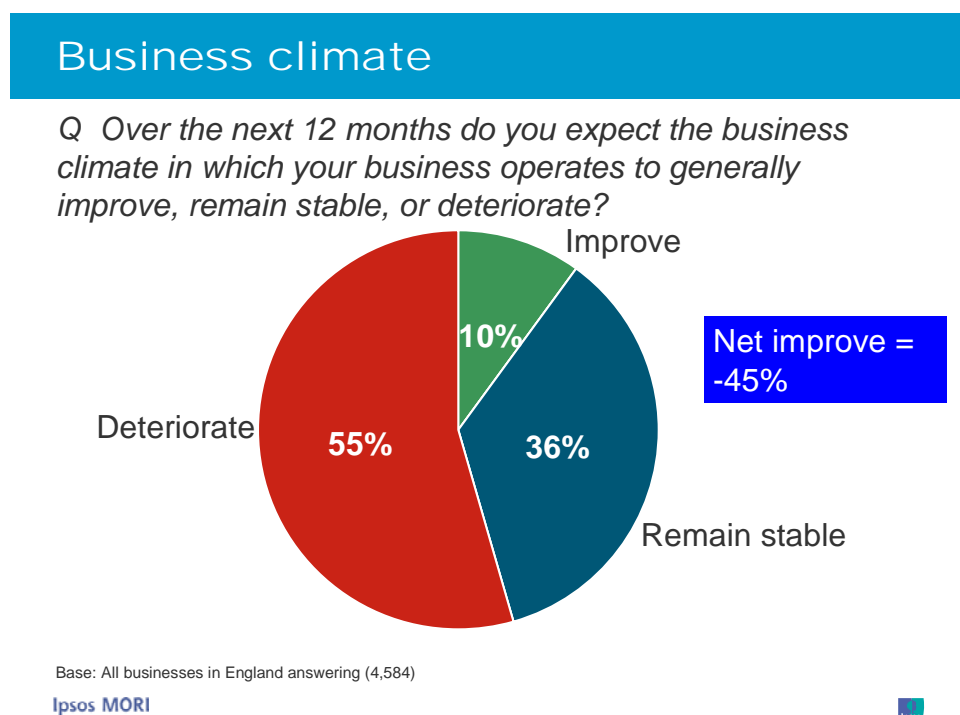
The Confederation of British Industry Industrial Trends Survey highlights the difficult conditions face by businesses with the balance of confidence falling steadily since July 2007 to stand at an all time low of -60 for October 2008.

The British Chambers of Commerce Quarterly Economic Survey¹¹ has recorded a balance of -12 for service sector confidence for Q3 2008, down from +1 in Q2 and +17 in Q1. Similarly manufacturing confidence was at -11 in Q3, down from +5 in Q2 and +27 in Q1.

These findings shall be compared in the section below with the results of the National Business Survey.

National Business Survey Findings on the Business Climate

Figure 2



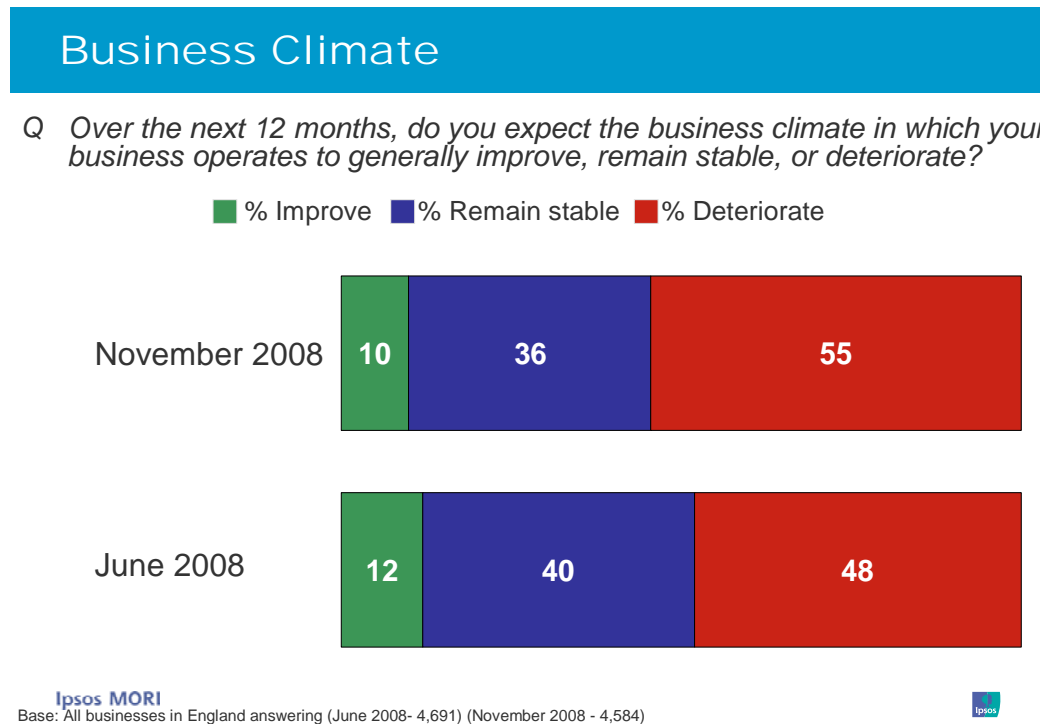
The National Business Survey provides a key measure of business confidence, which will be tracked over time with findings broken down by key variables, including sector, business size and region.

The June 2008 wave of the National Business Survey found that 48% of respondents expected the business climate to deteriorate, and only 12% expected it to improve, leaving a net score of -36%. In November 2008 over a half of businesses (55%) expect the business climate to deteriorate (59% in Northern Ireland), and only one in ten expect it to improve

¹¹ 5,099 businesses were surveyed

(10%, 6% in Northern Ireland), leaving a net score of -45% (-53% in Northern Ireland) compared to -36% in June 2008, as shown in Figure 3.

Figure 3

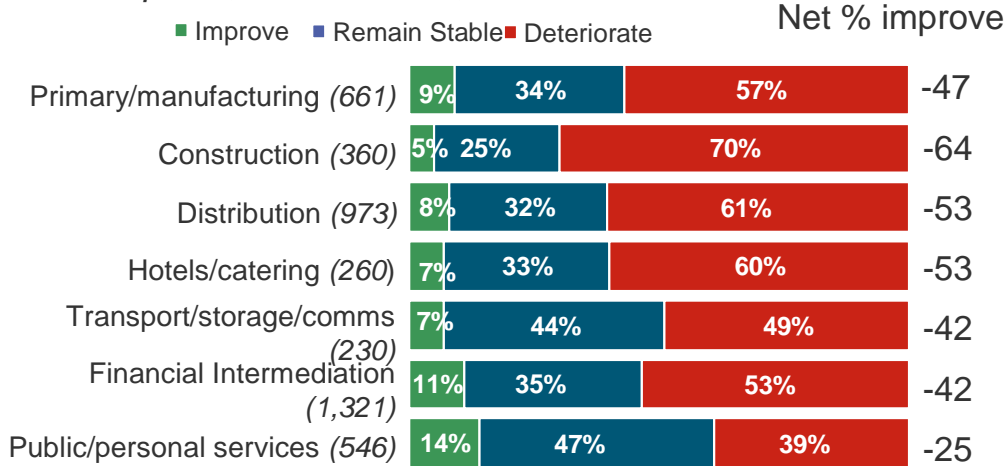


This shows a further decline, but compared to the Confederation of British Industry survey findings and given the economic turmoil of the last two quarters, it is perhaps surprising that we have not witnessed a steeper decline. This suggests that confidence may be hitting historic low as we face a recession, with the key issue now being how long it shall last and deep it will go.

Figure 4

Business climate by sector

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



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

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Within industry sectors, net optimism ranges from -47% in primary and -25% in public and personal services to a net score of over -50% in the manufacturing (-53%), hotels/catering (-53%), distribution (-53%), and construction sectors (-64%). It is clear that the construction sector is very gloomy about future prospects, as this net score breaks down with seven in ten expecting a deterioration (70%), a quarter expecting no change (25%), and just one in twenty expecting an improvement (5%). There are no significant differences in business confidence between small (1-9 employee) and medium (10-49 employee) businesses although slightly fewer larger (50+ employee) firms expect conditions to deteriorate.

Figure 5

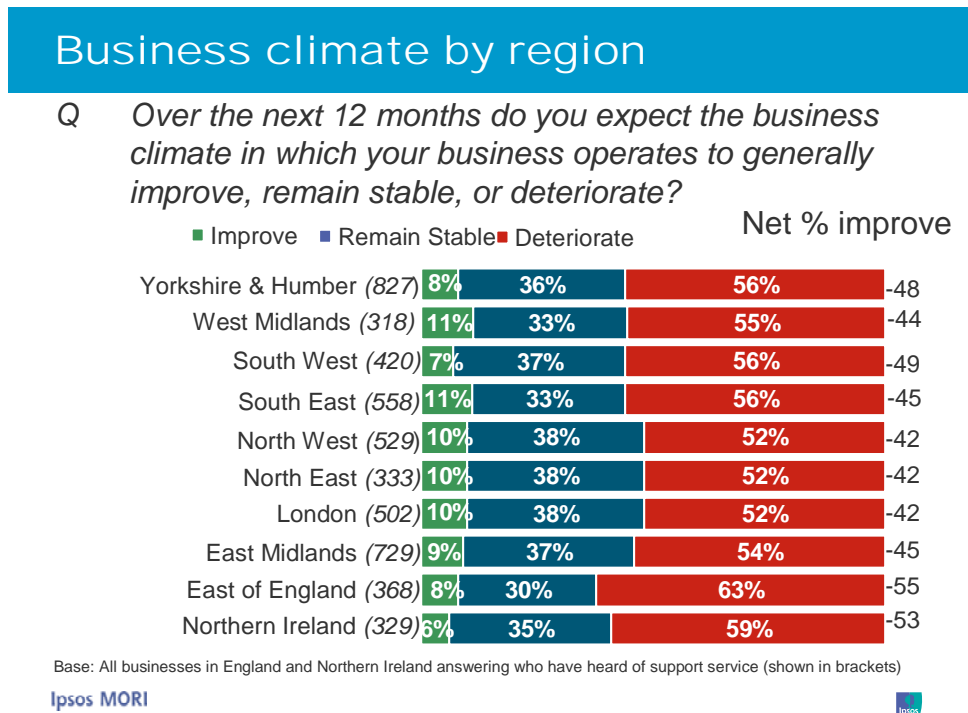
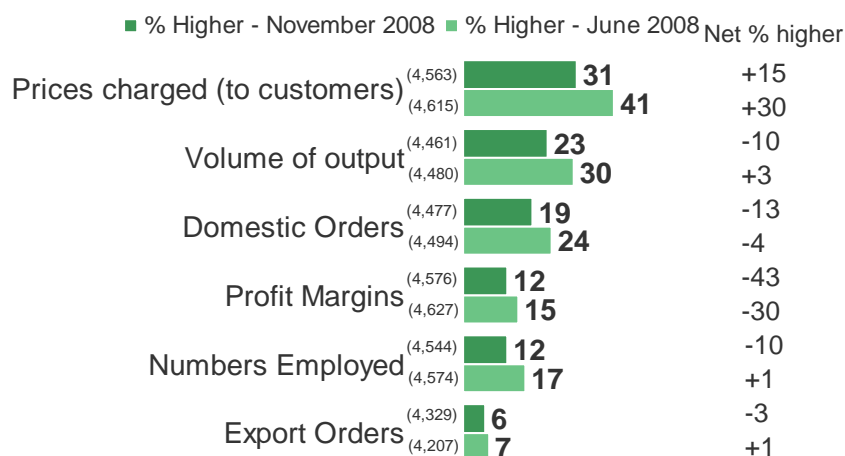


Figure 5 shows that business confidence is generally depressed across the regions with all areas below a net score of -41% (whereas -40% was the lowest net score across all regions in June 2008), and the lowest confidence to be found in the East of England (-55%). Overall it is notable that confidence is low across all areas, with no particular regional aspect to this recession.

Figure 6

Trends in the past 12 months

Q What has been the trend during the past 12 months with regard to



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



Figure Six presents trends for the key economic output measures contained within the National Business Survey. It shows that the trend towards higher prices has eased, with three in ten businesses reporting this in November 2008, compared to four in ten in June 2008.

In November 2008 the Confederation of British Industry Total Orders Book measure¹² was at a negative balance of -38, having fallen from -8 in July¹³. The Confederation of British Industry measurement of output expectations was down from -7 in July to -42 in November. In the November 2008 wave of the National Business Survey, both domestic orders and volumes of output indicators have fallen, with only one in five reporting higher orders in the past 12 months, and just under a quarter reporting higher volumes of output.

When asked about numbers employed, only one in eight of businesses say this has increased, with the same proportion reporting that profit margins have been higher.

¹² Monthly Industrial Trends Survey

¹³ CBI/HMT Databook, Page 28

Key Economic Indicators, 2003-2009

Figure 7¹⁴.

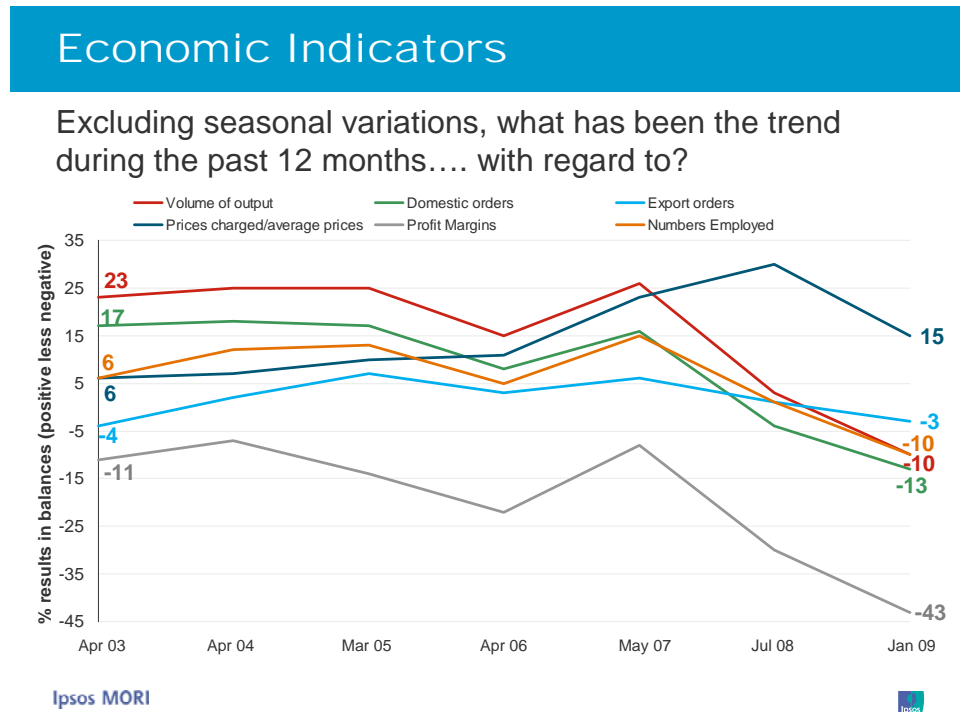


Figure 7 illustrates the deterioration in economic indicators between June 2008 and November 2008, along with the easing in rising prices. From this graph it is clear that the decline in profit margins, domestic orders, volumes of output and numbers employed can be traced back to 2007. From 2003 – 2006 the trends in output, orders and numbers employed were fluctuating slightly but in positive territory, though profit margins were negative and prices gradually rising.

