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IoD Business Opinion Survey  
September 2003

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The Business Opinion Survey was undertaken by NOP business. The report was produced by Lisa Tilsed, Policy Unit Manager.

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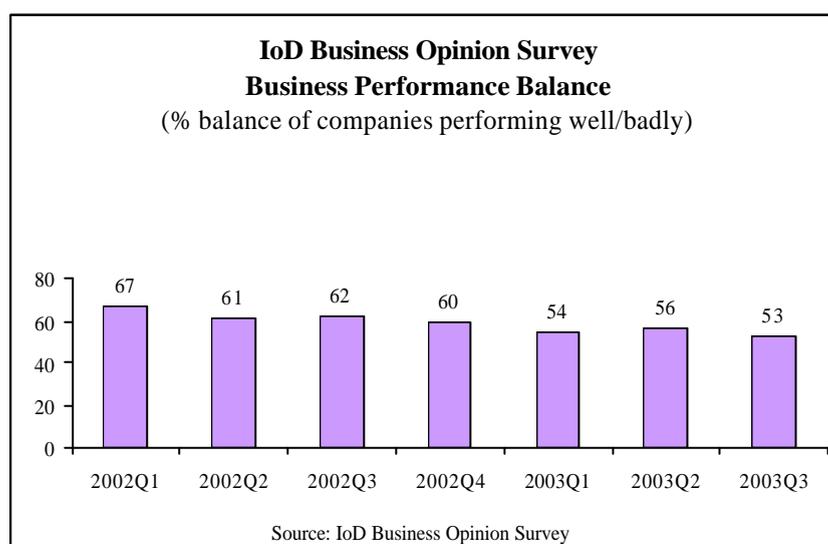
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## Summary

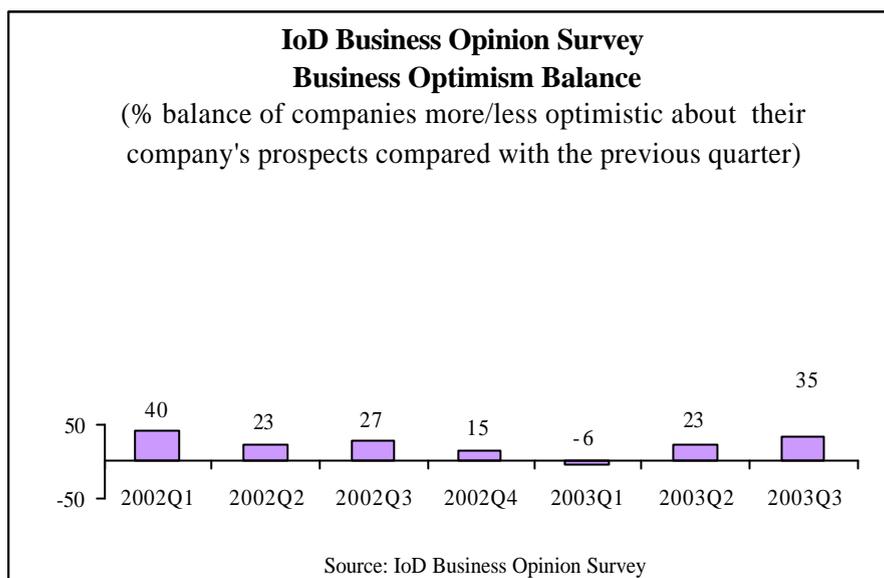
The latest Business Opinion Survey shows a continued improvement in business optimism. Business expectations for future output, profits and investment have significantly improved.

### Company performance and optimism

In the latest September survey the balance of those companies performing well, versus those performing badly, fell slightly to 53% from 56% in the previous survey. Overall, the performance balance has been flat throughout 2003. The performance balance in manufacturing rose from 39% to 52% in the latest survey - but is still below the 57% level recorded in the March survey.



Business optimism has continued to improve in the latest survey. The balance of those companies generally more versus those optimistic about their company prospects (than they were three months ago) rose to 35% in September from 23% in June. In March this balance stood at -6%. The improvement in business optimism is also apparent in the manufacturing sector, where the optimism balance rose to 25% in September from 15% in June. In March the manufacturing balance stood at -25%.



A marked improvement in business optimism has occurred since the end of the war in Iraq.

## Demand, output, employment, profits & investment

The balance of those companies operating at full capacity, versus those who are not, was virtually unchanged in September, at -30%, compared with -28% in June. The capacity utilisation balance has remained 'stuck' at current levels throughout 2003. In the manufacturing sector, the capacity utilisation balance has also moved very little, slipping from -30% in June to -32% in September.

The balance on total order books continued to improve in September, with a balance of -6% compared with -11% in June. In March this year the total order books balance had fallen to -18%. The improvement has been mirrored in the manufacturing sector where the total order books balance rose to -4% in September, from -14% in June and -21% in March this year.

The balance on export orders was unchanged at -1% in the latest survey. However, the total export order books balance hides a significant improvement in manufacturing export orders, which jumped from -13% in June to 12% in September.

The balance of those companies reporting output up, versus those reporting output down, was unchanged at 20% in the latest survey. The reported output balance in manufacturing rose from 16% to 22% in the latest survey.

A clear improvement in output expectations is apparent. The expected output balance jumped from 33% to 51% in the latest survey. In manufacturing the jump was greater, from 26% to 48% in the latest survey.

The balance of those companies reporting employment up, versus those reporting employment down, was unchanged at 7% in September. In the manufacturing sector the reported employment balance improved slightly from -1% in June to 2% in September. A similar picture regarding employment expectations emerged from the survey. The expected employment balance was unchanged at 17% in September. In manufacturing the expected employment balance increased from 8% to 14% between June and September.

