



BUSINESS CONFIDENCE AT SIXTEEN YEAR LOW

Lloyds TSB's six monthly Business in Britain survey shows:

- *Business confidence hits sixteen year low*
- *Firms braced for declining profits as demand falls further*
- *Investment and recruitment plans reined in, but prices stay flat*
- *Exports holding up and firms hopeful of prospects in some international markets*

British business confidence has hit a new low as firms, suffering from the harsh trading conditions of recent months, are forced to make tough decisions in order to survive 2009, according to the latest **Business in Britain** survey from **Lloyds TSB Commercial**. The survey's business confidence index¹, which tracks firms' expectations for sales orders and profits over the coming six months has fallen to -32 per cent – the lowest balance² since the survey began.

The report, based on the responses of 3,450 UK firms charts the performance of businesses across the country and their views on prospects for the coming year.

It paints a bleak picture of firms' faltering expectations for sales, orders and profits, showing that, for the first time businesses are expecting a deterioration of sales and orders – two key measures of business confidence - outnumber those expecting improvements. Expectations for profits are also the worst on record.

John Maltby, managing director, Lloyds TSB Commercial said: "British businesses have had a rough ride in recent months. With demand on a downward spiral, it's small wonder that they are feeling pressure on their finances and that confidence is at such a low ebb.

Business conditions since July 2008

This sharp blow to confidence follows an extremely tough few months for British businesses. Since July last year, the number of firms reporting falling orders and sales has risen dramatically. Two fifths of businesses (43 per cent) reported declining sales in the second half of the year, while just a quarter (26 per cent) recorded an upturn. Similarly, two fifths of firms (42 per cent) recorded lower orders at the end of last year, while only a fifth (21 per cent) reported an increase.

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Declining sales and orders took an inevitable toll on profits during the second half of last year. Only 15 per cent of firms reported higher profits between July and December 2008, while 55 per cent reported a fall.

The number of firms experiencing cash flow troubles also increased, with 29 per cent of firms reporting difficulties, compared to 23 per cent in July's survey. Construction firms were the most likely to suffer cash flow problems, with the main causes being late payment and falling demand. Despite this increase, the number of firms reporting cash flow problems is still well below the peak of 56 per cent reached in the recession of the early 1990s.

One encouraging sign is that despite the worsening economic climate in the second half of 2008, the survey's export balance remained positive at 13 percent – reflecting the fact that there are still more firms boosting their exports than cutting back. However, this positive balance did roughly halve, dropping from 24 per cent in July.

Firms were also hit hard by the combination of falling demand and rising input prices, which meant that despite rising costs, their ability to raise prices was constrained. The balance of firms that raised rather than cut prices, fell from 38 per cent in July, to 18 per cent in this survey.

Expectations for 2009

The experiences of businesses during the second half of 2008 have coloured expectations for the coming year, with one of the main fears amongst firms being a further slump in consumer demand, which will ultimately hit profitability.

The balance of firms expecting higher, rather than lower profits over the next six months has plunged to -42 per cent, from -25 six months ago. More than half of the businesses surveyed (55 per cent) expect profits to fall in the first half of the year, while only 13 per cent expect to see a rise.

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These weaker profits forecasts, combined with falling confidence levels are taking their toll on businesses' recruitment, investment and pricing plans. The balance of firms expecting to boost investment in the first half of 2009 has fallen to -35, from -23 in the last survey, while the balance of firms planning to step up recruitment has fallen sharply, from -9 per cent, to -25 per cent.

Despite the squeeze firms are already feeling on their profits and cash flow, the desire to keep up demand means that fewer firms are planning price increases than ever before. The balance of businesses intending to push up prices has fallen to 12 per cent, from 32 per cent six months ago.

On a slightly more positive note, firms still hold out some hope for being able to compete in certain international markets. A quarter (26 per cent), expect their trading position to improve over the coming six months – a rise from 20 per cent in the last survey. A fifth (19 per cent) expect the situation to worsen, compared to 23 per cent in July.

John Maltby continued: “The cocktail of rising prices and falling demand is taking its toll on small businesses. It’s only the fact that businesses have been careful not to overstretch themselves, as they did in the late 80s and early 90s, which is preventing even more firms from facing cash flow problems.

“But those businesses that take the right advice and support and grasp the opportunities such as evident still in some export markets can not only survive but build long term business in this climate. For our part, we want to do everything we can to help, and through the commitments we’ve made in our Charter for small firms we want to ensure that good British businesses will be there to drive the recovery.”

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Notes to Editors:

¹ The balance demonstrates the percentage of companies reporting an increase minus those reporting a decrease.

²The Business Confidence Index, which this figure reflects, takes into account order book levels, sales and profit expectations over the next six months.

The Business in Britain survey has been carried out twice a year since 1992. Responses from 3,450 firms were collated in December 2008.

Data available by region, sector and company size from the Lloyds TSB Press Office.

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