The latest wave of the National Business Survey contains some very worrying indicators, with numbers employed in negative territory for the first time in this series and plunging profit margins, combined with falling output.

¹⁴ Refers to England and Scotland findings for May 2007 and Apr 06 and Great Britain for Mar 05, Apr 04 and Apr 03.

Prices and Inflation

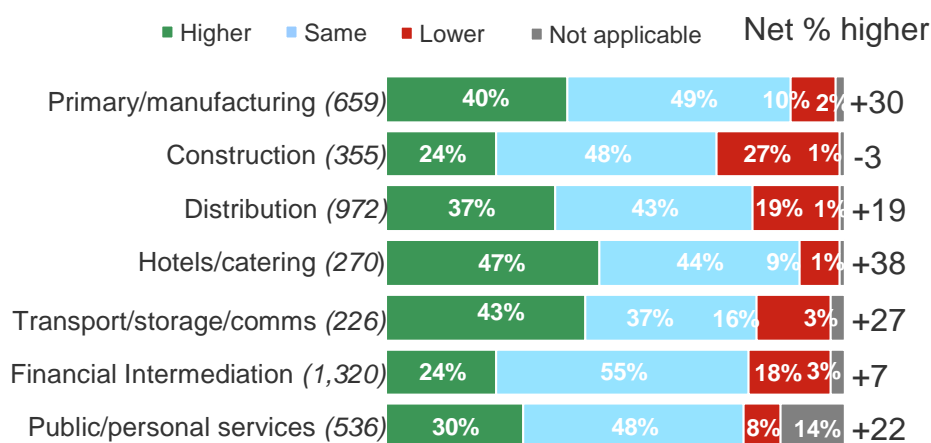
The National Business Survey asked businesses about past and expected trends across a range of key economic indicators. The responses, presented in this section, explain the level of pessimism amongst UK business sectors, and how this has deepened since June 2008.

Price Trends

Figure 8

Trends in past 12 months: prices charged by sector

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



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

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It is notable that close to a half of businesses in the hotels/catering sector (47%) report a higher prices trend in the past 12 months, whilst the equivalent figure for the construction sector is just under a quarter. Though both sectors are feeling under pressure as can be noted from the business confidence findings (and profit margin findings below), they are responding with differing approaches to pricing.

As noted, the proportion of businesses reporting higher prices has dropped from four in ten in June 2008 to three in ten in November 2008, and this reflects the fall in year-on-year inflation¹⁵ from a peak of 5.2% in September to the latest figure of 4.1% in November. In particular, the construction sector is reporting a fall from almost four in ten in June 2008 (38%) to a quarter in November 2008 (24%). All the sectors have reported a fall in prices

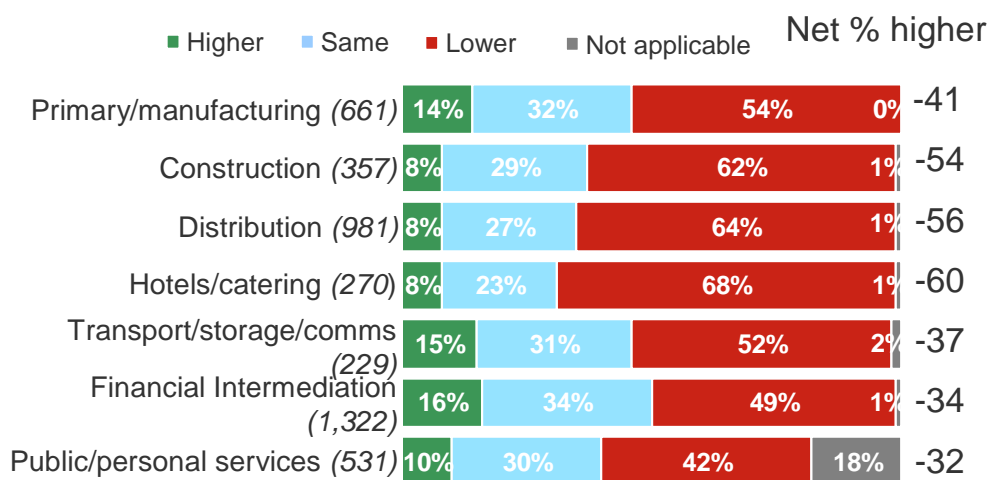
¹⁵ Consumer Price Index

charged, and the general pattern remains, whereby the hotels/catering, primary/manufacturing and transport sectors are reporting the highest levels.

Figure 9

Trends in past 12 months: profit margins by sector

Q *Excluding seasonal variations, what has been the trend during the past 12 months with regard to profit margins?*



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

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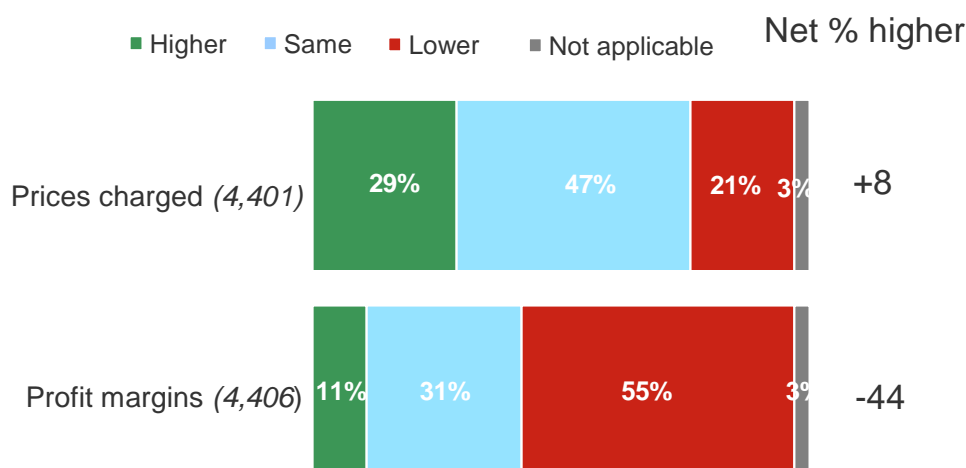
The hotels/catering, retail/distribution and construction sectors are most likely to have reported lower profit margins over the last 12 months. Between six and seven in ten of businesses in these sectors reported lower profit margins. Even in sectors such as transport and finance where the picture is more positive, it is still the case that only 15% of businesses are reporting a rise in profits.

Trends in Prices and Profits for the next 12 months

Figure 10

Trends for the next 12 months: prices and profits

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



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

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When asked about the expected trends in profit margins over the next 12 months (a net overall score of -44%), the overall results are very close to those for the past 12 months (a net overall score of -43%). The gloom around profit margins for the next 12 months is again most pronounced in the construction (-59% / -39% in June 2008), hotels/catering (-58% / -55% in June 2008), and distribution sectors (-51% / -46% in June 2008). The largest fall in profit margins expectations have been recorded in the construction sector.

Though the net score for higher prices is still positive for the next 12 months (+8%, +2% in Northern Ireland), this is lower than for the past 12 month's trend (+15%, +17% in Northern Ireland), indicating an expectation that price rises will ease overall. For the next 12 months within sectors, there is however a wide variation from a net score of +36% for hotels/catering to -13% for construction.

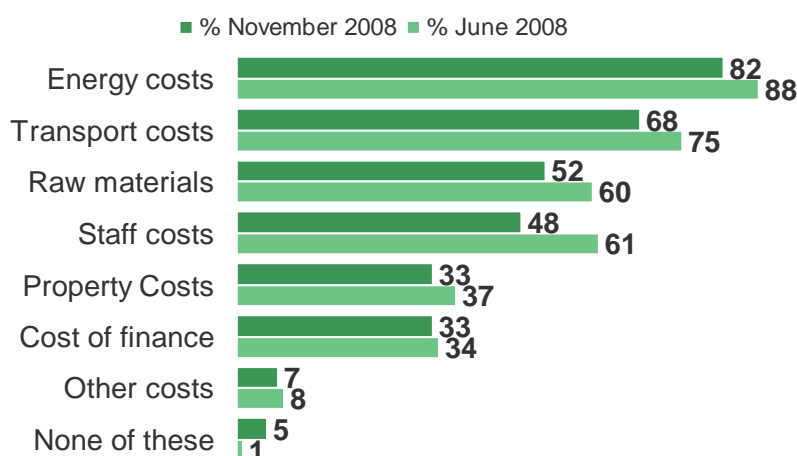
Business costs

The June 2008 wave of the National Business Survey has found that many businesses were affected by a profits squeeze, whilst also reporting that a range of business costs had risen. This section examines how this has changed since June 2008, and examines the impact of cost increases by business sector.

Figure 11

Cost increases – past 12 months

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



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Base: All businesses in England answering (June 2008 - 4,522) (November 2008 - 4,404)



The National Business Survey asked whether key business costs have increased over the past 12 months, and what the expected trends are for the next 12 months. Overall as shown in Figure 11, it is clear that the pressure of business costs has eased somewhat, which is to be expected as inflation has fallen, and year on year producer input prices have dropped from over 31.3% in July 2008 to 7.5% in November 2008.

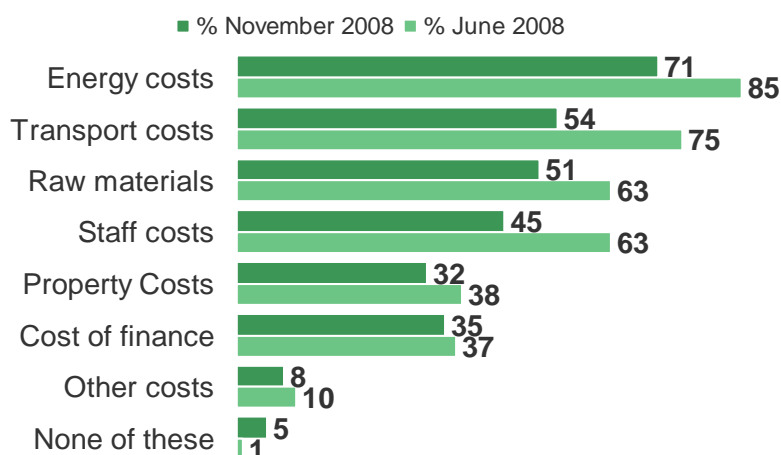
The large majority of business (82%, 94% in Northern Ireland) reported that energy costs have increased in the past 12 months, though this is down slightly on June 2008 (88%). Around two thirds of businesses (68%, 74% in Northern Ireland) say that transport costs have increased over the past 12 months, though again this is lower than the three quarters for June 2008. Close to a half of businesses in November 2008 reported higher raw materials (52%, 68% in Northern Ireland) and staff costs (48%, 55% in Northern Ireland), though this was lower than in June 2008 when around six in ten were reporting this (raw materials 60% / staff costs 61%). This suggests that some businesses are finding ways to

keep staff costs down, either through reduced levels of employment and limiting salary increases for workers.

Figure 12

Cost increases – next 12 months

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



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Base: All businesses in England answering (June 2008 - 4,420) (November 2008 - 4,128)

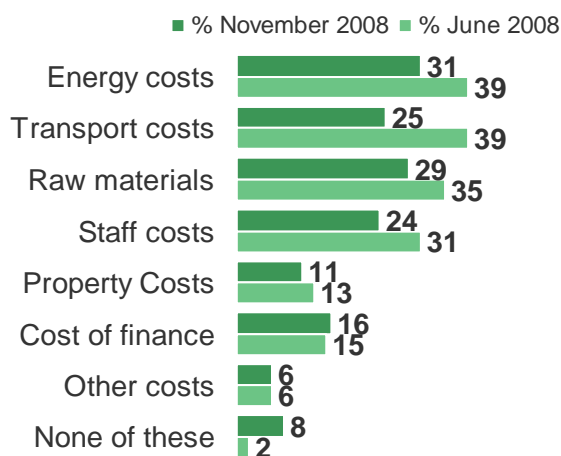


When asked about expected increases over the next 12 months, expectations are broadly in line with the past 12 months, and reflect the easing of pressure on business. Businesses clearly feel that their suppliers will need to respond to weakening economic conditions with lower prices. There are fewer businesses expecting an increase in energy (past 12 months 82% / next 12 months 71%) and transport costs (past 12 months 68% / next 12 months 54%) when compared to trends over the past 12 months. Over a third of businesses expect the cost of finance to increase over the next 12 months, showing that the full impact of the interest rates cuts has not fed through into this wave of the National Business Survey.

