

DROP IN BUSINESS CONFIDENCE REFLECTS INTEREST RATE FEARS

- Business confidence has weakened
- Retailers among the least confident
- Large companies more confident of the future than small companies

Business confidence is generally weaker than last month – with retailers and small companies looking particularly gloomy – according to the latest Business Barometer from **Lloyds TSB Financial Markets**. The balance of companies reporting optimism rather than pessimism for the economy dropped sharply to 21 per cent from 41 per cent a month earlier. In the survey, 51 per cent of companies were optimistic in March: 9 per cent less than March's optimism total of 60 per cent. Conversely, pessimism rates are up from 19 per cent to 30 per cent.

Manufacturing holds the strongest business balance of 62 per cent, but showed the greatest deterioration in business confidence this month. This is reflected in official manufacturing data for February released last week which showed a 0.5 per cent decline in output on the month, the steepest fall in six months.

Distribution companies, however, signalled the lowest levels of confidence with a balance of 53 per cent and scored the economy the lowest. This is no surprise as the sector includes retail companies which would be most sensitive to the potential dent to consumer spending as a result of higher interest rates.

The northern regions posted the highest degree of trading confidence with its balance of 32 per cent – mainly fuelled by optimism in the North West and Yorkshire & Humberside. With an economic optimism balance of 20 per cent, the southern regions are more reserved in their outlook, although the South West outperforms both the South East and Greater London in its trading expectations.

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DROP IN BUSINESS CONFIDENCE POINTS TO INTEREST RATE FEARS

The most confident companies were those with a turnover in excess of £20 million with a balance of 66 per cent, explained by their strong market position thanks to their buying power and market share.

“This decrease in economic confidence can be attributed to continued concern that interest rates will rise this year after a quarter of remaining stable,” said Trevor Williams, chief economist with **Lloyds TSB Financial Markets**. “There has also been increased business uncertainty relating to high oil prices, the outcome of the Budget and the UK general election.

“Confidence may have fallen but it has not collapsed. Many of these fears may be short-lived and British businesses are most likely under-selling themselves. This view is based on a combination of economic fundamentals remaining strong, and the fact that the financial position of companies remains secure.

“We expect a mild growth slowdown this year but the economy’s good health looks set to continue. This should be encouraging for British businesses. Companies are in the best financial position for over a decade.

“Interest rates may still rise, but the overall picture is a favourable one with strong economic fundamentals assuring a continued good climate for business and industry.”

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Notes to editors:

- Trevor Williams is available for interview.
- The survey was carried out among 250 companies with turnover above £1million.
- Research carried out on behalf of Lloyds TSB Financial Markets by Continental Research.
- The Business Barometer is intended to complement the Consumer Barometer which is also released monthly by Lloyds TSB Financial Markets.

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