Reported profits have improved very slightly. The balance of those companies reporting the trend in profits up, versus those reporting the trend down, rose from 6% to 7% between June and September. In the manufacturing sector the reported profits balance rose from -9% to -6% over the same period.

Profit expectations have improved considerably in the latest survey. The balance on expected profits rose sharply from 18% to 34% in the latest survey. In March the balance on expected profits stood at just 4%. The improvement in expected profits has also been mirrored in the manufacturing sector where the balance rose from 9% to 23% between June and September. Back in March this balance had fallen to -6%.

The investment outlook continues to improve. Compared to the position three months ago, the balance of those companies more versus less optimistic about the investment outlook, rose sharply to 18% from 3% in June. In March this balance had collapsed to -28%. In manufacturing the investment outlook also continued to improve, with the balance rising to 10% in September, from 1% in June and -38% in March.

## Costs, prices and profits

The balance of those companies reporting the trend in costs up, versus those reporting the trend down, fell back in the latest survey to 21% from 33% in June. In the manufacturing sector the cost trend balance also fell back, from 40% in June to 36% in September. The expected cost balance fell from 31% in June to 25% in September. In manufacturing the expected cost balance stood at 38% in September compared with 37% in June.

Reported price pressures remain weak. The balance of those companies reporting the trend in prices up, versus those reporting it down, fell to -5% in September from -3% in June. The reported prices balance in manufacturing stood at -12% in September, compared with -20% in June. Price expectations edged a little higher, with the expected prices balance increasing from -4% in June to 2% in September. In the manufacturing sector the pick-up in price expectations was much stronger, rising from -17% in June to 6% in September.

Average pay settlements were recorded at 3.6% in the latest survey compared with 3.3% in June. In the manufacturing sector settlements have been slightly lower, at 3.1% in September, compared with 3% in June.

# Survey Method

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The IoD Business Opinion Survey is designed to provide an up-to-date indication of current trends within the UK economy. The survey is carried out on behalf of the IoD by NOP Business and is conducted every three months by telephone.

The results presented in this summary are based on interviews with 500 members of the IoD. The sample was randomly drawn from the IoD membership database and is structured so as to be representative in terms of company size, industrial sector and region. A detailed breakdown of the sample structure is provided in the data tables. For simplicity, different types of firms are referred to as follows:

### Size

1 - 20 employees	“Micro”
21 - 100 employees	“Small”
101 - 200 employees	“Medium”
201+ employees	“Large”

### Sectors

Total	All Sectors
Manufacturing - Services -	Manufacturing companies Including Business & Professional services, Financial services, Distribution & Govt, Education, Health & Personal services

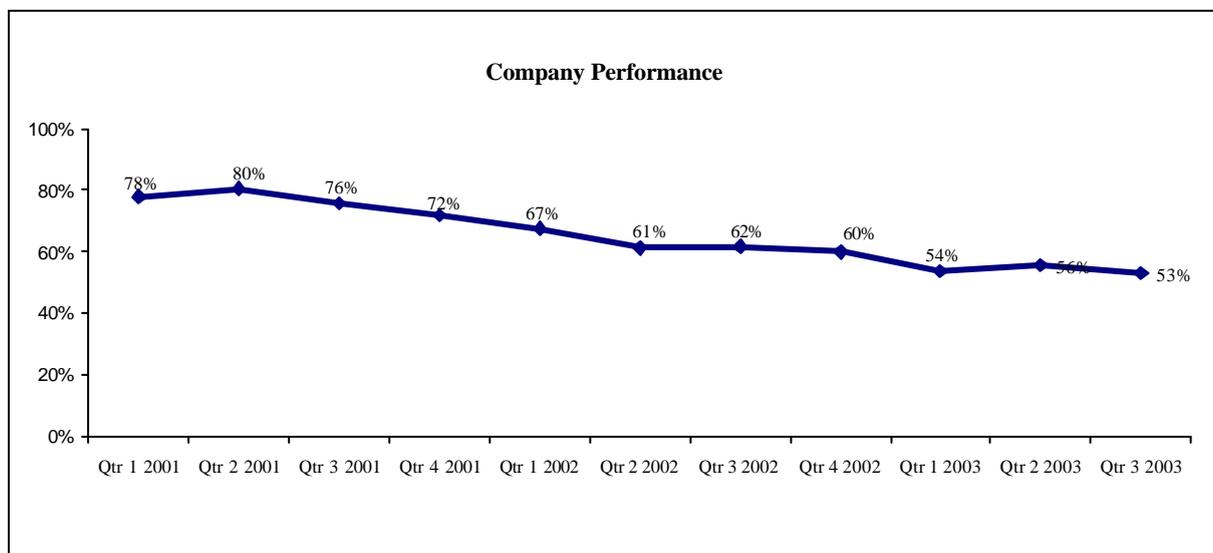
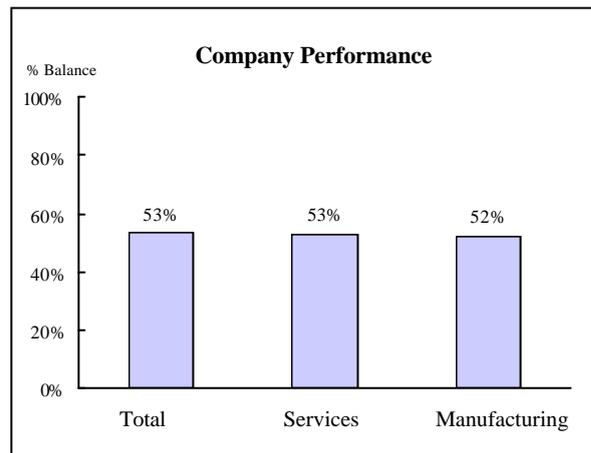
In order to give a simple, clear indication of the trend in any particular variable, the survey results are summarised throughout in terms of a positive or negative balance. The balance is computed by simply subtracting the number of respondents replying less/down/badly to a question from those replying up/more/well to give a single number.