Figure 13

Cost increases – main cost pressure

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



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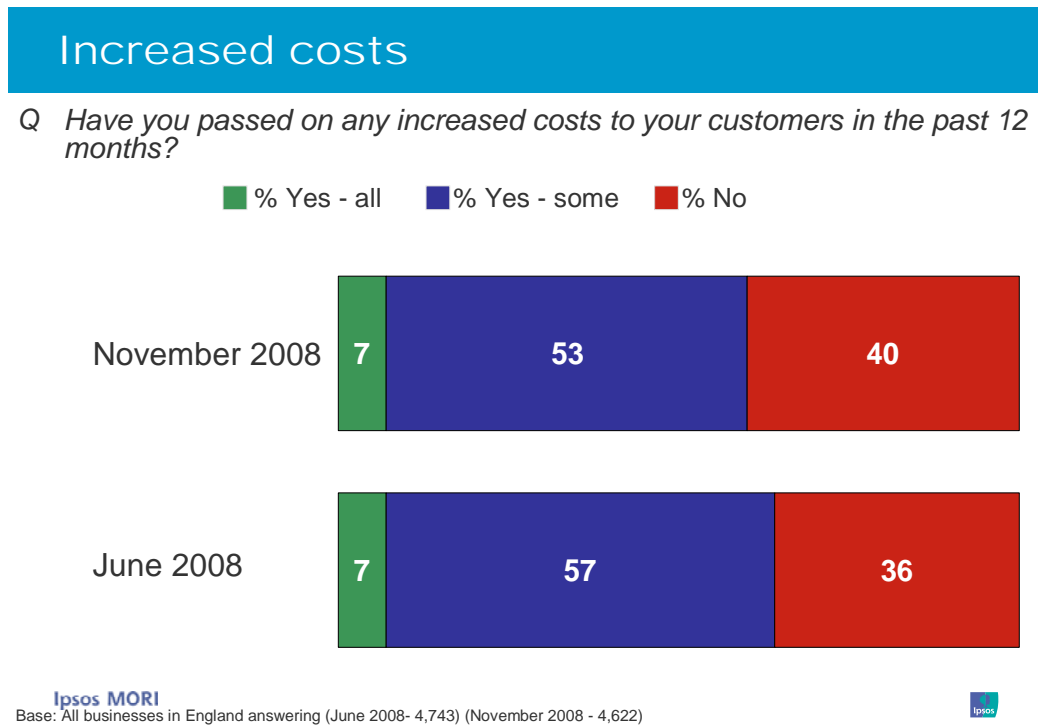
Base: All businesses in England answering (June 2008- 3,855) (November 2008 – 3,661)



The National Business Survey then asked about the main upward cost pressure on your business at present. In November 2008, the highest responses were for energy (31% / 39% in June 2008), raw materials and bought-in services (29% / 35% in June 2008), transport (25% / 39% in June 2008) and staff costs (24% / 31% in June 2008).

The sharp drop in pressures due to transport costs, reflect the falls in fuel prices since June 2008, whilst raw materials have dropped at a lower rate. The fall off in staff costs may reflect reductions in pay rises and increases in redundancies, resulting from the continuing squeeze on profit margins.

Figure 14

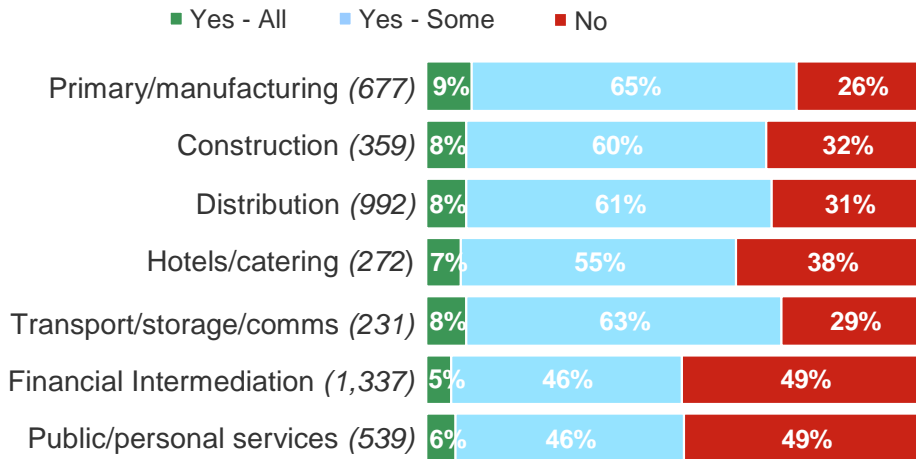


When asked whether these increased costs have been passed on to customers, six in ten (60% / 64% in June 2008) responded that they had, as shown in Figure 13, with no significant difference reported at the regional level.

Figure 15

Increased costs by sector

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



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

Ipsos MORI



At the sector level three quarters of businesses in primary/manufacturing (74%) and seven in ten in construction, distribution, and transport have passed on increased costs to customers, compared to only around a half in finance and public/personal services. There are no significant differences between these findings and June 2008.

Investment Prospects

This section assesses future investment prospects for businesses, by comparing the current economic indicators and projections from HM Treasury, with the findings from the National Business Survey which relate to the crucial areas of planned future investment.

HM Treasury have collated and published the economic forecasts of over 30 leading City Institutions, which are presented in the table below. This gives an indication of the economic prospects for the key macro economic indicators in the UK economy for 2008 and 2009¹⁶.

Figure 16: Consensus forecasts for the UK economy in 2009

	2009 Forecast made in July 2008	2009 Forecasts made in December 2008
<i>GDP growth (per cent)</i>	1.3	-1.7
<i>Inflation rate: CPI (per cent)</i>	2.3	0.5
<i>Inflation rate: RPIX (per cent)¹⁷</i>	2.6	-1.2
<i>Claimant unemployment (mn)</i>	1.00	1.62
<i>Current account (£bn)</i>	-46.1	-38.5

Source: HM Treasury

The July consensus forecasts from HM Treasury and over 30 leading City institutions predicted that UK GDP would grow by 1.6% over 2008¹⁸ and by 1.3% in 2009, which at the time was a significant slowdown compared to historic trends. Figure 16 clearly shows how these forecasts have been substantially altered and the average is now at -1.7 for 2009, representing a significant and prolonged recession, assuming that two quarters of 2008 experienced contraction may be expected for each quarter of 2009. The range of the new

¹⁶ HM Treasury *Forecasts for the UK Economy*, July 2008

¹⁷ The RPIX is the Retail Prices Index excluding mortgage payments. It is used by the government for the uprating of pensions, benefits and index-linked gilts. It is commonly used in private contracts for uprating of maintenance payments and housing rents. It is also used for wage bargaining.

¹⁸ The 2008 GDP figures are not yet available.

forecasts is from -0.1 to -2.6, which represents a best scenario of a short lived and shallow recession to a particularly severe and protracted one.

It is also notable that forecasters also predict a very low CPI inflation rate of 0.5%, revised downwards from a 2.3% forecast in July, and a Retail Prices Index rate of -1.2%, which would in effect create a deflationary economic climate.

Currently the claimant unemployment rate stands at 1.07 million (November 2008), which is in excess of the July 2008 HMT forecast for 2009. The HMT have now revised this forecast upwards to 1.62 million for 2009, representing a massive increase of over 60% and a doubling from the claimant level reported in June 2008 (819,000 in May 2008).

These forecasts portray an economy undergoing turmoil and prolonged contraction, with sharply rising unemployment and deflationary pressures on businesses. The forecasts of the HM Treasury therefore largely reflect the entrenched and deepening pessimism amongst businesses regarding the next 12 months, and in particular they reinforce the National Business Survey findings on trends in employment trends, price levels, profit margins and volumes of outputs.

National Business Survey Index of Business Confidence

Ipsos MORI have developed an Index of Business Confidence from relevant statements in the National Business Survey. The index provides a headline barometer of business confidence over time, and by region and sector.

The Development of the Index

The National Business Survey Index of Business Confidence is calculated from ten statements within the National Business Survey. Each of the six statements on trends over the next six months (Q2b) is used, along with the five statements on future investment (Q10). All statements are measured on a three point scale with a response that reflects an affirmation of confidence (“Higher” for Q2b, “More” for Q10), a response that reflects indifference and a response that reflects a lack of confidence (“Lower” for Q2b, “Less” for Q10).

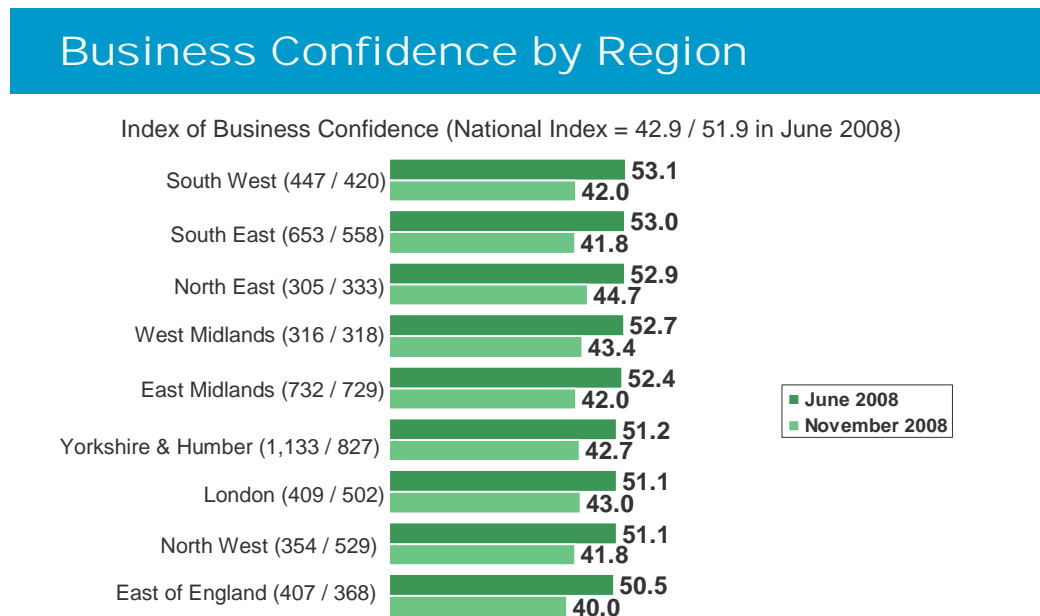
A response that affirms confidence is assigned the value of 1, while an indifferent response is assigned 0.5 and a response that shows a lack of confidence is assigned a zero score. Note that in both types of question, a “not applicable” option is given. Wherever this response is given, it is noted but discarded from future calculations.

Essentially, the index is an un-weighted average of these responses across all respondents, scaled-up sit within a range of zero to 100. Un-weighted refers to the equal treatment/ importance of each question in making up the index.

In conceptualising the meaning of the index it is worth bearing in mind that the 0/0.5/1 scoring system simply looks to measure whether a respondent is optimistic, neutral or pessimistic with regard to their business confidence, and does not measure the strength of the optimism/ pessimism. Therefore, we cannot claim that this is the general feeling of the region, sector or nation. What we can say however, is that it approximates the proportion of businesses whose confidence errs on the side of optimism.

National Business Survey Index of Business Confidence Findings

Figure 17



Base: All businesses in England answering (June 2008 and November 2008 in brackets respectively)

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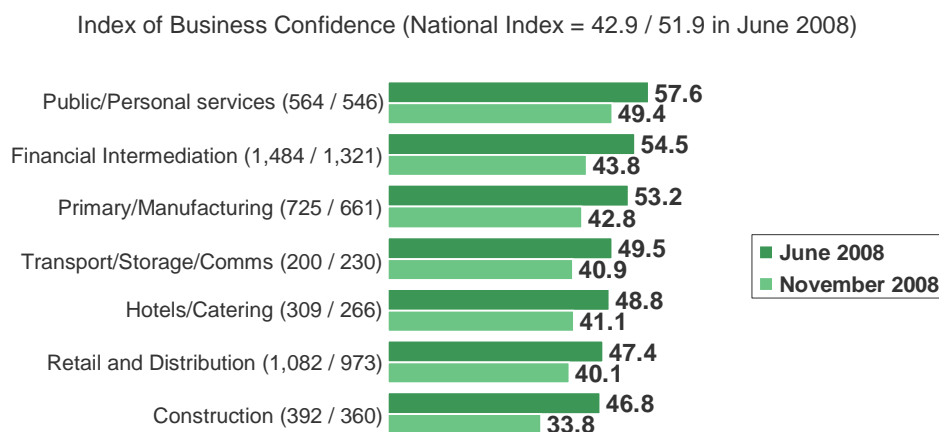


The Index of Business Confidence has fallen sharply across all regions. In November 2008 the index figures range from 40.0 in the East of England to 44.7 in the North East. The East of England also had the lowest level in June 2008, though at the much higher figure of 50.5. The only statistically significant differences are between the North East and the East of England, and between London and the East of England.

Overall confidence levels have fallen in all regions, though there is slightly more optimism in London and the North East.

Figure 18

Business Confidence by Sector



Base: All businesses in England answering (June 2008 and November 2008 in brackets respectively)

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The Index of Business Confidence has fallen sharply across all business sectors. There is a much greater range in confidence at the sector level, compared to the regional level. The public and personal services sector is statistically higher than all other sectors, and the construction sector is statistically lower than all sectors. There has been a very steep fall in confidence levels in the construction sector, which is now almost 16 points below the public and personal services sector. In November 2008, confidence levels range from 33.8 to 49.4, compared to a range in June 2008 from 46.8 to 57.6.

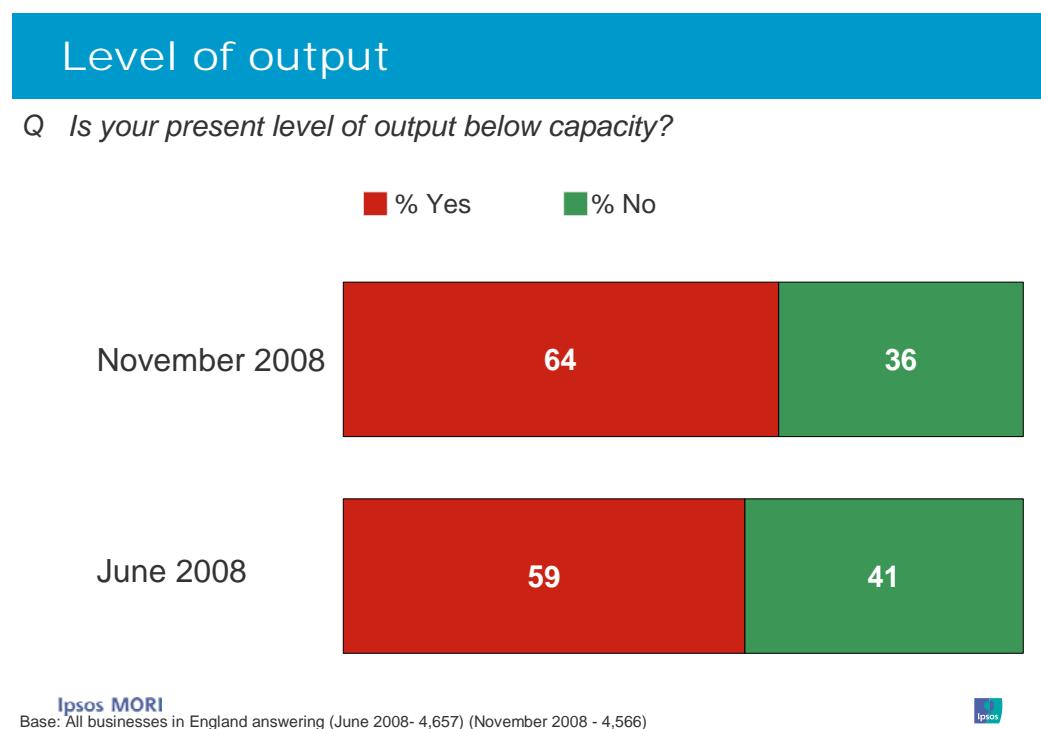
Output trends

In June 2008 of the National Business Survey, 30% of respondents reported that output volumes had been higher in the past 12 months, and 27% reported that it had been lower (a net score of +3% for those saying output levels have been higher over those saying lower). This compared with only 23% of respondents who said output was higher in November 2008 and a third reported it as lower (a net score of -10%). This represents a significant deterioration in reported output levels over the period.

