

**SOUTH WEST SMEs PREDICT SLOW ECONOMIC RECOVERY
BUT EXPECT SOLID PROFITS**

**BUSINESSES' CONCERNED OVER RISE IN INFLATION AND
INTEREST RATES**

Bristol, 21 July 2010

Key points

- 71% of South West SMEs expect a 2 year wait for the UK to make a full economic recovery
- 82% forecast maintained or increased sales turnover in the second half of 2010
- Majority says that an increase in interest rates and inflation would be problematic for their business
- Over half feel that spending should be cut on local government and overseas aid to reduce national deficit

The fourth survey of small and medium sized enterprises (SMEs) from QBE, the specialist business insurer, shows that the majority (71%) of SMEs in South West believe that we can expect a two year wait before we see a full economic recovery. This is a less optimistic view than held anywhere elsewhere in the UK, with only 46% of SMEs in London and 41% in Yorkshire and North East England predicting a two year wait.

The survey findings also illustrated that the current economic climate continues to challenge SMEs in South West, with over half (57%) saying that they would experience difficulties if current conditions were to persist. However, this has improved since six months ago, when 68% said that they thought they would face difficulty if there was no positive economic change.

Similarly, South West SMEs recorded some benefits of the downturn, with 49% saying that they had a greater awareness of individual customer's needs and a further third saying they were now a more competitive business, a more efficient business and a leaner business as a result of the recession.

Solid turnover expected

The survey also indicated that a healthy 82% of SMEs in London expect to either maintain or increase sales turnover in the second half of 2010 – a figure that is slightly higher than the national average of 77% of SMEs with this forecast for the next six months.

Business growth stalled by lack of commercial credit

Although the majority of South West SMEs anticipate strong profits in the second half of the year, 55% said that they believed it would be difficult to access commercial credit. This concern is perhaps reflected by the admission of 95% of SMEs in the region that they would not hire more staff in 2010, which would indicate that they do not feel they are in a position to invest in organic business growth.

Cuts should be made to spending on local government and overseas aid

When asked which areas should receive spending cuts to reduce the national deficit, the most popular choices were overseas aid and local government – an indication that the cuts to the public sector announced in the recent Budget will be popularly received. The two that were least favoured was education, with only 13% of the region's SMEs supporting spend reductions in these areas.

Nearly two thirds, 63%, said that they felt an increase in inflation would be problematic for their business, and 42% of those asked said that they would experience problems in their business with a rise in interest rates.

The inflation-only increase to so-called "sin taxes", such as those imposed on alcohol and tobacco, may be met less keenly by SMEs in South West. When asked which areas they would like to see increases to reduce the national deficit, the most chosen area was on alcohol and tobacco duty. 84% said they did not want to see increases on petrol and



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diesel fuel duty and, although this was answered in the Budget, there may be some disappointment that no firm plans on a fuel stabiliser programme were announced.

Chris Parker, Commercial Manager, Bristol, QBE European Operations: “It is encouraging that, despite predicting a slow national recovery from the recession, small to medium sized enterprises in the South West are forecasting a solid 2010 performance for their own businesses.

“The contribution of these enterprises is vital to the health of the national economy and, as an insurer committed to the UK’s SMEs base, we are always looking for ways to help these businesses focus on their long-term growth plans.”

-ENDS-

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Notes to editors

About the QBE Business Sentiment Survey

Data were collected by The Survey Shop in June 2010. A total of 406 interviews were conducted by telephone using quota sampling. Respondents were qualified as owners, managers and decision-makers, and the data are representative of SMEs in UK and Ireland.

About QBE

QBE Insurance Group is Standard & Poor's 'A+' rated and is one of the world's leading international insurers and reinsurers, headquartered in Sydney, Australia. We operate out of 48 countries across the globe, with a presence in all key insurance markets, and are lead underwriters within our chosen markets, setting rates and conditions. For the year ended 31 December 2009, the company underwrote gross written premium totalling £7,241.86 million and held shareholders' funds of £5,670.07 million.

QBE's European Operations, which accounts for 35% of QBE Group turnover, is a leading specialist in London market and European commercial lines business. It provides a wide range of insurance cover, including property, motor, liability and professional indemnity across a broad range of business types and sizes.

QBE is proud to be the Official Business Insurance Partner of England Rugby and Premiership Rugby. Our partnerships with two elite properties in the sport will allow QBE's brand to continue to develop and business to grow.