# Company Performance

- In the latest September survey the balance of those companies performing well, versus those performing badly, fell slightly to 53% from 56% in the previous survey. Overall, the performance balance has been flat throughout 2003. The performance balance in manufacturing rose from 39% to 52% in the latest survey - but is still below the 57% level recorded in the March survey.

*How well is your company performing overall?*

Well	64%
Neither well nor badly	25%
Badly	11%
Balance	+53%

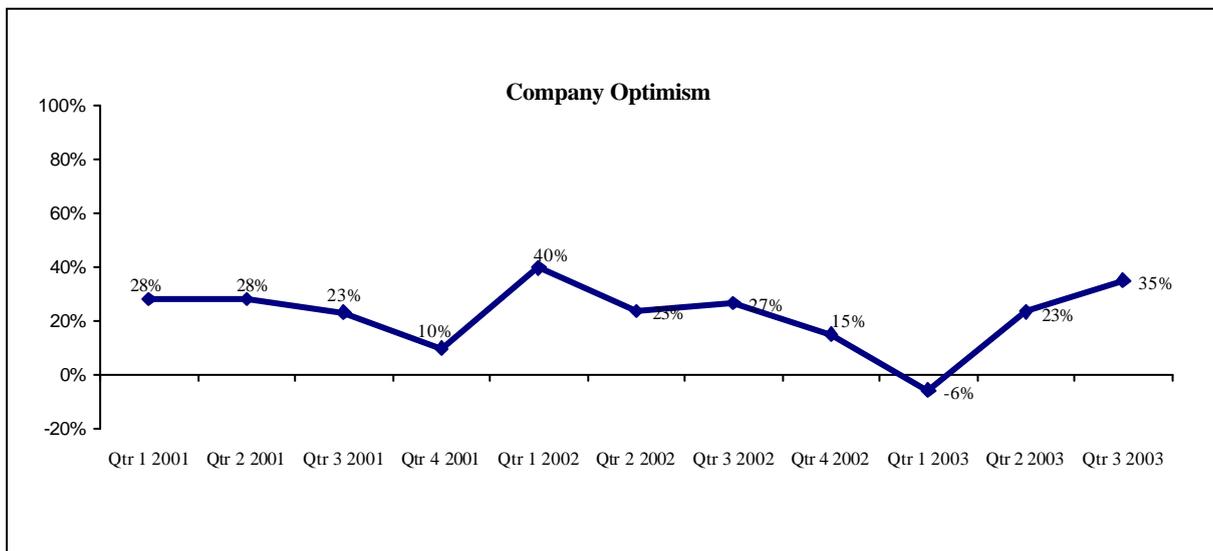
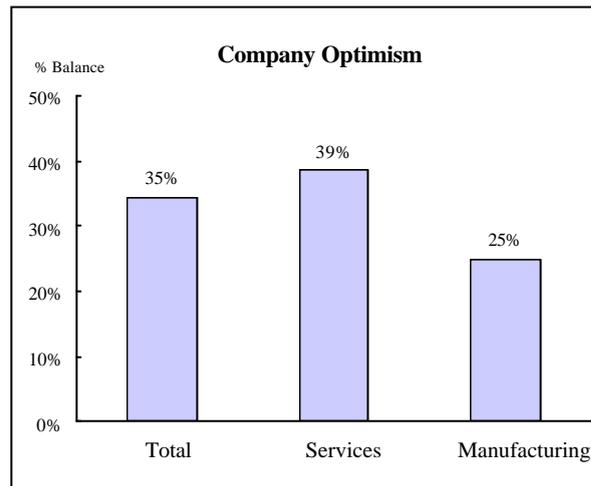


## Company Optimism

- Business optimism has continued to improve in the latest survey. The balance of those companies generally more versus those less optimistic about their company prospects (than they were three months ago) rose to 35% in September from 23% in June. In March this balance stood at -6%. The improvement in business optimism is also apparent in the manufacturing sector, where the optimism balance rose to 25% in September from 15% in June. In March the manufacturing balance stood at -25%.

*Are you generally more or less optimistic than you were three months ago about your company's prospects?*

