

BUSINESSES MORE OPTIMISTIC ABOUT UK ECONOMY

Businesses are more optimistic about the outlook for the UK economy than three months ago – despite spiralling pessimism about their own business activity, according to the **Lloyds TSB Financial Markets Business Barometer**.

Expectations of an interest rate cut in August have fuelled an upturn in economic confidence among businesses, with the balance of firms feeling optimistic rather than pessimistic about the wider economy, rising four points from +18 to +22 since May.

However, the balance of firms feeling better rather than worse about their own prospects fell slightly from +56 to +55 since last month.

Barometer Questions

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

	Feb 2005	March 2005	April 2005	May 2005	June 2005
Increase	64%	61%	56%	60%	62%
Stay same	29%	28%	31%	33%	31%
Decrease	3%	6%	8%	4%	7%
Balance	+61	+55	+48	+56	+55

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

	Feb 2005	March 2005	April 2005	May 2005	June 2005
Optimism	60%	51%	43%	51%	48%
Stay same	20%	18%	30%	14%	20%
Pessimism	19%	30%	25%	33%	26%
Balance	+41	+21	+18	+18	+22

Trevor Williams, chief economist, Lloyds TSB Financial Markets, said: “A cut in interest rates of one quarter per cent, perhaps as soon as August, would certainly help to cement the slight improvement in business sentiment and would do little harm to inflation – which was bang on the inflation target of two per cent in June.

“Although the economy has a lot of spare capacity in the manufacturing sector, it has little in services so overall interest rates are unlikely to come down to the four per cent level the financial markets are looking for by the end of the year.”

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Trevor continued: "One likely cause of the slight fall in confidence among businesses for their own outlook, as shown in this survey, is the breach of the \$60 price for a barrel of oil. This was reflected in record high UK producer input price growth of 12.1 per cent annually in June - a sharp rise from 7.4 per cent in May.

"Companies were not able to pass on this price increase, as evidenced by annual growth of factory gate prices of just 2.4 per cent in June, down from 2.7 per cent in May - implying that profits are being squeezed."

This was borne out by official data on corporate sector profitability, which shows that the net rate of return of manufacturing companies fell from 7.7 per cent in Q4 2004 to 6.0 per cent in Q1 2005, and this weakening trend could continue into Q2 2005. In contrast, the services sector, which is the most optimistic about business conditions in our survey, showed a rise in profits to 17.5 per cent in Q1 2005 from 15.9 per cent in Q4 2004. Weakness continued in the distribution sector in June; official data showed retail sales growth of just one per cent per annum in May, sharply down from growth of 6 -7 per cent per annum late last year.

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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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