A major fall in output levels has taken place for the construction and distribution sectors between June 2008 and November 2008 of the National Business Survey. November 2008 net output scores by sector are lowest for the retail/distribution sector (-28% / -12% in June 2008), followed by construction (-20% / -4% in June 2008) and hotels/catering (-19% / -21% in June 2008). The hotels and restaurant sector was found to be the most severely affected by falling output levels in June 2008 and now latest data has found that strong declines in output levels are now affecting the distribution and construction sectors¹⁹.

¹⁹ For the purposes of this analysis, a major decline in output levels has been defined as a net score of -20 or below.

Figure 19

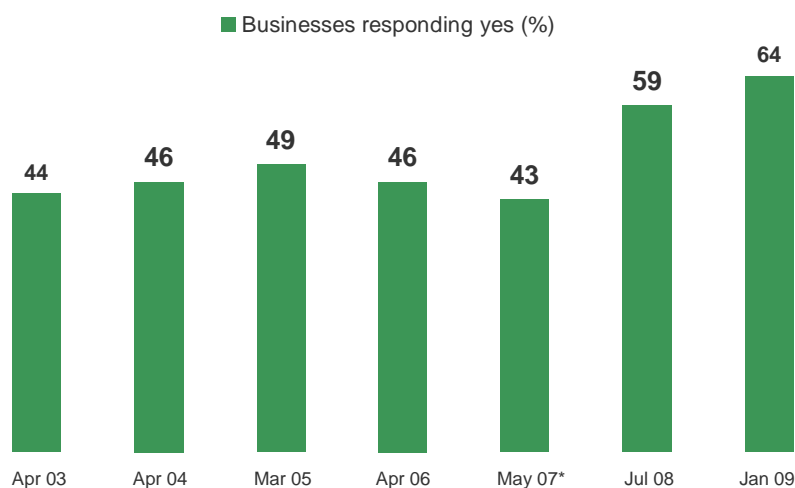


Overall, more than six in ten (64%, 67% in Northern Ireland) of businesses reported that they are currently working at below capacity level, compared to 59% reporting this in June 2008. This points to further pressure on employment prospects and reflects the expectation among many businesses that the number of employees will fall over the next 12 months.

Figure 20

Level of Output

Is your present level of output below capacity?



*Conducted by CBI/Experian in May 2007 and earlier waves on a six monthly basis. The waves conducted in the spring of each year are presented in this table.

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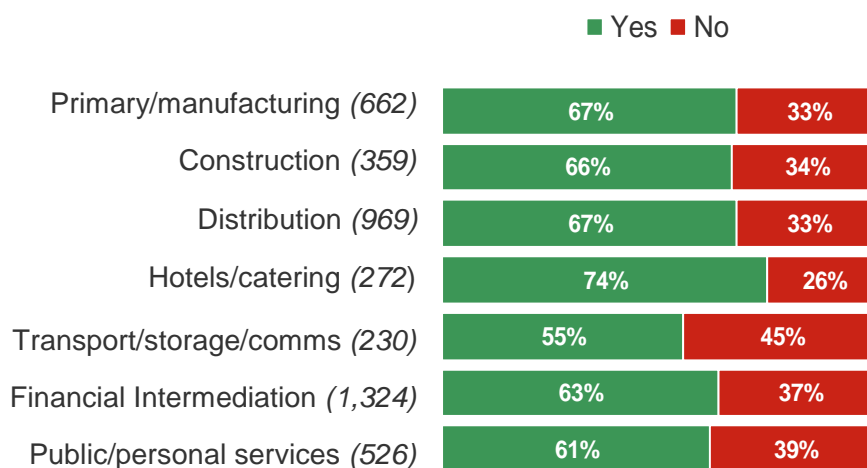


Figure 20 shows how the proportion of businesses reporting output below capacity increased from just over four in ten in spring 2007, to more than six in ten in the latest wave. From 2003 to 2006 the annual level fluctuated at just below the halfway mark. Therefore recent trends show a discernible deterioration.

Figure 21

Level of output by sector

Q Is your present level of output below capacity?



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

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When this analysis is undertaken by sector, it is clear that the hotels and catering sector is most affected with three quarters of businesses stating that they are working below capacity. The other sectors are generally close to the national average, apart from transport which is performing better than any other sector on this measure.

The National Business Survey has found that business sector overall is expecting a major decline in output levels over the next 12 months. The net score for November 2008 is -21% (-37% in Northern Ireland), compared to -8% for June 2008. Businesses are clearly increasingly pessimistic over their prospects going forward, nearly four of ten businesses say output will be lower (39%, 50% in Northern Ireland) while only around one in five say it is higher (18%, 13% in Northern Ireland).

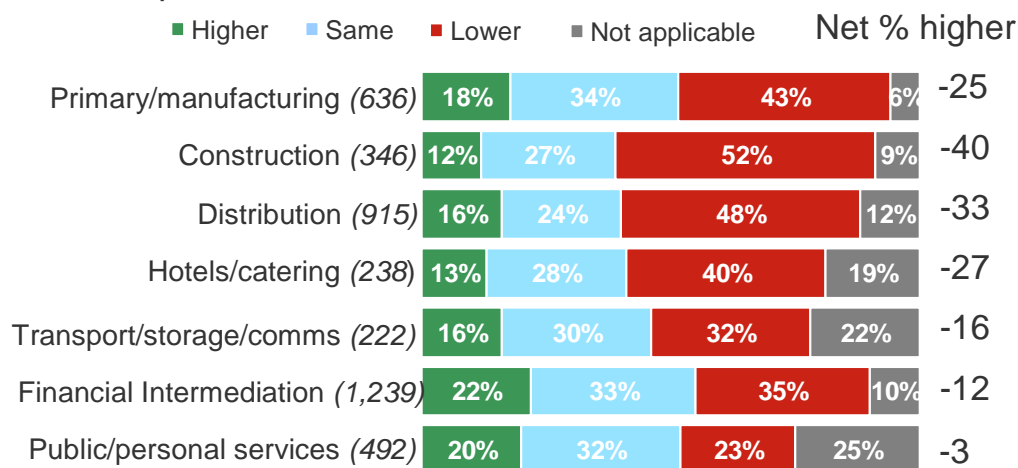
As presented in Figure 22, the lowest net scores are for construction (-40%), followed by distribution (-33%) and hotels/catering (-27%). Even the highest performing sector on this measure has a negative net score in November 2008 (public and personal services: -3%).

These findings clearly show that output levels have been in decline for many businesses and a further decline is expected. This is affecting all sectors of the economy, but is more pronounced in the hotels/catering, retail/distribution and construction sectors.

Figure 22

Trends in next 12 months by sector: volume of output

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to volume of output?



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

Ipsos MORI



National Statistics: Investment Levels

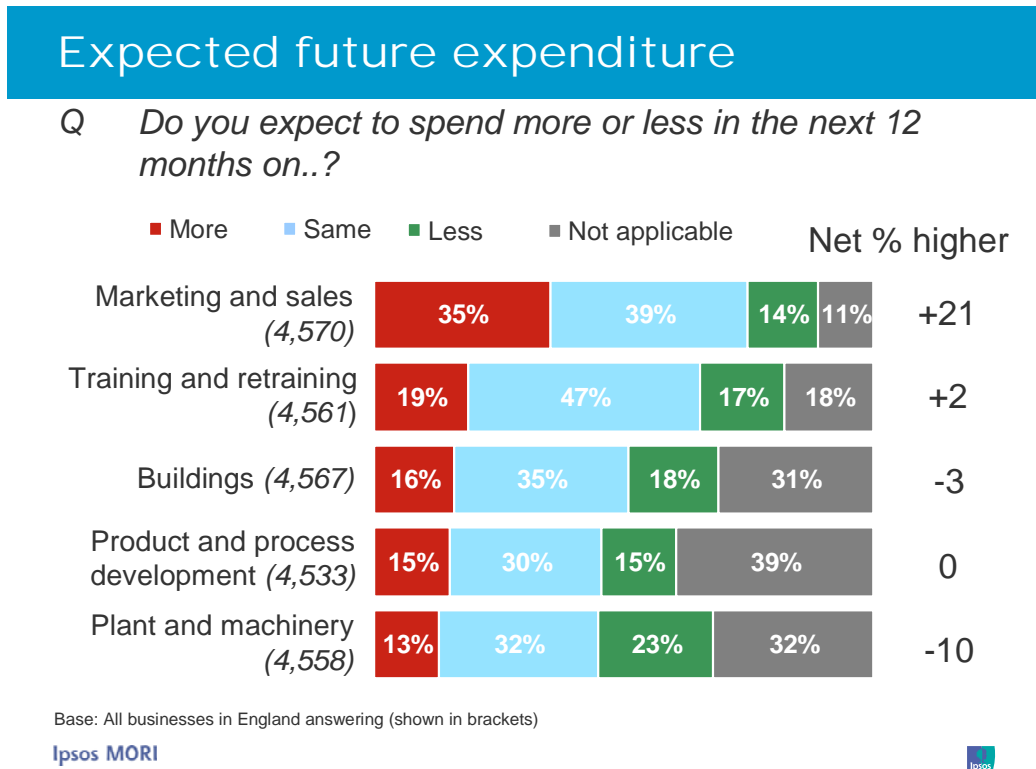
HM Treasury has reported that growth in business investment has been falling steadily for the last six quarters, from 12.9% (year on year) in Q1 2007 to the latest available level of 1.2% for Q2 2008²⁰. Manufacturing investment has been in decline for the last two quarters, with latest data showing a contraction of -3.7% (year on year) in Q2 2008.

Growth in service sector investment remains positive at 1.0% year on year in Q1 2008, but has fallen from 15.1% in Q1 2007. Weak private sector investment can be contrasted with investment from the public sector which has increased by 22.6% year on year in (Q2 2008). This may reflect the policy of the government which favours an increase in public spending aimed at reviving the economy elsewhere.

²⁰ Defined as percentage change on a year earlier

National Business Survey Survey Findings: Planned Spending

Figure 23



The question wording on future spending plans has been altered for November 2008, and as such no comparisons between the waves are made here.

When asked about expenditure in the next 12 months on marketing and sales, around a third of respondents plan to spend more, with a net score of +21% (+13% in Northern Ireland); only training and retraining also has a positive net score (+2%, -6% in Northern Ireland) and a quarter of businesses are expecting to reduce spending on plant and machinery (net score of -10%, -26% in Northern Ireland).

These findings tend to suggest that businesses will be tightening belts in the face of an impending recession, but they are keen to focus any new spending in the area of marketing and sales with the view this will generate more business and will yield a return on investment. Clearly a recession will increase competition in the marketplace, and businesses may be conscious that they need to work harder in order to promote their products.

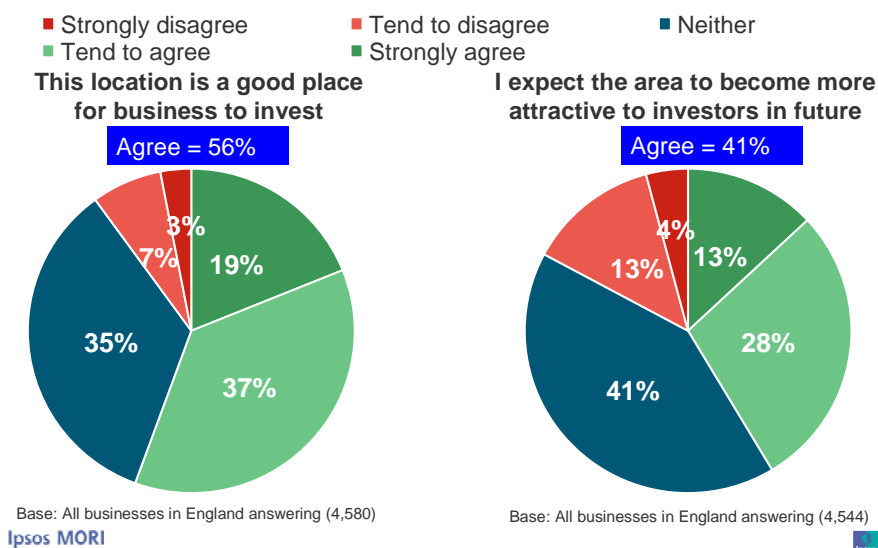
Planned Investment: Business Location

Nationally, 56% (59% in Northern Ireland) of businesses agreed that *this location is a good place for business to invest* (19% strongly agree / 37% tend to agree), with all regions at between 50% and 60%. There are no significant differences by region. There is a greater degree of variation by sector, ranging from 48% agreement in the construction sector to 65% in transport. The November 2008 results are very similar to those for June 2008 (57% agreed in June 2008, 56% in November 2008), and no significant changes have taken place at the sector level.

Figure 24

Attitudes to the area

Q To what extent do you agree or disagree with the following statements?



Four in ten of respondents (41%, 46% in Northern Ireland) agree that: *I expect the area in which this business is located to become more attractive to investors in the future*. This is slightly lower than the June 2008 finding of 45%.

Across the regions agreement ranges from 38-46%, which is largely similar to the June 2008 range (38-50%). At the sector level, the hotels and catering sector is the most positive (55% agree / 52% in June 2008) and the construction industry is the least (37% agree / 37% in June 2008), which is again very similar to the June 2008 finding.