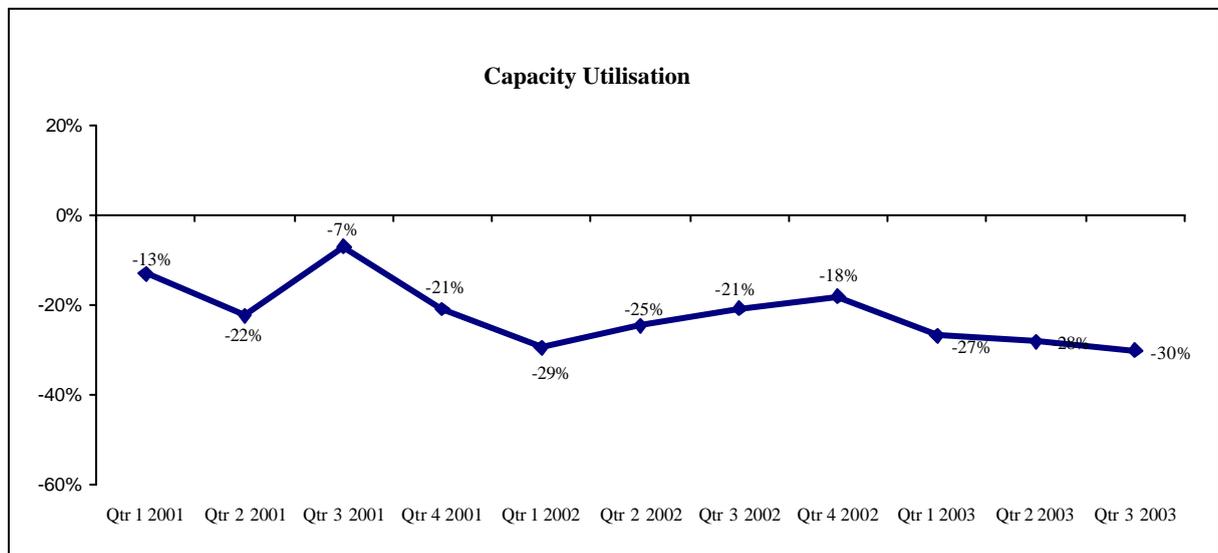
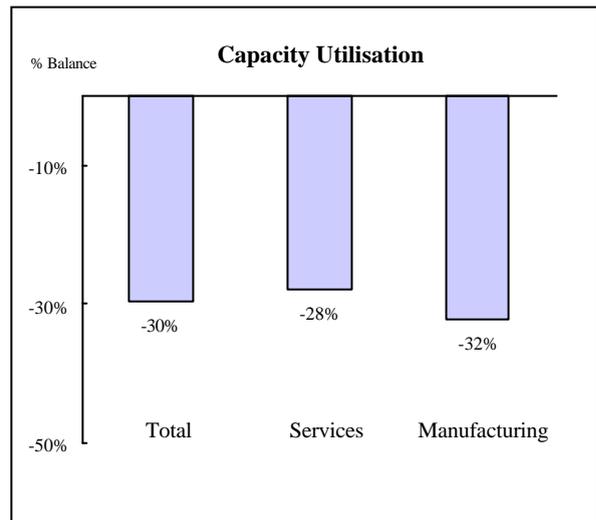
More	59%
Same	17%
Less	24%
Balance	+35%



# Capacity Utilisation

- The balance of those companies operating at full capacity, versus those who are not, was virtually unchanged in September, at -30%, compared with -28% in June. The capacity utilisation balance has remained 'stuck' at current levels throughout 2003. In the manufacturing sector, the capacity utilisation balance has also moved very little, slipping from -30% in June to -32% in September.

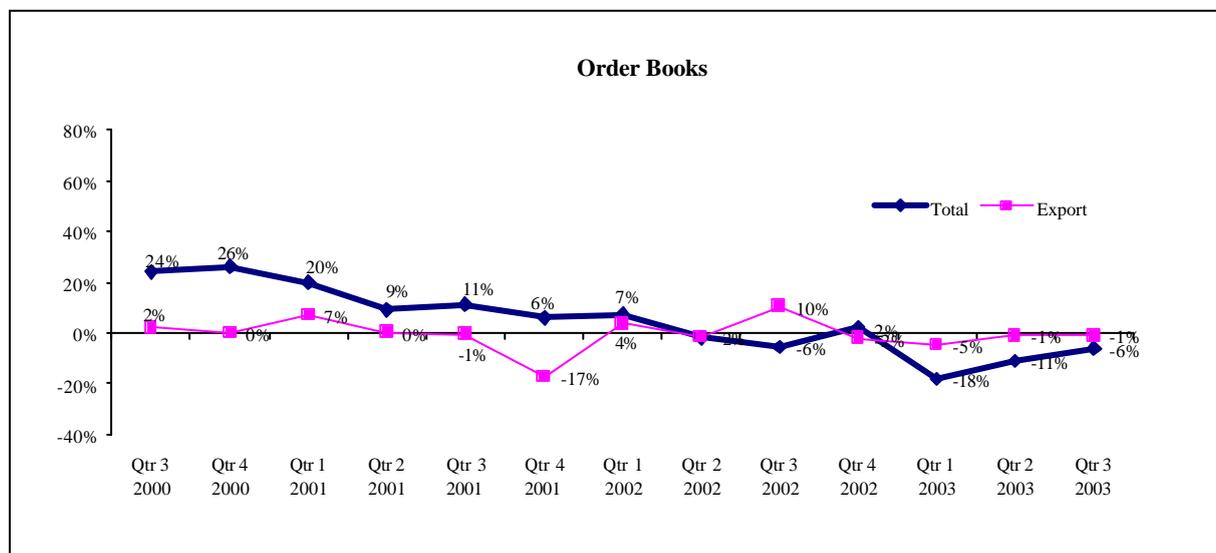
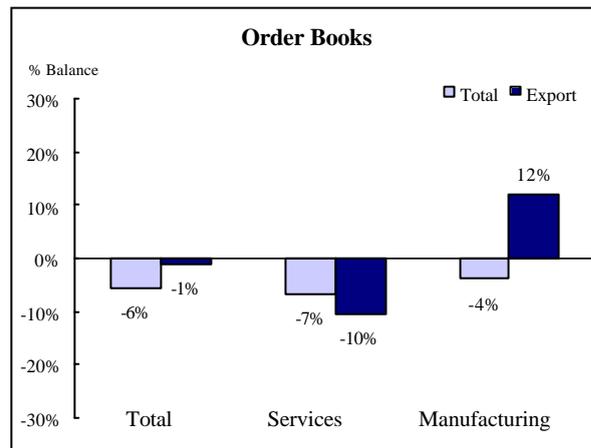
<i>Are you currently operating at full capacity?</i>	
Yes	35%
No	65%
Balance	-30%



# Order Books

- The balance on total order books continued to improve in September, with a balance of -6% compared with -11% in June. In March this year the total order books balance had fallen to -18%. The improvement has been mirrored in the manufacturing sector where the total order books balance rose to -4% in September, from -14% in June and -21% in March this year.
- The balance on export orders was unchanged at -1% in the latest survey. However, the total export order books balance hides a significant improvement in manufacturing export orders, which jumped from -13% in June to 12% in September.

