

UK BUSINESS CONFIDENCE DIVES AS PROFITS FALL

UK firms have reported a dramatic fall in sales and profitability over the last six months and confidence is now at its lowest level since December 2001, according to the **Business in Britain Report** out today from Lloyds TSB Corporate.

Thirty per cent of firms experienced a decline in sales and orders during the first half of 2005 which, when combined with falling prices and higher costs, resulted in more firms seeing profits decline than increase. Over the last six months, 37 per cent of firms saw profits fall, compared to 29 per cent that increased profits – an exact reversal of the results from the beginning of the year. This slump is consistent with the slowdown of 0.9 per cent in manufacturing output seen in the first quarter.

In addition, firms' investment spend is at its weakest level for two years and expenditure and recruitment plans have been scaled back. Since January, 22 per cent of firms cut investment and 23 per cent expect to slash capital expenditure further over the second half of the year. During the next six months, 20 per cent of firms expect to take on new staff but 18 per cent expect to cut staff numbers, compared with 25 per cent and 12 per cent respectively six months ago – suggesting a downturn in the strength of the UK labour market.

Diana Brightmore-Armour, managing director of Lloyds TSB Corporate, said: “Confidence amongst UK firms has fallen sharply since the start of the year which could put the brakes on economic growth.”

.../more

UK BUSINESS CONFIDENCE DIVES AS PROFITS FALL/...2

Diana Brightmore-Armour, continued: “With oil prices having risen by 60 per cent year-on-year, many firms have suffered from higher production costs but have been unable to pass these on to the customers. However, capacity constraints have lessened and a decline in problems caused by skills shortages means inflationary pressures have eased. Against this backdrop there is scope for a cut in interest rates which will help reduce costs to business at a time when pricing power is weak.”

The survey also shows that over the last six months:

- 20 per cent of firms had to cut prices. Also, over the next six months, 17 per cent of firms expect to increase prices, compared to 16 per cent that forecast lower prices and 62 per cent that expect to hold prices constant.
- The survey’s unique confidence index is based on expectations for order books, sales and profitability over the next six months and is the percentage balance of those expecting an increase minus those expecting a decline. The index was 32 per cent a year ago, 25 per cent at the start of the year but has fallen to just 11 per cent in this survey – the lowest since December 2001.

-ends-

Notes to Editors:

- Data available by region, sector and company size from the Lloyds TSB Press Office.
- The Business in Britain survey has been carried out twice a year since 1992. Responses from 1,783 firms with turnover over £1 million were collated in June 2005.
- Lloyds TSB Corporate provides financial, banking and advisory services to businesses with a turnover greater than £2 million per year. Its services include acquisition finance, capital markets, treasury, structured finance and registrar services.
- Lloyds TSB Corporate was named ‘Bank of the Year’ at the inaugural Finance Directors’ Excellence Awards in April 2005.

For more information:

Kirsty Clay
Lloyds TSB Press Office
Tel: 020 7356 1517

www.lloydstsb.com/corporate