

113/06

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## Confidence In UK Economy Rebounds After Slump

*Business Barometer for September shows:*

- *Surge in number of firms more optimistic about economy*
- *Firms nevertheless less confident about own business prospects*
- *Manufacturing sector significantly more optimistic than in August*

UK firms' confidence in the economy has rebounded strongly after the slump that followed the interest rate rise in August, according to the latest **Business Barometer** from **Lloyds TSB Corporate Markets**.

Forty-three per cent of firms are currently more optimistic about the economy while far fewer, 28 per cent, are more pessimistic. The 15 per cent balance – the percentage of firms more optimistic minus the percentage more pessimistic - represents a major improvement on August, when it stood at just 4 per cent. However, the balance still falls significantly below July's pre-interest rate rise level of 23 per cent.

Despite their increasing bullishness about the wider economy, firms have become marginally less confident about their own business prospects. Sixty-seven per cent of firms expect their business activity to increase over the next 12 months while 5 per cent expect it to fall. The resulting 62 per cent balance compares unfavourably to July, when it stood at 66 per cent. However, confidence is still at a high level, and compatible with above trend economic growth.

The services sector remains the most confident sector in the survey, despite the balance of firms feeling more rather than less positive about their prospects sliding 6 per cent to 76 per cent. In contrast, manufacturing firms have become considerably more confident, with 57 per cent of firms more rather than less positive, up from 44 per cent in August.

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## **CONFIDENCE IN UK ECONOMY REBOUNDS AFTER SLUMP/...2**

The findings are in line with official statistics, which show that manufacturing output has accelerated in recent months and that exports to Europe have picked up sharply.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “The evidence is stacking up that the economy is in top gear, which is extraordinary given that the UK is a net importer of key energy and commodity products. It also appears that the UK is holding onto its competitiveness in financial, business services and high value-added manufacturing sectors while increasing exports to its key European markets.

“Improved perceptions of the economy could prompt companies to hike capital spending and staff numbers in the months ahead which, although boosting economic activity, could increase inflationary pressures. This would give further weight, if any were needed, to the argument in favour of the Bank of England raising interest rates to 5 per cent in November.”

In regional terms, the South has overtaken the North as the most confident area, despite the balance of firms feeling more optimistic about their own business activity sliding 2 per cent to 67 per cent. In the North, confidence plummeted by 22 per cent to 58 per cent, while in the Midlands it grew by 10 per cent to 55 per cent.

In industrial terms, services firms remain more confident than manufacturing, despite the recent rise in the latter’s perceptions about the economy.

**- ends -**

**Tables below**

## CONFIDENCE IN UK ECONOMY REBOUNDS AFTER SLUMP/...3

### Barometer Questions

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

	Apr 06	May 06	June 06	July 06	Aug 06	Sept 06
<b>Optimistic</b>	56	37	51	44	39	43
<b>Same</b>	19	30	29	26	25	24
<b>Pessimistic</b>	22	33	20	21	35	28
<b>Balance</b>	<b>+34</b>	<b>+4</b>	<b>+31</b>	<b>+23</b>	<b>+4</b>	<b>+15</b>

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

	Apr 06	May 06	June 06	July 06	Aug 06	Sept 06
<b>Increase</b>	59	55	62	65	68	67
<b>Stay same</b>	34	36	32	24	29	25
<b>Decrease</b>	5	8	4	2	2	5
<b>Balance</b>	<b>+54</b>	<b>+47</b>	<b>+58</b>	<b>+63</b>	<b>+66</b>	<b>+62</b>

### Notes to editors:

- Trevor Williams is available for interview.
- Research carried out 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)

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