<i>Order books</i>	
Above normal	26%
Normal	42%
Below normal	32%
Balance	-6%
<i>Export order books</i>	
Above normal	32%
Normal	36%
Below normal	33%
Balance	-1%

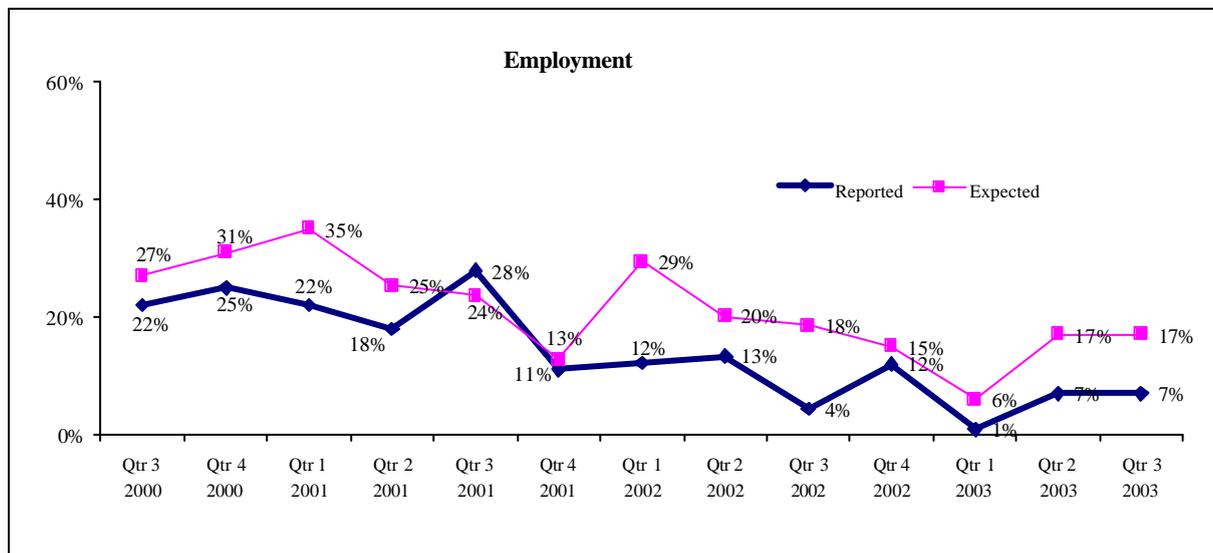
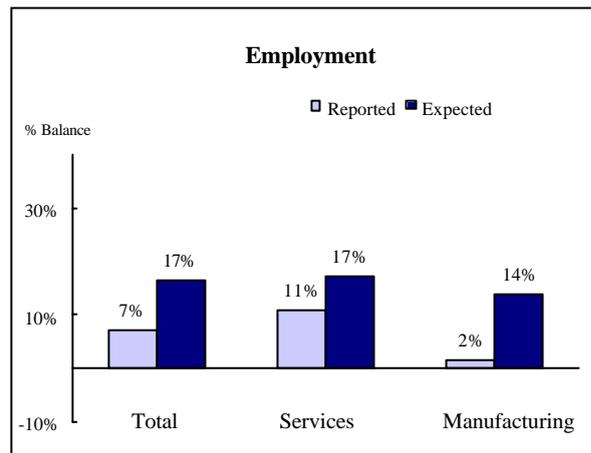


# Employment

- The balance of those companies reporting employment up, versus those reporting employment down, was unchanged at 7% in September. In the manufacturing sector the reported employment balance improved slightly from -1% in June to 2% in September. A similar picture regarding employment expectations emerged from the survey. The expected employment balance was unchanged at 17% in September. In manufacturing the expected employment balance increased from 8% to 14% between June and September.

