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Firms' Confidence In Uk Economy Plummet

Business Barometer for August shows:

- *Huge increase in number of firms more pessimistic about economy*
- *Firms nevertheless are more positive about own business prospects*
- *Service sector more confident than at any time during survey's life existence*

UK firms' confidence in the economy has plunged following the Bank of England's shock decision to raise interest rates, according to the latest **Business Barometer** from **Lloyds TSB Corporate Markets**.

Just 39 per cent of firms are currently more optimistic about the economy while almost as many - 35 per cent – are more pessimistic. The 4 per cent balance¹ represents a dramatic slump in sentiment from July, when the balance stood at a much healthier 23 per cent.

Despite their gloom about the wider economy, firms have conversely become more optimistic about their own business prospects. Sixty-eight per cent of UK firms expect their business activity to increase over the next 12 months while just 2 per cent expect it to fall. The resulting 66 per cent balance – an improvement on July's 63 per cent – represents the third consecutive month that the balance has remained above the survey average.

The key driver behind the increase in optimism is the services sector, which is more confident than at any time over the life of the survey. Eighty-three per cent of services firms expect their business activity to increase while just 1 per cent believe it will fall. The 82 per cent balance is not only a record but also a significant improvement on July, when it stood at 71 per cent.

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¹ The percentage of firms expecting the economy to improve minus the percentage of those expecting it to worsen

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “The services sector is the biggest contributor to economic growth in the UK so it is encouraging to see that those firms are particularly confident about the months ahead.

“It also indicates that UK economy may grow strongly in the third quarter despite firms’ sudden loss of confidence in it. Companies appear to have been spooked by the unexpected rate rise last month but the housing market has not reacted negatively so consumer spending should continue to grow despite higher utility bills. We expect a rebound in firms’ expectations about the wider economy in the coming months”

In regional terms, the North is the most confident area, with the balance of firms feeling more optimistic about their own business activity rising 22 per cent to 80 per cent. In the South, confidence rose by 5 per cent to 69 per cent but in the Midlands it fell by 23 per cent to 45 per cent, wiping out most of the previous month’s gains.

Barometer Questions

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

	Mch 06	Apr 06	May 06	June 06	July 06	Aug 06
Increase	57	59	55	62	65	68
Stay same	31	34	36	32	24	29
Decrease	11	5	8	4	2	2
Balance	+46	+54	+47	+58	+63	+66

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

	Mch 06	Apr 06	May 06	June 06	July 06	Aug 06
Optimism	44	56	37	51	44	39
Stay same	29	19	30	29	26	25
Pessimism	28	22	33	20	21	35
Balance	+16	+34	+4	+31	+23	+4

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Notes to editors:

- Trevor Williams is available for interview.
- Research carried out on behalf of Lloyds TSB Corporate 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 Corporate Markets.
- www.lloydstsb.com/corporate

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