

BUSINESS CONFIDENCE HITS A TWO YEAR LOW FOLLOWING LONDON TERROR ATTACKS

Businesses' confidence in the economy is at a two year low and firms' confidence about their own business activity has dramatically declined, according to the **Lloyds TSB Financial Markets Business Barometer**.

The latest survey, conducted the week after the first terror attack in London, shows that business confidence fell sharply in July, seemingly damaging hopes of recovery in manufacturing in the second half of 2005.

The business sector is the most pessimistic about the outlook for the UK economy since March 2003, at the time of the Iraq war. The number of firms with a pessimistic outlook has almost doubled – currently 40% of businesses have a negative outlook about the next three months compared to 26% in June. Companies expecting their own business conditions to improve over the next 12 months fell sharply to 42% in July from 55% in June.

Barometer Questions

During the next 12 months, do you expect your level of business activity to increase?

	Feb 05	March 05	April 05	May 05	June 05	July 05
Increase	64%	61%	56%	60%	62%	51%
Stay same	29%	28%	31%	33%	31%	37%
Decrease	3%	6%	8%	4%	7%	9%
Balance	+61	+55	+48	+56	+55	+42%

Are you presently more optimistic about the economy than you were three months ago?

	Feb 05	March 05	April 05	May 05	June 05	July 05
Optimism	60%	51%	43%	51%	48%	40%
Stay same	20%	18%	30%	14%	20%	18%
Pessimism	19%	30%	25%	33%	26%	42%
Balance	+41	+21	+18	+18	+22	-2%

Trevor Williams, chief economist, Lloyds TSB Financial Markets, said: “There are some key factors that may lie behind the sharp fall in business confidence. Firstly, our survey was conducted the week after the first terror attack in London, which will have dented business confidence in the retail and tourism sectors, at a time of heightened economic uncertainty.”

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Trevor continued: “Secondly, UK economic performance has been considerably weaker in the past six months and economic growth has slowed to average 0.4% in Q1 and Q2 this year, well below the long run rate of 0.65% a quarter. As a result of this, the Bank of England has since cut interest rates for the first time in two years, by 0.25% to 4.5%, with some expectations that more may be in the offing.

“Thirdly, the manufacturing sector experienced a technical recession in the first half of this year, with a reported decline in output for two consecutive quarters. However, going forward, a more competitive pound, stronger growth in Europe and lower UK interest rates should bring some relief to industry.”

The Lloyds TSB Financial Markets Business Barometer, also reveals that manufacturing firms only just ranked ahead of the hard hit retail sector in July in terms of the level of confidence about own trading conditions. But, despite the gloom surrounding manufacturing prospects, companies in the sector recorded the biggest increase in business optimism in July. Service sector companies, which include business services, finance, property and hotel and catering companies, reported slightly weaker business confidence for the second consecutive month in July. But the decline was driven by a sharp fall in property companies and hotels and catering firms’ confidence after the terror attacks. The percentage of distribution companies reporting higher rather than lower confidence in July plunged to 25% from 43% in last month’s survey. A look at the firms within the sector shows that the decline was caused by a collapse in retail confidence from a positive balance of 46% of firms reporting an increase in trading prospects in the year ahead to -1% in July.

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Notes to editors:

- Trevor Williams is available for interview.
- Research carried out on behalf of Lloyds TSB Financial Markets by Continental Research. Data represents 200 companies with turnover above £1million.
- The Business Barometer complements the Consumer Barometer which is also released monthly by Lloyds TSB Financial Markets, see www.lloydstsbfinancialmarkets.com

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