*Trend in Numbers Employed*

	Reported	Expected
Up	27%	29%
Same	53%	59%
Down	20%	12%
Balance	+7%	+17%

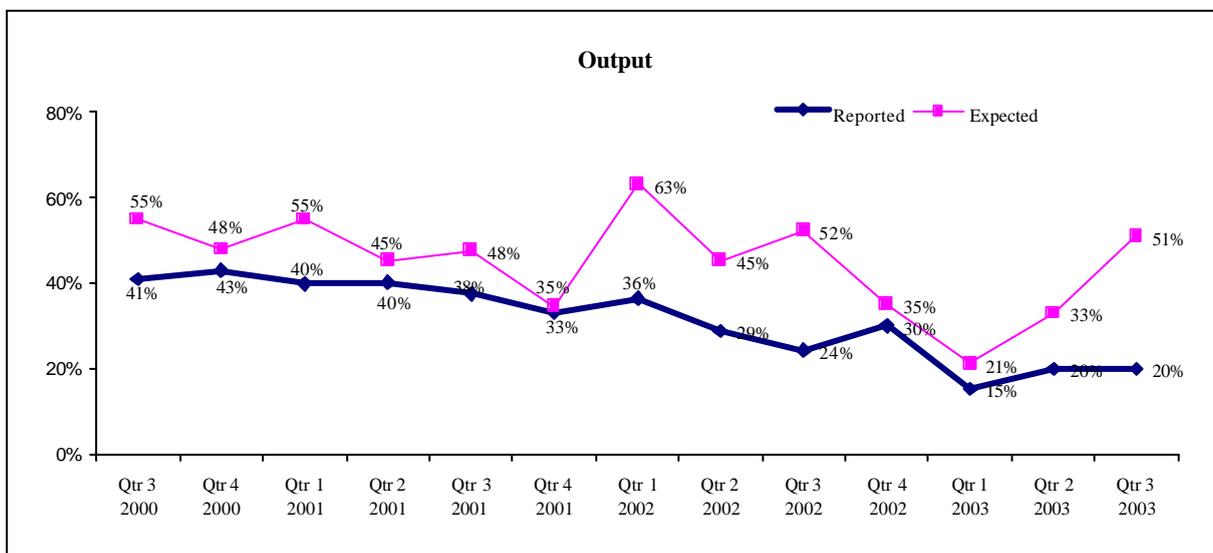
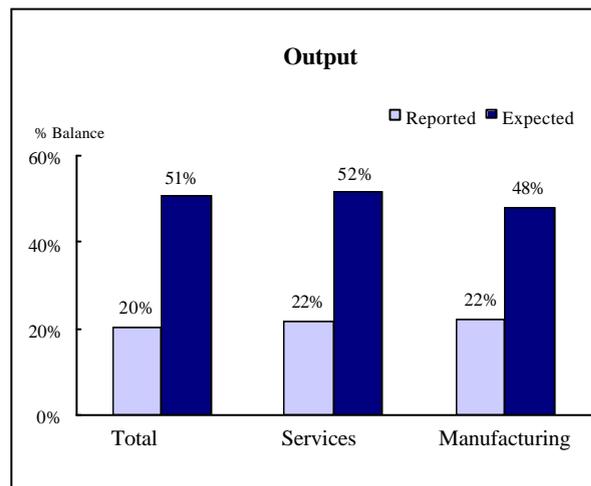


# Output

- The balance of those companies reporting output up, versus those reporting output down, was unchanged at 20% in the latest survey. The reported output balance in manufacturing rose from 16% to 22% in the latest survey.
- A clear improvement in output expectations is apparent. The expected output balance jumped from 33% to 51% in the latest survey. In manufacturing the jump was greater, from 26% to 48% in the latest survey.

*Trend in Output*

	Reported	Expected
Up	41%	60%
Same	37%	32%
Down	21%	9%
Balance	+20%	+51%

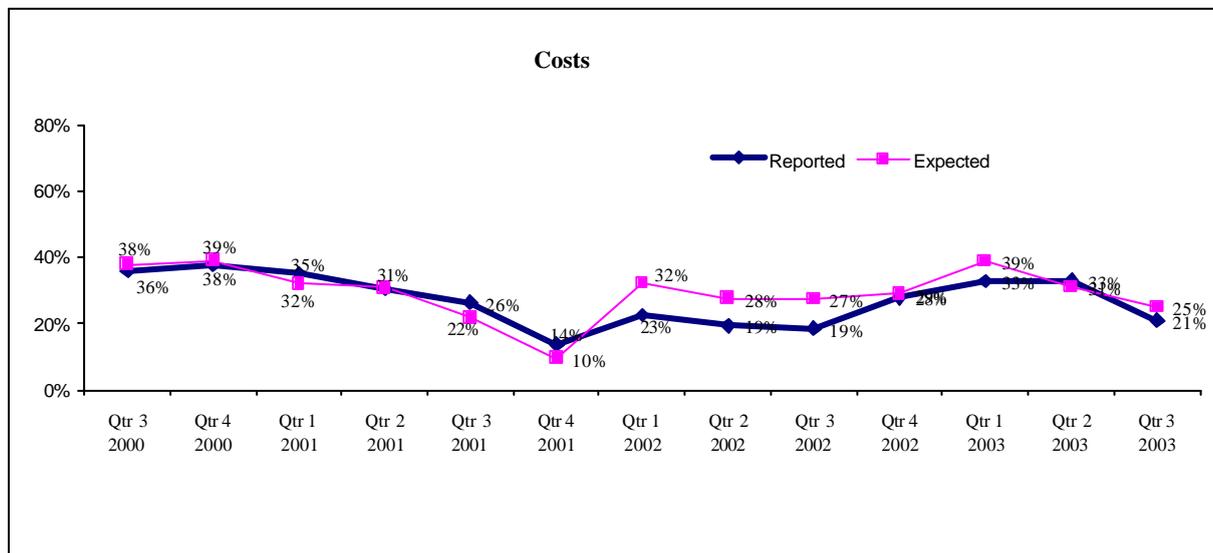
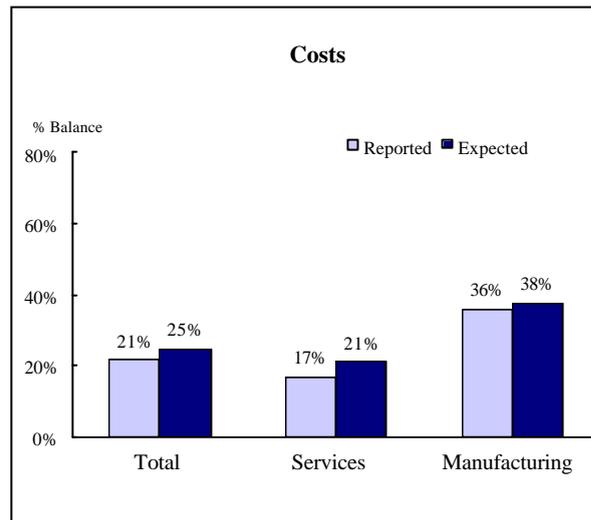


# Costs

- The balance of those companies reporting the trend in costs up, versus those reporting the trend down, fell back in the latest survey to 21% from 33% in June. In the manufacturing sector the cost trend balance also fell back, from 40% in June to 36% in September. The expected cost balance has also fallen, from 31% in June to 25% in September. In manufacturing the expected cost balance stood at 38% in September compared with 37% in June.

