

98/07

13 August 2007

## **BUSINESS CONFIDENCE RISES BUT GROWTH SET TO WEAKEN**

### ***Business Barometer for July shows:***

- *Business confidence rose in last month despite floods and interest rate rises*
- *But below trend business optimism suggests rate hikes are beginning to bite*
- *Confidence in the UK economy remains broadly flat but above trend*

Business confidence among UK firms rose last month despite the onslaught of higher interest rates, rising oil prices and the effects of the floods. However, optimism levels remain below trend for the second month running which hints that economic growth will weaken as the impact of rate rises takes hold, according to the **Lloyds TSB Corporate Markets Business Barometer** out today.

The survey, which charts companies' expectations for their own business activity and views on the economy, shows that in July 54 per cent of firms anticipated an increase in business over the next year, compared to just 5 per cent expecting a decline. This represents a balance of 49%, which is a 4 per cent rise on the previous month. This is encouraging given the external factors affecting businesses over the last few months but the balance of firms reporting higher rather than lower growth expectations remains below the survey's 12-month average of 54%, which suggests below-average growth.

In addition, when asked about their current views on the UK economy, the balance of firms expressing optimism rose by 1 per cent from 29% in June to 30 per cent in July.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "The raft of rate rises this year has not dampened business confidence as much as expected, so far, but these latest figures suggest sentiment is changing. An improvement in optimism since June is welcome but with confidence below trend for the second consecutive month, it suggests economic growth will weaken as firms begin to feel the squeeze of rate rises."

**....more**

## **BUSINESS CONFIDENCE RISES BUT GROWTH SET TO WEAKEN/...2**

Trevor Williams continued: “Tighter credit conditions, slower growth in employment and weaker disposable income growth may already be taking their toll on consumer confidence, which in turn will hit business confidence as sales start to fall. This means if the MPC does decide to raise rates again to achieve its two per cent inflation target, UK economic growth could suddenly slow quite considerably.”

### **Barometer Questions**

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

	<b>Jan 07</b>	<b>Feb 07</b>	<b>Mar 07</b>	<b>Apr 07</b>	<b>May 07</b>	<b>Jun 07</b>	<b>Jul 07</b>
<b>Optimistic</b>	54%	54%	50%	55%	46%	53%	58%
<b>Same</b>	23%	18%	28%	31%	27%	17%	13%
<b>Pessimistic</b>	22%	26%	21%	14%	26%	24%	28%
<b>Balance</b>	<b>+32</b>	<b>+28</b>	<b>+29</b>	<b>+41</b>	<b>+20</b>	<b>+29</b>	<b>+30</b>

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

	<b>Jan 07</b>	<b>Feb 07</b>	<b>Mar 07</b>	<b>Apr 07</b>	<b>May 07</b>	<b>Jun 07</b>	<b>Jul 07</b>
<b>Increase</b>	62%	69%	63%	67%	64%	53%	54%
<b>Stay same</b>	31%	27%	30%	30%	32%	34%	36%
<b>Decrease</b>	6%	3%	7%	2%	3%	8%	5%
<b>Balance</b>	<b>+56</b>	<b>+66</b>	<b>+56</b>	<b>+65</b>	<b>+61</b>	<b>+45</b>	<b>+49</b>

**-ends-**

### **Notes to editors:**

- The survey started in 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.
- <http://www.lloydstsbcorporatemarkets.com/economicresearch.asp>

### **For more information:**

Kirsty Clay/Eleanor Ross  
Lloyds TSB Press Office  
Tel 020 7356 1714

Trevor Williams  
Chief Economist  
Tel: 020 7696 4597  
Mobile: 07710 986691