Labour Market

Unemployment Levels

Between the June 2008 wave and the November 2008 wave of the National Business Survey, National Statistics reported that claimant unemployment has increased from 818,000 in May 2008 to 1,071,000 in November 2008, accounting for 2.8% of the working age population. In January 2009 forecast claimant unemployment exceeded 1,600,000 across England, and 1,900,000 across the UK²¹.

Figure 25: Numbers employed for the next 12 months by sector

Sector	National Business Survey November 2008			National Business Survey June 2008
	Higher %	Lower %	Net Improve %	Net Improve %
Primary/manufacturing	8	25	-17	0
Construction	7	37	-30	-21
Distribution	7	29	-22	-14
Hotels	5	34	-29	-22
Transport	10	30	-20	-9
Financial	11	21	-10	+2
Public	14	25	-11	+5
Overall	9	26	-17	-5

Source: National Business Survey, 2008

When asked about employment trends in the past 12 months, a half of businesses (49%, 61% in Northern Ireland) say they have remained the same, and just over one in five (22%, 22% in Northern Ireland) say they have been lower. One in eight businesses report that

²¹ Office of National Statistics, NOMIS Labour Market Statistics (May 2008)

employment trends in the past 12 months have been higher, equating to a net score of -10% (-12% in Northern Ireland), compared to an equivalent of +1% for June 2008.

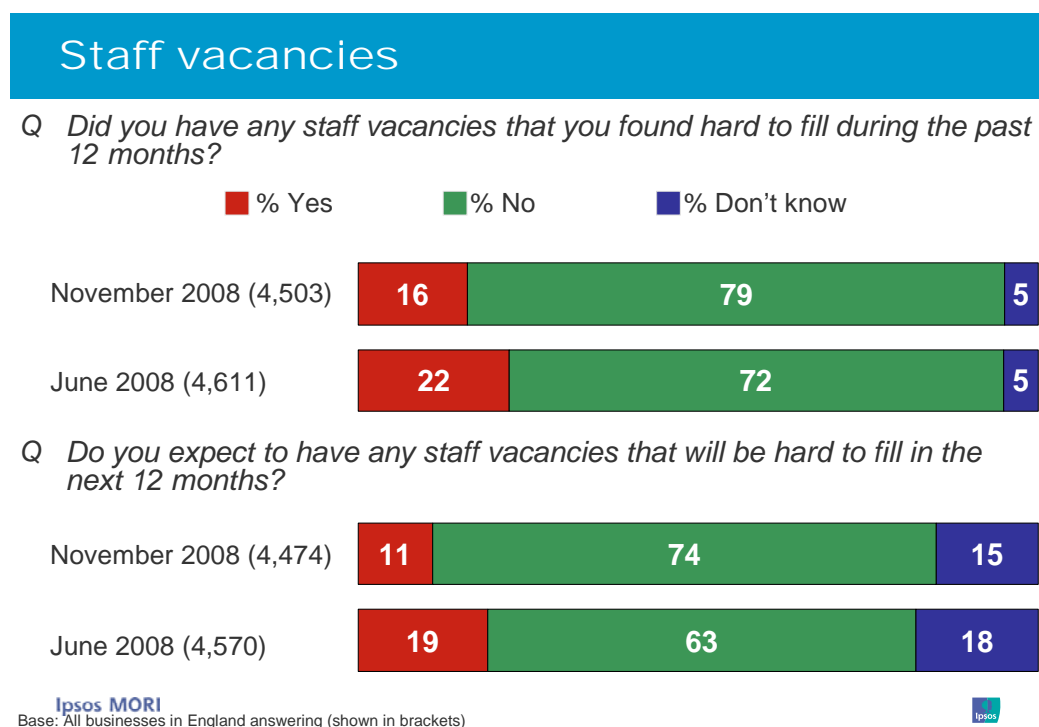
As in June 2008, findings support the view that unemployment will increase, with a particular impact in the construction and hotels and catering sectors. The expected trends for the next 12 months have swung further towards lower employment levels, with net scores falling across all sectors in this wave. In June 2008 sentiment in the financial/intermediation and public and personal services was fairly balanced at +2% and +4% respectively, but this has now dropped to -9% and -10%.

Between three and four in ten of businesses in the transport, distribution, construction and hotels sectors expect lower employment levels in the next 12 months. The overall net score of -17% compares to -5% for the next 12 months in June 2008, and reflects the forecasts of lower employment by business organisations and the Office for National Statistics.

Trends in Staff Vacancies

The National Business Survey asked about the level of staff vacancies during the past 12 months, and the expected trends in the next 12 months. The overall results are presented in Figure 26 below.

Figure 26



Only 16% of businesses (18% in Northern Ireland) say they had hard to fill vacancies in the past 12 months, a notable decline from June 2008 when the figure was just over 1 in 5 (22%). When asked about expectations for the next 12 months this declined further to one in ten businesses (11%, 9% in Northern Ireland), compared to an equivalent finding of one in five for June 2008 (19%). It is clear that rising unemployment will create a buyers market for labour and will reduce difficulty of recruiting candidates for businesses that need them. It will be interesting to monitor how this trend evolves in future waves, if as expected there is a strong increase in unemployment.

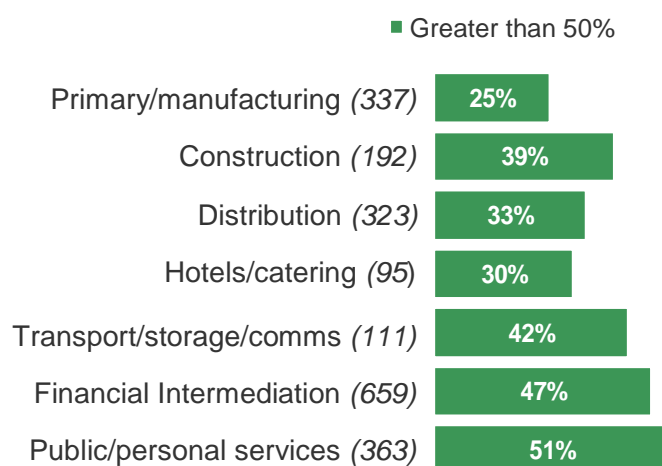
National Business Survey Survey Findings: Training Levels and skills gaps

The National Business Survey found that around just under a half of businesses (43%, 47% in Northern Ireland) have provided formal external training to their employees in the last 12 months, representing a slight decline from 49% in June 2008. Consistent with June 2008, organisations in the public and personal services sector were much more likely to provide external training (62%), compared to distribution (29%) and hotels and catering (36%). Of those businesses providing external training, four in ten responded that more than half of their staff undertook such training.

Figure 27

Proportion of businesses with more than half of staff undertaking external training by sector

Q *Approximately what proportion of staff undertook external training*



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

Ipsos MORI

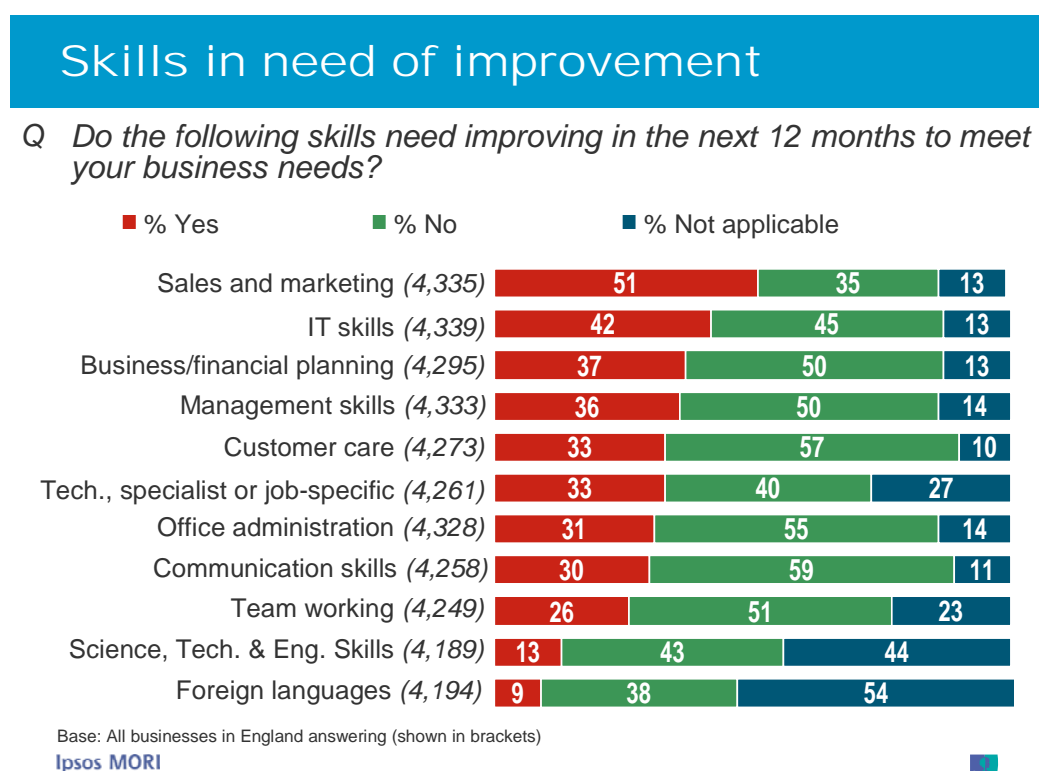


The proportion of businesses where more than half of their staff undertake external training is a useful indicator of the extent of training activity by sector. This varies from a quarter of

businesses (25%) in the primary/manufacturing sector to just over a half (51%) in the public and personal services sector. Generally, training provision is higher in the overall service sector, including financial/intermediation services.

The National Business Survey found that 56% (58% in Northern Ireland) of all businesses surveyed provide internal training, which is a decline from 63% in June 2008 and suggests training provision is under pressure during this recession. Of those businesses providing internal training, just over a half (53%, 54% in Northern Ireland) responded that more than half of their staff undertook such training.

Figure 28



In the National Business Survey, the highest response for *skills in need of improvement* was for sales and marketing (51% / 53% in June 2008), followed by IT skills (42% / 47% in June 2008). Business/financial planning is now the third highest skill in need of improvement, up from seventh in June 2008 (increasing from 35% to 37%). This could reflect the increase in economic uncertainty which has taken place since June 2008.

There are no major differences by sector: there is a tendency for the service sectors (public/personal and finance) to report higher needs in management and IT skills, whilst the hotels and catering sector places more emphasis on customer care, but this is to be expected given differing business profiles.

Other Key Business Metrics

This section addresses the other key business metrics that are crucial for assessing the health of an economy and the prospects for growth and investment. The National Business Survey asked businesses to provide their views on the importance of a series of business location factors.

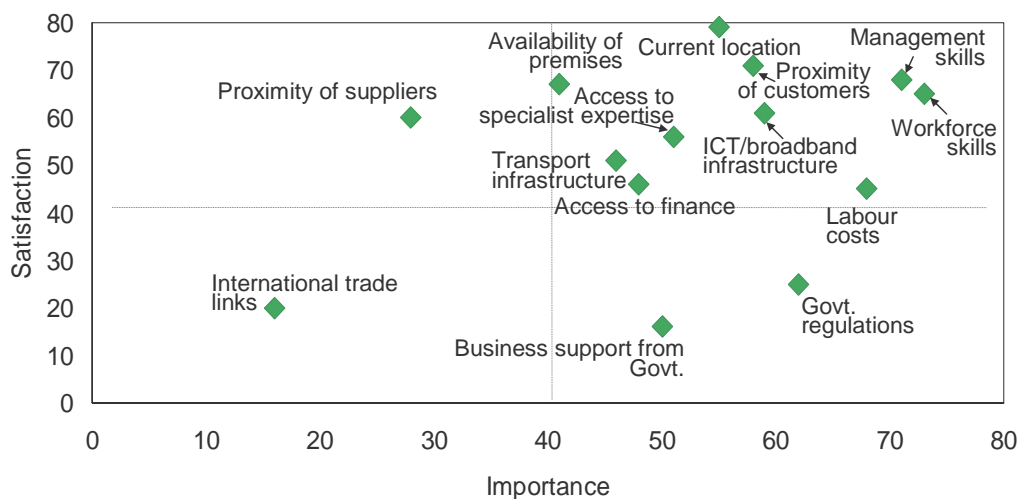
Across both waves, the findings on importance have been compared with the satisfaction levels for these factors as presented in the chart below. The results of this analysis are then placed alongside a profile of sales and purchases at a regional, national and international level.

Figure 29

Business location: Importance vs. Satisfaction

Q Are the following factors important or not important to your organisation's competitiveness?

Q Are you satisfied with each of the following in the area in which your business is located?



Base: All answering

Ipsos MORI



Business Location: Importance Factors

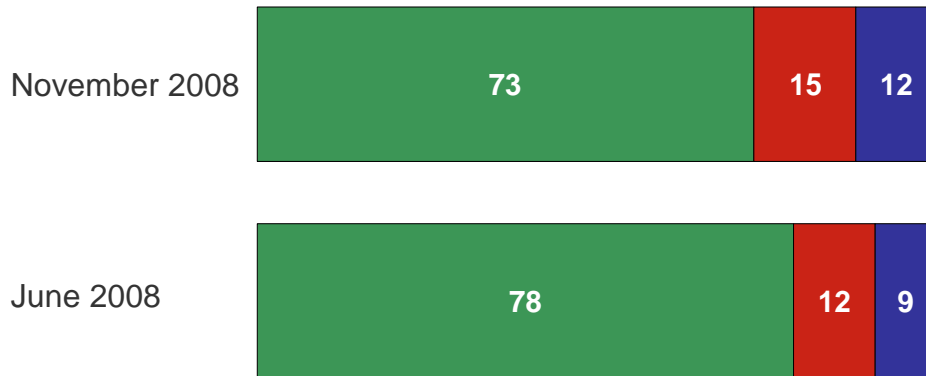
In the National Business Survey, businesses were asked which factors were important for their organisations competitiveness. Workforce skills was the most cited factor, mentioned by almost three quarters of respondents (73%, 66% in Northern Ireland), a slight drop from 78% in June 2008, as shown in Figure 30 below.