*Trend in Costs*

	Reported	Expected
Up	38%	38%
Same	45%	50%
Down	17%	13%
Balance	+21%	+25%

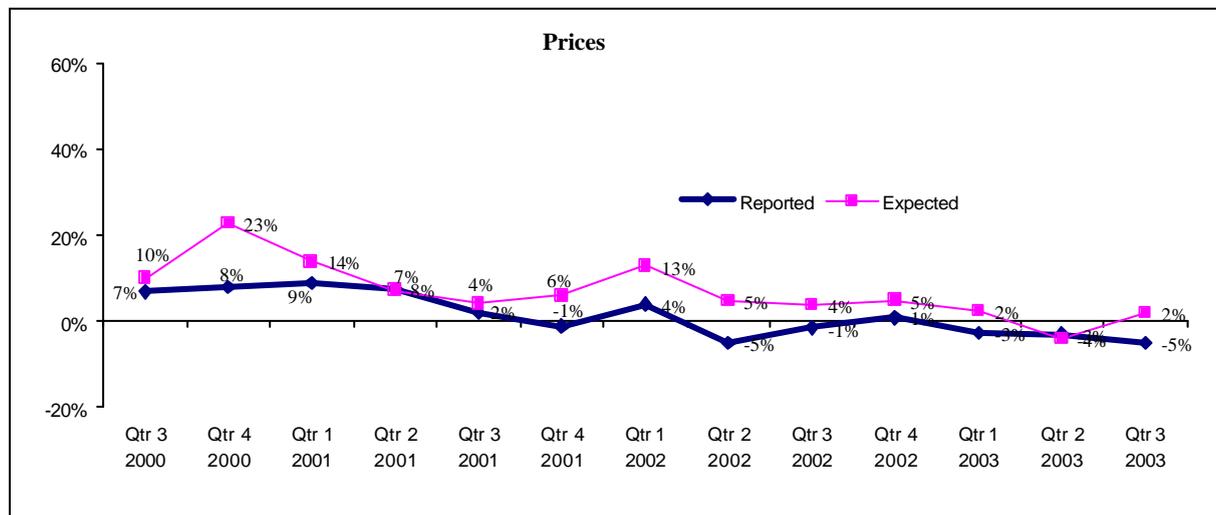
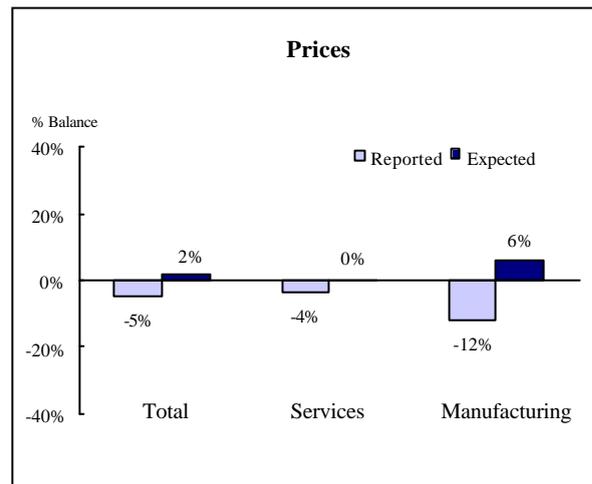


# Prices

- Reported price pressures remain weak. The balance of those companies reporting the trend in prices up, versus those reporting it down, fell to -5% in September from -3% in June. The reported prices balance in manufacturing stood at -12% in September compared with -20% in June. Price expectations edged a little higher, with the expected prices balance increasing from -4% in June to 2% in September. In the manufacturing sector the pick-up in price expectations was stronger, rising from -17% in June to 6% in September.

