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SERVICE SECTOR GLOOM FUELS SLIDE IN BUSINESS CONFIDENCE*Business Barometer for June shows:*

- *Firms' confidence in own business prospects hits 16-month low*
- *Service sector confidence deteriorates significantly*
- *Companies' overall opinion of UK economy strengthens despite rising interest rates*

Business confidence among UK firms about their trading prospects slumped last month, hitting a level of pessimism not seen since February 2006, according to the **Lloyds TSB Corporate Markets Business Barometer**.

In June the balance¹ of companies expecting their level of business activity to increase rather than decrease in the next year crashed to 45 per cent, from 61 per cent in May. This fall of 16 per cent in one month represents the largest monthly fall since January 2005.

The biggest change was reported by the service sector, with the balance of firms expressing optimism in their own business activity plummeting by 37 per cent, from 76 per cent in May to 39 per cent in June.

Paradoxically, however, firms' confidence in the UK economy as a whole improved dramatically in June, with the balance of firms feeling optimistic rather than pessimistic about the wider economy rising from 20 per cent in May to 29 per cent in June. However, this was fuelled by a surge in optimism by industrial and distribution companies rather than the service sector, perhaps due to strengthening global growth with the US seemingly about to expand and growth in Europe and the emerging markets still strong.

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Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “Despite firms’ apparent upturn in confidence in the strength of the UK economy, it is obvious that they are increasingly apprehensive about the future. Sentiment seems to be that the combination of higher interest rates, a stronger pound and a reacceleration of input costs will squeeze profit margins.

“Concerns about interest rates weigh heaviest on the service sector, suggesting firms believe higher rates will sap consumer confidence and hit their sales. This may indicate that last week’s rate rise may signal the final chapter in the MPC’s efforts to slow the economy and so curb price inflation.

“In addition, although firms’ overall view of the UK economy is positive, the service sector also reported a slump in optimism about general economic growth. The balance of service firms expressing confidence in the UK economy fell by 19 per cent last month, dovetailing with the view that any shock that hits them hard is also one that hits the domestic economy. However, as the overall view is buoyed by the industrial and distribution sectors, this implies that economic growth should slow but not collapse.”

Barometer Questions

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

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	June 07
Optimistic	54%	54%	50%	55%	46%	53%
Same	23%	18%	28%	31%	27%	17%
Pessimistic	22%	26%	21%	14%	26%	24%
Balance	+32	+28	+29	+41	+20	+29

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

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	June 07
Increase	62%	69%	63%	67%	64%	53%
Stay same	31%	27%	30%	30%	32%	34%
Decrease	6%	3%	7%	2%	3%	8%
Balance	+56	+66	+56	+65	+61	+45

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Notes to editors:

- ¹ Balance represents those reporting an increase minus those reporting a decrease
- The survey started in January 2002. Research carried out monthly on behalf of Lloyds TSB Corporate Markets by Continental Research. Data represents over 200 companies with turnover above £1million.
 - Trevor Williams is available for interview.
 - The Business Barometer complements the Consumer Barometer which is also released monthly by Lloyds TSB Corporate Markets.

<http://www.lloydstsbcorporatemarkets.com/economicresearch.asp>

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