Figure 30

Importance of workforce skills

Q Are the following factors important or not important to your organisation's competitiveness?: Workforce skills

■ % Important ■ % Not important ■ % Don't know/Not applicable



Ipsos MORI

Base: All businesses in England answering (June 2008 - 4,518) (November 2008 - 4,462)



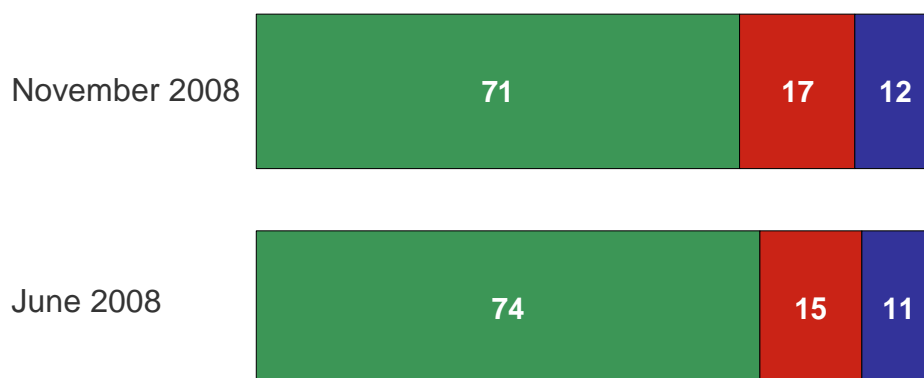
This was followed by management skills which was mentioned by seven in ten (71% / 74% in June 2008 - as shown in Figure 31 below) and labour costs (68% / not asked in June 2008).

Figure 31

Importance of management skills

Q Are the following factors important or not important to your organisation's competitiveness?: Management skills

■ % Important ■ % Not important ■ % Don't know/Not applicable



Ipsos MORI
Base: All businesses in England answering (June 2008- 4,484) (November 2008 - 4,437)



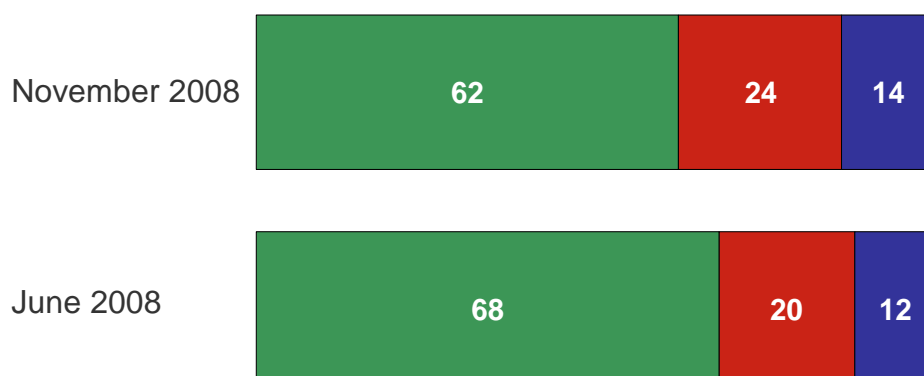
Government regulations received the fourth highest mention, with six out of ten (62%, 48% in Northern Ireland) reporting it as an important factor, though this is lower than in June 2008 when it was almost seven in ten (68%), as shown in Figure 32 below.

Figure 32

Importance of government regulations

Q Are the following factors important or not important to your organisation's competitiveness?: Government regulations

■ % Important ■ % Not important ■ % Don't know/Not applicable



Ipsos MORI
Base: All businesses in England answering (June 2008- 4,482) (November 2008 - 4,445)



In June 2008 the three most important factors in business location were workforce skills (78%), management skills (74%) and government regulations (68%). These factors remain the most important in November 2008, along with labour costs²². This suggests that economic development strategies which focus on up-skilling, whilst reducing regulatory burdens, will be the most effective in supporting businesses. This is of even greater importance in a recessionary period, when businesses are feeling under greater competitive pressures, and need to ensure that costs related to workforce and management skills are closely monitored.

Business Location: Satisfaction Factors

When asked about satisfaction with a list of key factors the highest score was for the current location, mentioned by four out of five respondents (79% / 80% in June 2008). Seven in ten of businesses are satisfied with the proximity of customers (71%, 61% in Northern Ireland), which is slightly down from three quarters in June 2008 (75%). Two thirds are satisfied with management skills (68% / 67% in June 2008), availability of premises (67% / 67% in June 2008) and workforce skills (65% / 65% in June 2008), and altogether these responses make up the top five of satisfaction scores. These following five factors have therefore remained as a constant for the top five satisfaction factors in business location across the two waves:

- Current location
- Proximity of customers
- Management skills
- Availability of premises
- Workforce skills

Management and workforce skills are regarded as amongst the top four most important factors in business location, and although satisfaction is high at around two thirds, clearly business growth strategies should focus on improving satisfaction in these areas.

The lowest satisfaction scores are for business support from government (16% / 14% in June 2008 – please see Figure 29), international trade links (20% / 19% in June 2008) and government regulations (25% / 20% in June 2008), though there has been some improvement from June 2008.

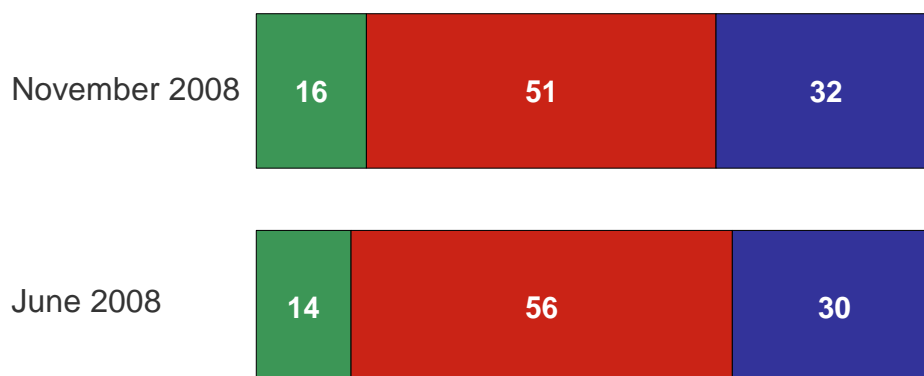
²² Labour costs was not included as a factor in June 2008.

Figure 33

Satisfaction with business support from government

Q Are you satisfied or dissatisfied with each of the following in the area in which your business is located?: Business support from government

■ % Satisfied ■ % Dissatisfied ■ % Don't know/Not applicable



Ipsos MORI
Base: All businesses in England answering (June 2008- 4,145) (November 2008 - 4,236)



As in June 2008 it is particularly notable that government regulations and business support from government score highly in terms of importance, but have the lowest scores for satisfaction. The priority for supporting businesses as the economy face a potentially severe and lasting recession, is to address those issues of importance to competitiveness where satisfaction levels could be improved: to some extent this includes workforce and management skills, but the most obvious areas of concern are around government regulations and business support from government. This finding has emerged in both waves, though there has been a slight improvement in November 2008, possibly in response to the packages of government measures announced recently in response to the international banking and credit crisis.

At a sector level the key differential findings which emerge include satisfaction with ICT and broadband infrastructure which is lowest for the hotels and catering sector, as was the case in June 2008 (41% compared to the average of 61%). The lowest levels of satisfaction with transport infrastructure are also in the hotels and catering sector (38% compared to the 51% average), which was again a finding in June 2008.

Strategic Business Planning

This section considers the National Business Survey findings that relate to strategic business planning and assesses the awareness and usage of business support services, along with the level of co operation with universities and specialist industrial networks.

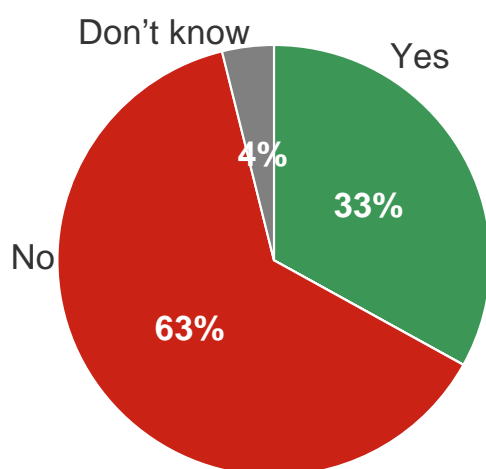
The use of these resources can be a crucial support for planning business development and future investment, and the National Business Survey is an important resource for measuring take up and usage over time.

To shed further light on this, the National Business Survey again asked businesses if they have a formal business growth plan, with the findings displayed in Figure 34 below.

Figure 34

Formal business growth plans

Q Does your company have a formal business growth plan?



Base: All businesses in England answering (4,614)

Ipsos MORI



A third of businesses have a formal business growth plan, ranging from 30% in the East Midlands and East of England to 38% in the West Midlands. Two thirds of businesses with over 50 employees have a growth plan, and by sector the lowest levels are in construction at just under a quarter (23%) and the highest are in transport at more than four in ten (42%).

Figure 35: Does your company have a formal business growth plan by sector?

Sector	June 2008	November 2008
Primary	36 (720)	34 (669)
Construction	22 (382)	23 (356)
Distribution	28 (1,065)	28 (987)
Hotels	31 (306)	28 (273)
Transport	35 (196)	42 (228)
Financial	43 (1,479)	37 (1,333)
Public	37 (556)	40 (543)
Overall	35 (4,704)	33 (4,614)

It is also notable that those businesses which expect the business climate to improve are more likely to have a business growth plan (46% compared to 33% overall). November 2008 of the National Business Survey has found that the distribution, construction and hotels/catering sectors are amongst the most affected by the economic downturn, and they are also the least likely to have a business growth plan. In supporting these businesses through this impending recession, advice on business growth planning will be imperative as this area is clearly overlooked at present by many. Smaller businesses (1-9 employees) may also require support, as three in ten (28%) have growth plans compared to two thirds (66%) amongst businesses with 50 or more employee's.

Business Networks: University and Industry

Only one in eight of businesses (12% / 13% in June 2008) co-operate with universities. There is more variation within sector, with co operation at more than a quarter in public and personal services (26%) but at less than 10% in construction, distribution and hotels and catering. Of the businesses that expect the business climate to improve, more than one in five co-operate with universities, whilst this applies to only one in ten of businesses that expect deterioration.

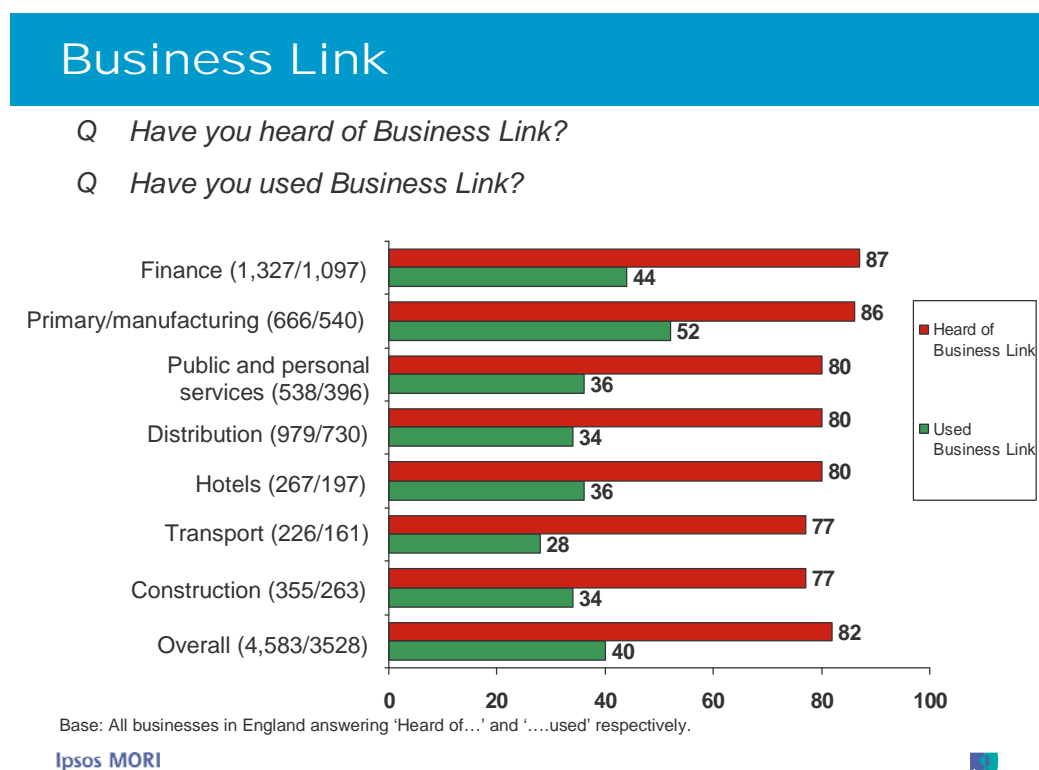
Three in ten of businesses (29%) belong to specialist industrial networks so as to keep up to date with emerging technologies. This is similar to the level reported in June 2008 (30%).

There are variations by sector, ranging from 16% (June 2008 14%) for the hotels and catering sector to four in ten for the construction sector (40% / 41%), which is a very similar pattern to that found in June 2008. Around four in ten (39%) of businesses that have a formal growth plan also belong to specialist industrial networks, whilst only a quarter who do not have a growth plan belong to such networks.

Adopting business growth plans and developing networks across higher education and industry can underpin a strategy for coping with the impending recession, provided there are sufficient resources to make this investment. Government agencies can continue to support businesses in making this investment, providing opportunities to enhance co operative networks and plan for the future. The Business Link service is an important element in this support, and the National Business Survey asked businesses for their awareness and usage of these services.

