



BUSINESS CONFIDENCE STARTS TO SLIDE

Business Barometer for October shows:

- *Business confidence falls for first time since June*
- *Firms' perception of general economy weakens*
- *Early indications are that economic growth has peaked*

UK firms' confidence in their own business activity has deteriorated for the first time since June, according to the **Lloyds TSB Corporate Markets Business Barometer**.

The monthly survey shows that the number of companies expecting their business activity to increase over the next 12 months fell from 70 per cent in September to 64 per cent in October. This is the first time that confidence has followed a downward path since June of this year and indicates that UK economic growth may have peaked, making a base rate cut in early 2008 increasingly likely.

In addition, UK firms' perception about the health of the wider economy has weakened, also hinting that UK output is now past its peak. The balance of firms feeling more rather than less confident about the state of the general economy fell to 17 per cent in October, down from 20 per cent in September. This represents the lowest balance of optimism reported since December 2006 and now sits below the 5-year survey average.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "A strong pound, slower eurozone growth and higher energy costs are all factors weighing heavily on business confidence this month, particularly among manufacturers. Firms with high gearing, weak cash flows and those dependent on earnings from sectors built on consumers' discretionary spending will experience the most anxiety.

"These results indicate that UK economic growth is likely to slow in the final three months of 2007. However, although these signs of weaker business confidence are a concern, the MPC is not likely to make any knee-jerk rate cuts unless there is actual evidence of slower growth over a sustained period. Therefore, a rate cut is unlikely before February 2008."

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BUSINESS CONFIDENCE STARTS TO SLIDE/...2

Across the sectors, the balance of confidence fell among industrial and service firms but rose among distribution companies. The balance of firms feeling more rather than less confident about their own business activity fell by 26 per cent among industrials, by 7 per cent among service sector firms but rose by 19 per cent among distribution firms. Similar trends were seen when asked about each sector's view of the general economy, with balance trends falling by 22 per cent for the service sector, 23 per cent for industrials but rising by 43 per cent for distribution firms.

Barometer Questions

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

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07
Optimistic	55%	46%	53%	58%	56%	49%	46%
Same	31%	27%	17%	13%	16%	20%	22%
Pessimistic	14%	26%	24%	28%	24%	29%	29%
Balance	+41	+20	+29	+30	+32	+20	+17

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

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07
Increase	67%	64%	53%	54%	59%	70%	64%
Stay same	30%	32%	34%	36%	30%	21%	26%
Decrease	2%	3%	8%	5%	7%	7%	7%
Balance	+65	+61	+45	+49	+52	+63	+57

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Notes to editors:

- 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. This month the research was conducted between 10-14 September.
- 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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