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FIRMS' OPTIMISM ABOUT UK ECONOMY AT 12-MONTH HIGH

Business Barometer for February shows:

- *Company economic confidence at its highest level since Feb 05*
- *And just over half of all firms expect business activity to improve*
- *But companies less bullish about own prospects than in January*

UK companies are more optimistic about the economy than at any time over the last 12 months, according to the latest **Business Barometer from Lloyds TSB Financial Markets**.

But they are less bullish about their own business prospects compared to January, with just over half of firms expecting their activity to improve over the coming year.

When asked 'Are you more optimistic about the economy than three months ago', 51 per cent of companies in February replied positively, with 27 per cent replying in the negative. The 24 per cent difference between the two figures – the balance – is the highest it has been since February 2005¹.

Firms' optimism appears to be driven by encouraging prospects for the housing market, faster growth in the world economy and improved prospects for the manufacturing sector.

However, these views have not led them to consider their own business prospects more favourably – in fact, they are slightly less optimistic than they were in January. Part of the reason for this might be the diminished prospect of rate cuts from the MPC following better growth figures.

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¹ When the balance was 41 per cent

FIRMS' OPTIMISM ABOUT UK ECONOMY AT 12-MONTH HIGH/...2

Just 51 per cent of companies in February expected their activity to improve over the coming 12 months, with 7 per cent expecting it to worsen.

The 44 per cent balance is down from January's 52 per cent level² but it remains in line with the survey's long-term average, suggesting that UK growth is set to recover from last year's below average result.

This supports the view of Lloyds TSB Financial Markets, which expects confidence to strengthen as the year goes on.

Trevor Williams, chief economist, says: "There has been much discussion about the direction of UK economic growth based on prospects for the housing market and improved global trading conditions, particularly with economic recoveries solidly underway in Europe and Japan. Manufacturing should be a major beneficiary of this.

"These factors appear to have encouraged firms to take a more positive view of the economy but they are less sure of their own prospects. However, I do not think their optimism is likely to wane much further – if anything it should improve, given the survey's suggestion that economic growth has strengthened in early 2006 and evidence of improved output growth in the manufacturing sector, with the third consecutive rise occurring in January."

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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 over 200 companies with turnover above £1million.
- The Business Barometer complements the Consumer Barometer which is also released monthly by Lloyds TSB Financial Markets.
www.lloydstsbfinaancialmarkets.com

² Sixty-one per cent of firms were more optimistic and 9 per cent less optimistic

FIRMS' OPTIMISM ABOUT UK ECONOMY AT 12-MONTH HIGH/...3

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