Awareness and usage of Business Link services

Figure 36

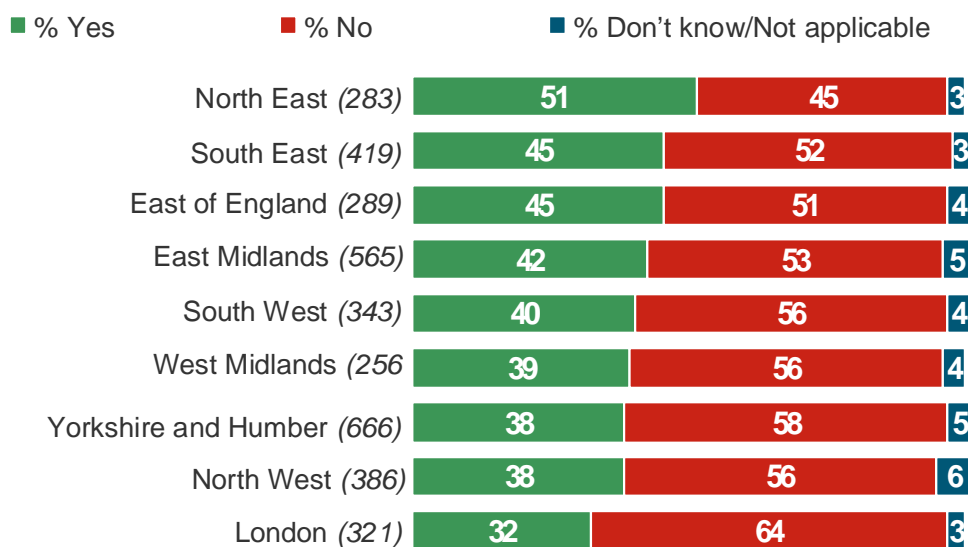


Just over eight out of ten businesses have heard of Business Link, and this is fairly consistent across sectors, though it is slightly higher amongst finance (87%) and manufacturing (86%).

Four in ten businesses use Business Link and this varies from just over a quarter in transport (28%) to almost a half in finance (44%) and more than a half in primary/manufacturing (52%). It is also notable that usage is significantly higher in the North East (51%) and significantly lower in London (32%), as shown in Figure 37. Businesses that have used Business Link are more likely to co operate with universities (52% compared to 38%), to belong to specialist industrial networks (44% compared to 37%), and to have a formal growth business plan (46% compared to 38%). A strategy for economic development in these challenging economic times may need to look at ways of further increasing the usage and awareness of business support services for the purposes of knowledge transfer and the sharing of innovation and best practice. To gauge innovative practices amongst businesses, the National Business Survey asked businesses if they had introduced a new product or process innovation in the past year.

Figure 37

Q Have you used Business Link?



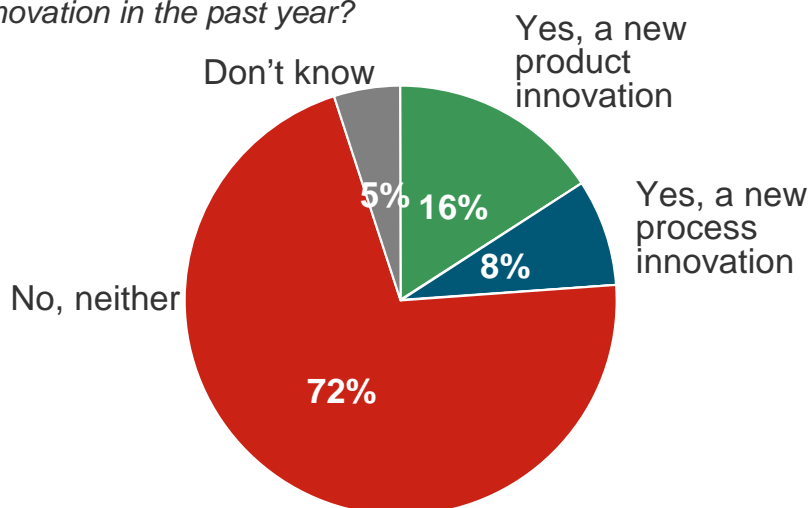
Base: All businesses in England who have heard of Business Link (shown in brackets)

New product/process innovation

Figure 38

Product/process innovation

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



Base: All businesses in England answering (4,393)

Ipsos MORI



This question was asked in November 2008 for the first time, revealing that a quarter of businesses have introduced a new product or process innovation in the past year. For all sectors this was reported by between one in five to one in four businesses, other than manufacturing at almost four in ten (39%).

Four in ten of businesses (41%) that expect the business climate to improve over the next 12 months have introduced a new product or process innovation, whilst this applies to only two in ten (21%) of those businesses that expect the business climate to deteriorate. It is notable that four in ten (50+ employees: 39%) of large businesses have introduced such innovative practices, compared to only one in five of smaller businesses (1-9 employees: 21%).

Businesses that have introduced innovative practices are almost more likely to have formal growth plans (40% compared to 16%), co-operate with universities on research and development (40% compared to 23%), and belong to specialist industrial networks (34% compared to 21%).

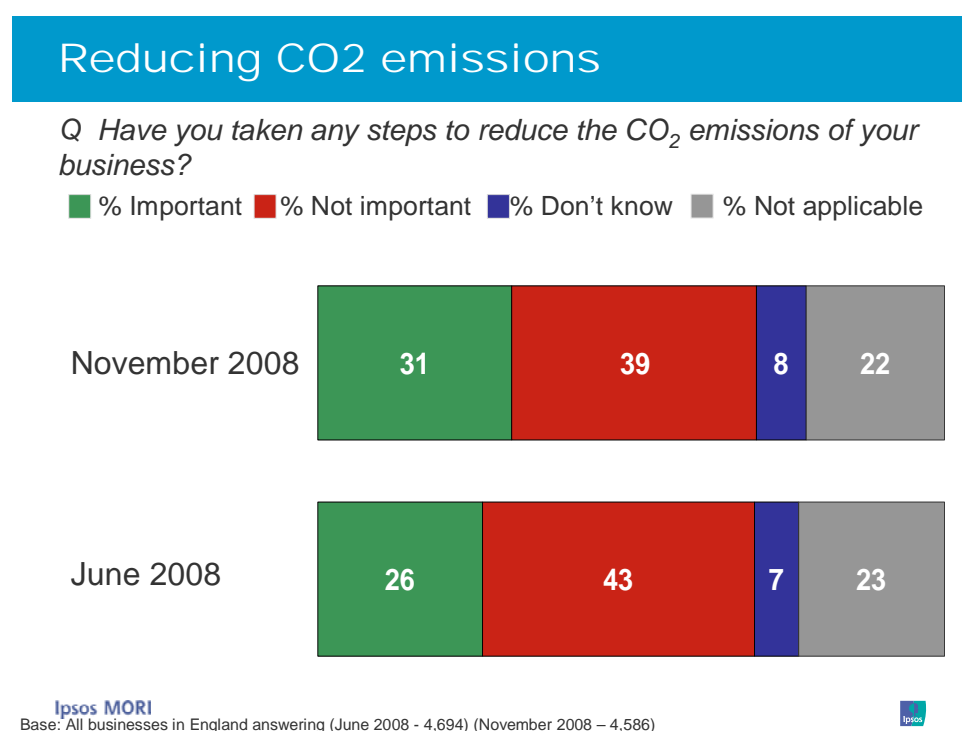
The development of innovation in products and processes is an area where smaller businesses in particular may benefit from further support. It is a concern that the introduction of innovative practices in the past year is at the relatively low level of 23%, and there is a scope to build activities across business sectors where levels are at this low level, with the

exception of manufacturing. Businesses which develop innovative practices are more optimistic about the business climate, and may well be better placed to deal with this recession. It is important that businesses are supported in managing the risks and resource implications that can be associated with this.

Environmental Performance

Businesses have a major role to play in reducing CO₂ emissions, and this can be achieved by the implementation of a wide range of initiatives. Across both waves in 2008, the National Business Survey asked businesses about whether they have undertaken some of the most well known actions aimed at improving their environmental performance, such as adopting a recycling scheme or an energy saving scheme.

Figure 39



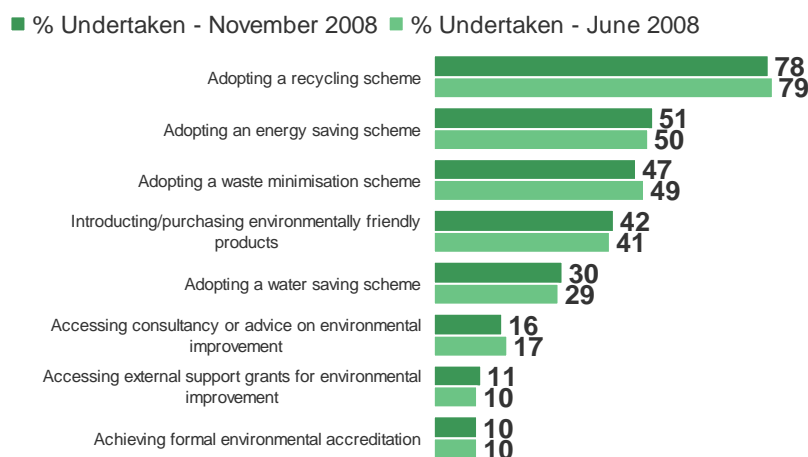
Three in ten of businesses have taken steps to reduce CO₂ emissions which is a notable improvement from June 2008, when a quarter reported this (26%). The highest figures are for the transport sector, where four out of ten businesses have taken such steps. A half of larger businesses (50+ employees: 51%) have taken such steps, compared to three in ten of smaller businesses (30%)

The National Business Survey asked what types of actions businesses are taking to improve environmental performance and the results are presented in Figures 40 and 41.

Figure 40

Improving environmental performance

Q Have you undertaken any of the following actions to improve your environmental performance in the past 12 months?



Ipsos MORI
Base: All businesses in England answering (June 2008- 2,865) (November 2008 – 2,640)



Eight in ten businesses have already adopted a recycling scheme, which is the most prevalent form of action taken to improve environmental performance and mirrors the June 2008 findings (79%), as shown in Figure 40. As in June 2008, around a half of businesses say they have adopted an energy saving scheme or waste minimisation scheme, with four in ten introducing environmentally friendly products and three in ten adopting a water saving scheme. Only one in six have accessed consultancy or advice on environmental improvement, and only one in ten have accessed external support grants or accreditation, which is very similar to the June 2008 findings. The proportions reporting they have undertaken these actions is generally very similar to June 2008.

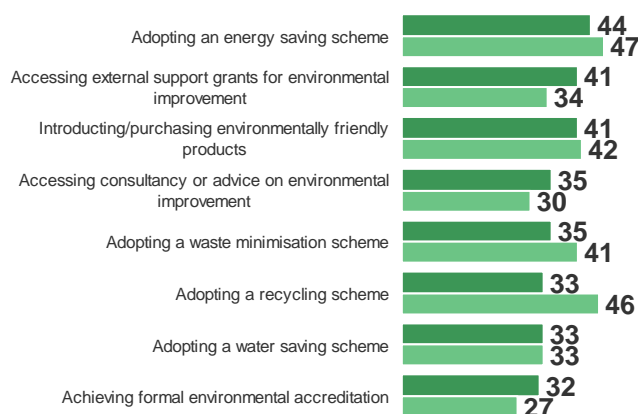
It is notable that there has been a significant drop in those planning to adopt a recycling scheme from just under a half in June 2008 to around a third in this wave, as shown in Figure 41. This will be partly due to an increasing number of businesses having already adopted a scheme, but may also be due to the economic downturn affecting priorities.

Figure 41

Improving environmental performance

Q Do you plan to undertake any of the following actions to improve your environmental performance in the next 12 months?

■ % Plan to undertake - November 2008 ■ % Plan to undertake - June 2008



Ipsos MORI
Base: All businesses in England answering (June 2008- 2,010) (November 2008 – 1,751)



When considering planned actions it can be seen from Figure 41 that there has been fall for recycling schemes and waste minimisation schemes. However there has been an increase in those planning to: access external support grants for environmental improvement; access consultancy or advice on environmental improvement; and achieving formal environmental accreditation.

When asked about grant applications in the past 12 months for any of these actions, the largest three responses were for adopting an energy saving scheme (44%), adopting a recycling scheme (40%), or accessing consultancy or advice on environmental improvement (38%). There is a higher likelihood for larger businesses (50+ employees) to make grant applications for: adopting an energy saving scheme (52% compared to a 44% average); adopting a recycling scheme (46%, compared to a 40% average); adopting a water saving scheme (35%, compared to a 30% average); adopting a waste minimisation scheme (29% compared to the 23% average).

Overall it is notable that businesses are becoming increasingly interested in achieving formal environmental accreditation and in accessing consultancy and external support grants for environmental improvement. The findings suggest that many businesses are already implementing a range of practical initiatives aimed at improving their environmental performance, and they are now seeking to consolidate this through accreditations, consultancy support and further funding. This suggests that businesses are thinking medium

to long term about how they can improve performance in this area, and it is important that services are provided to meet this demand, especially at a time when economic uncertainty can create further competing priorities.

Appendices

Appendix A. Topline results

National Business Survey November 2008 England Topline Results

- Questionnaires were sent by post to business in England in October 2008. An online survey was also available to postal respondents.
- Fieldwork closed on 12 December 2008. 4,668 questionnaires were received.
- Where figures do not add up to 100, this is due to multiple coding or computer rounding.
- Results based on "all answering" in each case, excluding those not stating a response.
- Data are weighted by number of employees and local authority to a known profile within England.
- An asterisk (*) represents a value of less than one half of one percent, but not zero.

Q1. **Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?**
(Base: June 2008: 4,691, November 2008: 4,584)

	%	%
	Jun 08	Nov 08
Improve	12	10
Remain stable	40	36
Deteriorate	48	55

Q2. **Excluding seasonal variations, what has been the trend during the past 12 months, and what are the expected trends for the next 12 months, with regard to...**

	Past 12 months						Next 12 months				
	Wave	Base	Higher	Same	Lower	Not applic-able	Base	Higher	Same	Lower	Not applic-able
			%	%	%	%		%	%	%	%
Domestic orders	Jun 08	4,494	24	30	28	18	4,256	18	31	34	18
	Nov 08	4,477	19	29	32	20	4,321	14	26	41	19
Export orders	Jun 08	4,207	7	10	6	78	3,953	7	10	7	76
	Nov 08	4,329	6	10	9	76	4,155	5	10	11	74
Numbers employed	Jun 08	4,574	17	54	17	12	4,317	14	55	19	12
	Nov 08	4,544	12	49	22	17	4,387	9	49	26	16
Volume of output	Jun 08	4,480	30	32	27	11	4,241	24	33	32	10
	Nov 08	4,461	23	30	33	14	4,312	18	30	39	13

Prices charged to customers	Jun 08	4,615	41	45	11	3	4,368	44	41	13	3
	Nov 08	4,563	31	49	16	4	4,401	29	47	21	3
Staff costs	Jun 08	-	-	-	-	-	-	-	-	-	-
	Nov 08	4,541	41	37	8	13	4,361	34	40	14	13
Profit margins	Jun 08	4,627	15	38	45	3	4,392	15	36	47	3
	Nov 08	4,576	12	31	55	3	4,406	11	31	55	3
Cash in the business (cash flow)	Jun 08	-	-	-	-	-	-	-	-	-	-
	Nov 08	4,563	14	34	49	3	3,044	18	29	52	1

Q3. Which of the following costs...

