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18 August, 2008

BUSINESSES BRACED FOR FURTHER GLOOM AS CONFIDENCE SLIPS AGAIN

Lloyds TSB Business Barometer 'monthly snapshot' for July shows:

- *Confidence in trading prospects drops to lowest level in survey history*
- *Optimism about economic outlook still in short supply*
- *Pressure of higher input costs and slowing export market takes its toll*
- *Economic growth could remain weak well into 2009*

Businesses are less confident than ever before about their trading prospects and are bracing themselves for a sustained period of slower growth, according to the latest **Lloyds TSB Corporate Markets Business Barometer**.

According to July's survey, the balance¹ of firms who believe their trading activity will increase, rather than decrease over the next 12 months, has fallen to +22 per cent. This is a ten per cent drop from the balance in June's Barometer (+32 per cent), but is also well below the average of +51 per cent, over the survey's six year history. In total, two fifths (41 per cent) believe trading will pick up during the year ahead, but a fifth (19 per cent) expect it to decline.

Despite a slight improvement in sentiment, firms' faith in the wider economy also remains in the doldrums. A balance of -37 per cent say they are more optimistic about the economic outlook than they were three months ago (23 per cent are more optimistic, while 60 per cent are more pessimistic). This represents a slight rise on the balance of -40 recorded in June, when 22 per cent were more optimistic and 62 per cent were more pessimistic.

Trevor Williams, chief economist, Lloyds TSB Corporate Markets, said: "British businesses are already being squeezed by the rising cost of raw materials and weakening export prospects in the slowing European market, despite a weaker pound. These pressures, together with the bleak outlook for domestic growth, are taking an inevitable toll on firms' confidence in their own ability to do business.

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Trevor Williams continued: “There’s a strong relationship between business confidence and the actual performance of the economy. And, with so many firms remaining downbeat, we can expect UK economic growth to remain weak well into next year.”

Firms in the services sector suffered the biggest month on month drop in confidence, regarding their own business prospects. The July figures show a -24 per cent drop in the overall balance of firms expecting an increase in activity, to +27 per cent. For industrial companies the balance dropped -13 per cent month on month, while for distributions firms it increased by +6 per cent. All regions suffered a declining balance, with the Midlands faring worst, where the balance slipped by -17 per cent.

Distribution businesses show the biggest monthly improvement in optimism about the broader economy. The balance of firms that are more - rather than less - optimistic than they were three months earlier, rose by 31 per cent in July. Across the regions, only the South suffered a further slip in the balance of firms expecting the economic outlook to improve (a change of -4 for July, compared to June). The North and the Midlands showed an improvement in the balance of +7 and +6 respectively.

Barometer questions

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

	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08
Optimistic	35	28	23%	19	28	22	23
Same	11	21	23%	10	9	16	15
Pessimistic	53	51	52%	70	59	62	60
Balance	-18	-23	-29	-51	-31	-40	-37

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

	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08
Increase	59	58	51%	54	37	49	41
Stay same	31	31	37%	34	43	33	38
Decrease	10	10	11%	12	13	17	19
Balance	+49	+48	+40	+42	+24	+32	+22

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Notes to editors:

¹ The 'balance' is calculated by subtracting all negative responses to a question from all positive responses.

- The survey started in January 2002 and research is carried out monthly 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.
<http://www.lloydstsbcorporatemarkets.com/economicresearch.asp>

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