*Trend in Prices*

	Reported	Expected
Up	12%	14%
Same	72%	74%
Down	17%	12%
Balance	-5%	2%

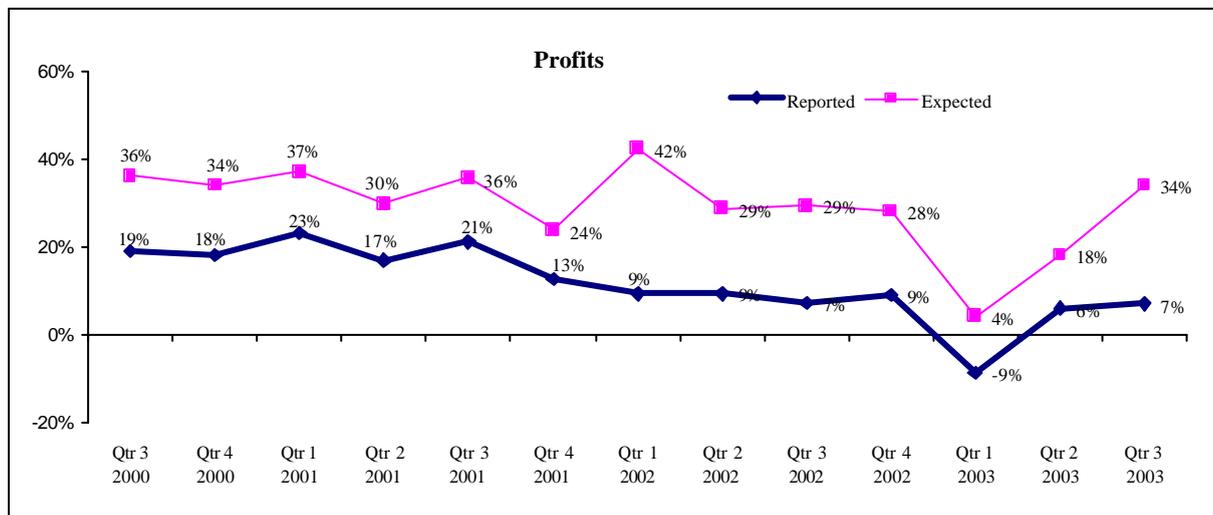
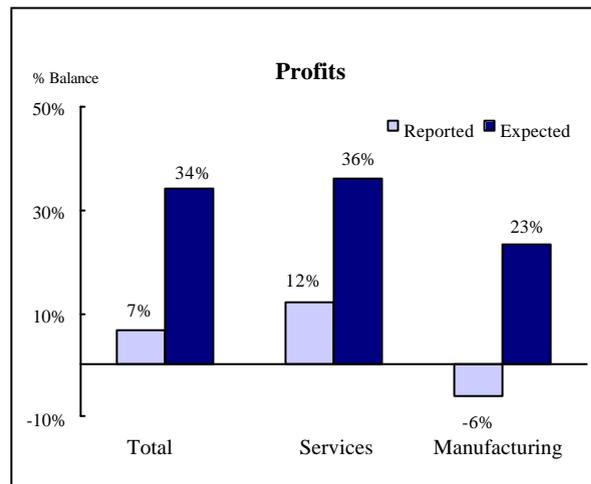


# Profits

- Reported profits have improved very slightly. The balance of those companies reporting the trend in profits up, versus those reporting the trend down, rose from 6% to 7% between June and September. In the manufacturing sector the reported profits balance rose from -9% to -6% over the same period.
- Profit expectations have improved considerably in the latest survey. The balance on expected profits rose sharply from 18% to 34% in the latest survey. In March the balance on expected profits stood at just 4%. The improvement in expected profits has also been mirrored in the manufacturing sector where the balance rose from 9% to 23% between June and September. Back in March this balance had fallen to -6%.

*Trend in Profits*

	Reported	Expected
Up	32%	46%
Same	43%	42%
Down	25%	12%
Balance	+7%	+34%



# Pay

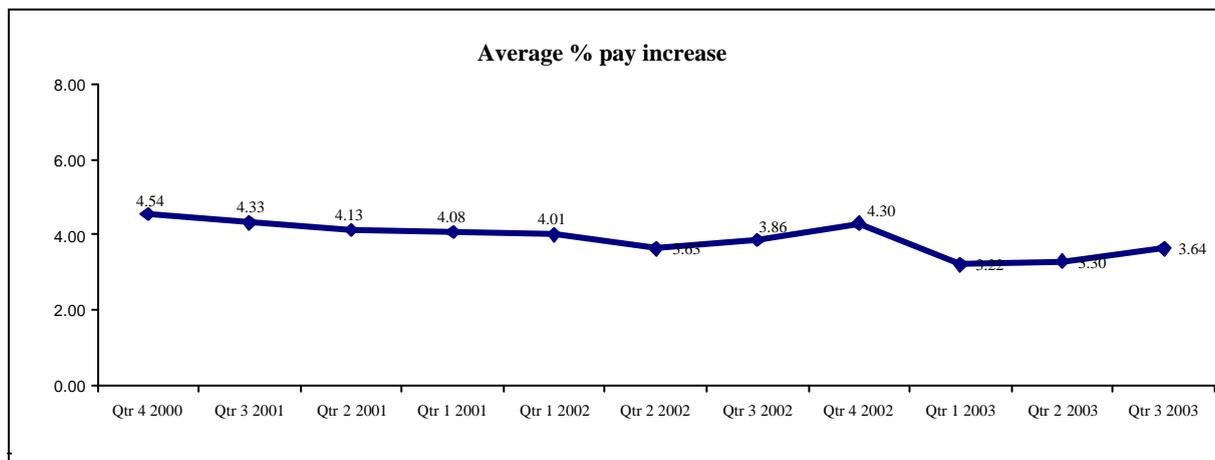
- Average pay settlements were recorded at 3.6% in the latest survey compared with 3.3% in June. In the manufacturing sector settlements have been slightly lower, at 3.1% in September, compared with 3% in June.

*If you made a pay award in the last 3 months, what was the average percentage increase?*

2% or less	5%
2-3%	41%
3-4%	24%
4-5%	14%
5-7.5%	9%
7.5% or more	6%

*How did it compare with the previous pay award?*

Higher	37%
Same	36%
Lower	27%



# Investment

- The investment outlook continues to improve. Compared to the position three months ago, the balance of those companies more versus less optimistic about the investment outlook, rose sharply to 18% from 3% in June. In March this balance had collapsed to -28%. In manufacturing the investment outlook also continued to improve, with the balance rising to 10% in September, from 1% in June and -38% in March.

*Within your own organisation compared to the position three months ago, would you say the outlook for investment is?*

More optimistic	37%
Unchanged	45%
Less optimistic	18%
Balance	+18%

