

## **SERVICE SECTOR PESSIMISM CONTINUES TO UNDERMINE BUSINESS CONFIDENCE**

### *Business Barometer for November:*

- *Rate cuts inevitable to stem tide of business pessimism but ‘not out of woods yet’*
- *Service sector continues to lead downward charge in business optimism*
- *Confidence in South hits lows not seen since 2005 London bombings*

Optimism among UK businesses plummeted during the November, fuelled by a significant weakening of confidence in the service sector according to the latest **Lloyds TSB Corporate Markets Business Barometer**.

The survey, carried out before last week’s base rate cut, reinforces the inevitability of the MPC’s decision to cut rates in December but clearly indicates that more rate cuts will be necessary to reverse the gloom. In November, the balance of companies expecting their own business activity to improve rather than decline fell for the second successive month, plunging by ten percentage points since October. This decline, from 57 per cent in October to 47 per cent in November, represents the biggest drop since June.

Within the service sector, confidence among the balance of respondent firms fell dramatically, falling 19 per cent month on month. The number of, usually buoyant, service firms expecting their own business activity to increase over the next 12 months fell from 77 per cent to 60 per cent and the number expecting a decline in business rose from three per cent to five per cent.

In the service-dominated South, confidence has fallen to its lowest level since just after the London bombings in July 2005. The balance of Southern firms expecting business activity to improve rather than worsen has fallen from 57 per cent in October to just 33 per cent.

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Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “The decline in service sector confidence was undoubtedly one of the triggers for Thursday’s base rate cut. On its own, however, one rate cut will not be enough to halt the slowdown. This should be the first in a series of cuts to mitigate the coming economic slowdown but with the MPC still mindful of inflation these cuts may not come as quickly as firms want so we’re not out of the woods yet.”

When asked about their optimism in the general UK economy, the balance of firms feeling more rather than less confident fell from 17 per cent to 16 per cent. Although just a small decline, this is below the survey’s 6-year average, despite the underlying state of the UK economy in terms of jobs and productivity growth being strong.

### Barometer Questions

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

	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07
<b>Optimistic</b>	46%	53%	58%	56%	49%	46%	44
<b>Same</b>	27%	17%	13%	16%	20%	22%	23
<b>Pessimistic</b>	26%	24%	28%	24%	29%	29%	28
<b>Balance</b>	<b>+20</b>	<b>+29</b>	<b>+30</b>	<b>+32</b>	<b>+20</b>	<b>+17</b>	<b>+16</b>

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

	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07
<b>Increase</b>	64%	53%	54%	59%	70%	64%	57
<b>Stay same</b>	32%	34%	36%	30%	21%	26%	31
<b>Decrease</b>	3%	8%	5%	7%	7%	7%	10
<b>Balance</b>	<b>+61</b>	<b>+45</b>	<b>+49</b>	<b>+52</b>	<b>+63</b>	<b>+57</b>	<b>+47</b>

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### Notes to editors:

- 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. This month the research was conducted between 10-14 September.
- 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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