(A) have increased for your business over the past 12 months? (Base: June 2008: 4,522, November 2008: 4,404)

(B) do you expect to increase over the next 12 months? (Base: June 2008: 4,420, November 2008: 4,128)

(C) presents the main upward cost pressure on your business at present? (Base: June 2008: 3,855, November 2008: 3,661)

	(A) Past 12 months		(B) Next 12 months		(C) Main upward cost pressure at present	
	%	%	%	%	%	%
	Jun 08	Nov 08	Jun 08	Nov 08	Jun 08	Nov 08
Energy costs	88	82	85	71	39	31
Transport costs	75	68	75	54	39	25
Staff costs	61	48	63	45	31	24
Raw materials and bought-in services (other than energy)	60	52	63	51	35	29
Property costs	37	33	38	32	13	11
Cost of finance	34	33	37	35	15	16
Other costs	8	7	10	8	6	6
None of these	1	5	1	5	2	8
All selecting more than one response					35	23

Q4. Have you passed on any increased costs to your customers in the past 12 months?

(Base: June 2008: 4,743, November 2008: 4,622)

	%	%
	Jun 08	Nov 08
Yes – all these increases	7	7
Yes – some increases	57	53
No	36	40

Q5. Is your present level of output below capacity (i.e. are you working below a full rate of operation)?

(Base: June 2008: 4,657, November 2008: 4,566)

	%	%
	Jun 08	Nov 08
Yes	59	64
No	41	36

Q6. Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months, and do you expect to have any in the next 12 months?

		Past 12 months		Next 12 months	
Base:		4,611	4,503	4,570	4,474
		%	%	%	%
		Jun 08	Nov 08	Jun 08	Nov 08
Yes		22	16	19	11
No		72	79	63	74
Don't know		5	5	18	15

Q7.a Did you provide any formal external or internal training for your staff during the last 12 months?

- By external we mean training provided by an external training provider

- By internal we mean training provided by someone employed within your business

		External		Internal	
Base:		4,414	4,402	4,509	4,417
		%	%	%	%
		Jun 08	NOV 08	Jun 08	Nov 08
Yes		49	43	63	56
No		51	57	37	44

Q7.b If yes, approximately what proportion of staff undertook such training?

		External		Internal	
Base (all answering who provided training during last 12 months):		2,192	2,167	2,626	2,568
		%	%	%	%
		Jun 08	Nov 08	Jun 08	Nov 08
1-10%		18	17	13	12
11-25%		21	21	12	15
26-50%		20	22	19	20
51-75%		15	14	15	14
76-100%		24	26	41	39

Q8. Do the following skills need improving during the next twelve months to meet your business needs?

		Yes	No	Not applicable	
	Wave	Base	%	%	%
Office administration	Jun 08	4,315	36	51	13
	Nov 08	4,328	31	55	14
Management skills	Jun 08	4,306	40	47	13
	Nov 08	4,333	36	50	14
IT skills	Jun 08	4,341	47	40	13
	Nov 08	4,339	42	45	13
Business/Financial planning	Jun 08	4,263	47	40	13
	Nov 08	4,295	37	50	13
Communication skills	Jun 08	4,225	33	58	10
	Nov 08	4,528	30	59	11
Science, Technology and Engineering skills	Jun 08	4,147	15	39	46
	Nov 08	4,189	13	43	44
Sales and marketing	Jun 08	4,361	53	36	12
	Nov 08	4,335	51	35	13

Customer care	<i>Jun 08</i>	4,279	36	56	8
	<i>Nov 08</i>	4,273	33	57	10
Technical, specialist or job-specific skills	<i>Jun 08</i>	4,259	35	38	27
	<i>Nov 08</i>	4,261	33	40	27
Foreign languages	<i>Jun 08</i>	4,134	9	34	57
	<i>Nov 08</i>	4,194	9	38	54
Team working	<i>Jun 08</i>	-	-	-	-
	<i>Nov 08</i>	4,249	26	51	23

Q9.a Are the following factors important or not important to your organisation's competitiveness?

Q9.b Are you satisfied or dissatisfied with each of the following in the area in which your business is located?

	<i>Wave</i>	Q9a – Importance				Q9b – Satisfaction			
		<i>Base</i>	Important %	Not important %	Don't know/ N/A %	<i>Base</i>	Satisfied %	Dissatisfied %	Don't know/ N/A %
Availability of premises	<i>Jun 08</i>	4,537	48	33	19	4,191	67	14	20
	<i>Nov 08</i>	4,460	41	38	21	4,268	67	11	22
Access to finance	<i>Jun 08</i>	4,515	44	39	17	4,125	50	18	32
	<i>Nov 08</i>	4,452	48	37	15	4,246	46	24	30
Transport infrastructure	<i>Jun 08</i>	4,493	54	31	15	4,144	45	33	22
	<i>Nov 08</i>	4,442	46	35	19	4,235	51	23	26
Workforce skills	<i>Jun 08</i>	4,518	78	12	9	4,171	65	21	14
	<i>Nov 08</i>	4,462	73	15	12	4,245	65	16	19
Management skills	<i>Jun 08</i>	4,484	74	15	11	4,120	67	15	18
	<i>Nov 08</i>	4,437	71	17	12	4,223	68	12	20
Access to specialist expertise	<i>Jun 08</i>	4,440	51	31	18	4,083	53	14	32
	<i>Nov 08</i>	4,399	51	31	18	4,189	56	13	31
Current location	<i>Jun 08</i>	4,479	63	28	9	4,165	80	10	10
	<i>Nov 08</i>	4,438	55	34	11	4,256	79	9	12
ICT and broadband infrastructure	<i>Jun 08</i>	4,468	60	24	16	4,126	59	17	24
	<i>Nov 08</i>	4,406	59	26	15	4,220	61	16	23
Government regulations	<i>Jun 08</i>	4,482	68	20	12	4,178	20	59	21
	<i>Nov 08</i>	4,445	62	24	14	4,247	25	50	25
Business support from government	<i>Jun 08</i>	4,450	52	30	18	4,145	14	56	30
	<i>Nov 08</i>	4,433	50	31	19	4,236	16	51	32
Proximity of suppliers	<i>Jun 08</i>	4,454	33	53	14	4,103	63	7	30
	<i>Nov 08</i>	4,402	28	56	16	4,183	60	6	34
Proximity of customers	<i>Jun 08</i>	4,507	64	30	6	4,141	75	8	17
	<i>Nov 08</i>	4,446	58	34	8	4,216	71	8	20
International trade links	<i>Jun 08</i>	4,435	17	34	49	4,041	19	6	76
	<i>Nov 08</i>	4,377	16	38	46	4,138	20	5	74
Labour costs	<i>Jun 08</i>	-	-	-	-	-	-	-	-
	<i>Nov 08</i>	4,464	68	17	14	4,231	45	28	27

Q10. **Do you expect to invest more or less in the next twelve months than you spent in the last twelve months on...?** NB Wording for June 2008 = "Do you expect to spend more or less in the next twelve months than you spent in the last twelve months on...?"

			More	Same	Less	Not applicable
	Wave	Base	%	%	%	%
Buildings	Jun 08	4,693	35	37	11	16
	Nov 08	4,567	16	35	18	31
Plant and machinery	Jun 08	4,660	24	34	15	26
	Nov 08	4,558	13	32	23	32
Product and process development	Jun 08	4,633	24	34	15	26
	Nov 08	4,533	15	30	15	39
Marketing and sales	Jun 08	-	-	-	-	-
	Nov 08	4,570	35	39	14	11
Training and retraining	Jun 08	4,667	24	46	11	19
	Nov 08	4,561	19	47	17	18

Q11. **To what extent do you agree or disagree with the following statements?**

			Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
	Wave	Base	%	%	%	%	%
This location is a good place for business to invest	Jun 08	4,684	21	37	32	8	3
	Nov 08	4,580	19	37	35	7	3
I expect the area in which this business is located to become more attractive to investors in the future	Jun 08	4,638	15	30	39	12	5
	Nov 08	4,544	13	28	41	13	4

Q12. **Please estimate the proportion of your sales in the following areas:**

			0	1-10	11-25	26-50	51-75	76-99	100
	Wave	Base	%	%	%	%	%	%	%
Within region	Jun 08	4,534	3	11	8	9	13	22	33
	Nov 08	4,392	3	9	11	11	14	20	32
Rest of UK	Jun 08	3,984	26	22	16	13	9	11	2
	Nov 08	3,919	26	20	18	16	10	9	2
Overseas	Jun 08	3,580	66	20	7	3	2	2	*
	Nov 08	3,325	62	21	7	5	3	2	1

Q13. **Please estimate the proportion of purchases (e.g. raw materials and bought-in services) in the following areas:**

			0	1-10	11-25	26-50	51-75	76-99	100
	Wave	Base	%	%	%	%	%	%	%
Within region	Jun 08	4,208	9	16	11	13	14	15	22
	Nov 08	4,227	8	12	11	15	13	16	24
Rest of UK	Jun 08	3,906	19	16	17	19	11	12	6
	Nov 08	3,890	22	16	18	21	9	9	4
Overseas	Jun 08	3,289	59	16	8	6	5	6	2
	Nov 08	3,325	61	13	8	6	5	5	2

Q14. Does your business co-operate with universities for research and development activities?

(Base: June 2008: 4,716, November 2008: 4,602)

	% Jun 08	% Nov 08
Yes	13	12
No	87	57
Don't know	-	1
Not applicable	-	31

Q15. Do you belong to any specialist industrial networks designed to help you to keep up-to-date with emerging technologies?

(Base: June 2008: 4,722, November 2008: 4,604)

	% Jun 08	% Nov 08
Yes	30	29
No	70	50
Don't know	-	2
Not applicable	-	19

Q16.a Have you heard of Business Link?

(Base: 4,583)

	Nov 08 %
Yes	82
No	18

Q16.b Have you used Business Link?

(Base: All answering who have heard of Business Link - 3,528)

	Nov 08 %
Yes	40
No	56
Don't know / Not applicable	4

Q17. Does your company have a formal business growth plan?

(Base: June 2008: 4,704, November 2008: 4,614)

	% Jun 08	% Nov 08
Yes	35	33
No	62	63
Don't know	3	4

Q18. **Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance?**

And have you applied for a grant in the last 12 months for any of the following?

	Undertaken in last 12 months		Plan to in next 12 months		Applied for a grant in last 12 months 336 % Nov 08
	Base: 2,865 % Jun 08	2,640 % Nov 08	2,010 % Jun 08	1,751 % Nov 08	
Adopting a recycling scheme	79	78	46	33	40
Adopting an energy saving scheme	50	51	47	44	44
Adopting a waste minimisation scheme	49	47	41	35	23
Introducing/purchasing environmentally friendly products	41	42	42	41	22
Adopting a water saving scheme	29	30	33	33	30
Accessing consultancy or advice on environmental improvement	17	16	30	35	38
Accessing external support grants for environmental improvement	10	11	34	41	
Achieving formal environmental accreditation	10	10	27	32	21

Q19. **Have you taken any steps to reduce the CO₂ emissions from your business?**
(Base: June 2008: 4,694, November 2008: 4,586)

	%	
	Jun 08	Nov 08
Yes	26	31
No	43	39
Don't know	7	8
Not applicable	23	22

Q20. **Has your business introduced a new product or process innovation in the past year?**
(Base: June 2008: 3,541, November 2008: 4,393)

	%	
	Jun 08	Nov 08
Yes – new product innovation	32	16
Yes – new process innovation		8
No	62	72
Don't know	6	5

Q21. **How many employees are there at this workplace?**
(Base: June 2008: 4,103, November 2008: 4,103)

	%	
	Jun 08	Nov 08
1-9	71	73
10-49	23	21
50+	7	7
Proportion giving an estimate	12	13

Q23. Approximately how long has your business been in operation?

(Base: June 2008: 4,748, November 2008: 4,557)

	% Jun 08	% Nov 08
Less than 1 year	3	4
At least 1 year but less than 2	3	4
At least 2 years but less than 3	4	5
At least 3 years but less than 5	9	11
At least 5 years but less than 10	17	18
10 years or more	64	56
Don't know	*	1

Q24. What is your annual turnover at this site?

(Base: 4,466)

	% Nov 08
£0 - £49,999	19
£50,000 - £99,999	14
£100,000 - £499,999	32
£500,000 - £999,999	11
£1 million - £1.99 million	7
£2 million - £4.99 million	5
£5m+	4
Don't know/Not applicable	8

Q25. Please indicate which type of business you are:

(Base: June 2008: 4,626, November 2008: 4,481)

	% Jun 08	% Nov 08
Subsidiary of UK parent	4	4
Subsidiary of foreign parent	2	3
Independent	72	70
Limited Liability Partnership	14	13
Ultimate holding company	2	2
Don't know/not applicable	6	9

Q26. Is this site your headquarters?

(Base: June 2008: 4,716, November 2008: 4,540)

	% Jun 08	% Nov 08
Yes	87	83
No	9	12
Not applicable	4	5

Appendix B: Guide to Statistical Reliability

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%
	\pm	\pm	\pm
1,000	2	3	3
800	3	4	4
500	3	4	5
400	3	5	6
300	4	6	6
200	5	7	7
100	6	9	10

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 below:

**Differences required for significance
at or near these percentage levels**

Sample sizes	10% or 90%	30% or 70%	50%
	\pm	\pm	\pm
890 and 500 (Total vs sub-group)	5	6	6
890 and 200 (Total vs sub-group)	6	8	9
500 and 300 (Sub-group vs sub-group)	3	4	4
500 and 100 (Sub-group vs sub-group)	6	9	9
300 and 200 (Sub-group vs sub-group)	7	9	9
300 and 100 (Sub-group vs sub-group)	9	11	12
100 and 100 (Sub-group vs sub-group)	10	14	14

Appendix C: Bibliography

1. HM Treasury, *Pocket Databank*, 18th December 2008
2. HM Treasury, *Forecasts for the UK Economy*, December 2008
3. HM Treasury, *Recent Economic News*, December 2008
4. CBI Quarterly Trends Survey
5. Office of National Statistics, NOMIS Labour Market Statistics
6. British Chamber of Commerce, Quarterly Economic Survey