

143/06

**Monday 4 December 2006**

## **Interest Rate Rise Fails To Dent Business Confidence**

*Business Barometer for November shows:*

- *Significant upturn in firms' optimism over UK economy*
- *Small rise in confidence about own business performance*
- *Improvement in sentiment – post base rate rise – implies strong economic growth into 2007*

The November base rate rise failed to dent UK business confidence according to this month's Business Barometer from **Lloyds TSB Corporate Markets**.

The survey of firms, taken just after last month's MPC decision to raise interest rates to 5 per cent, shows 54 per cent of firms were optimistic about the general economy, compared with 36 per cent the month before. This represents a net balance (the number of firms more, rather than less, optimistic) of +27, up from +11 in October and the highest level since June this year.

In addition, there has been a slight month on month rise in business confidence, with 59 per cent forecasting a rise in their activity the next year, up from 56 per cent last month.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "UK firms saw this latest interest rate rise coming, which could explain why it hasn't made a dent in their outlook. In fact, the opposite has happened, with businesses more optimistic about the general economy than they have been in the last six months.

"If the strengthening in economic growth continues into 2007, it begs the question of how much producer price rises and wage increases will be passed on to customers. If there is evidence this is happening, it may increase the Bank's willingness to raise rates beyond their current level."

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Trevor Williams continued: “But the main message has got to be that manufacturing recovery in the UK is not a flash in the pan, but should persist into 2007.”

Within the data, business confidence increased significantly among service companies and distribution firms. The service industry remains the most confident, with a net balance of 73 per cent of companies in the sector forecasting a rise in business activity, up from 60 per cent in October. Optimism also rose among firms in the Midlands and the North. In the Midlands, the net balance of firms showing optimism rose by 14 per cent to 53 per cent in November. In the North it was up 8 per cent to 60 per cent.

### Barometer Questions

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

	June 06	July 06	Aug 06	Sept 06	Oct 06	Nov 06
<b>Optimistic</b>	51	44	39	43	36	54
<b>Same</b>	29	26	25	24	38	18
<b>Pessimistic</b>	20	21	35	28	25	27
<b>Balance</b>	<b>+31</b>	<b>+23</b>	<b>+4</b>	<b>+15</b>	<b>+11</b>	<b>+27</b>

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

	June 06	July 06	Aug 06	Sept 06	Oct 06	Nov 06
<b>Increase</b>	62	65	68	67	56	59
<b>Stay same</b>	32	24	29	25	35	36
<b>Decrease</b>	4	2	2	5	6	5
<b>Balance</b>	<b>+58</b>	<b>+63</b>	<b>+66</b>	<b>+62</b>	<b>+50</b>	<b>+54</b>

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#### Notes to editors:

- The survey starts from January 2002.
- Trevor Williams is available for interview.
- Research 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.
- [www.lloydstsb.com/corporate](http://www.lloydstsb.com/corporate)

#### For more information:

Kirsty Clay  
Lloyds TSB Press Office  
Tel 020 7356 1517

Trevor Williams  
Chief Economist  
Tel: 020 7696 4597

Mobile: 07860 580742

Mobile: 07710 986691