

SLUMP IN FIRMS' CONFIDENCE ABOUT UK ECONOMY

Business Barometer for May shows:

- *Firms display increased pessimism about UK economy*
- *Confidence falls to a 2007 low*
- *Concern over interest rates has only marginal impact on trading expectations*

UK firms have displayed a marked drop in confidence over the state of the UK economy in the last month, with optimism now at its lowest levels since December 2006, according to the **Lloyds TSB Corporate Markets Business Barometer** out today.

The number of firms expressing optimism about the general economy fell from 55 per cent in April to 46 per cent in May, with an accompanying rise in the number expressing pessimism to 26 per cent, from 14 per cent the previous month. This means the balance (+20 per cent) of firms feeling more rather than less confident fell to its lowest level this year. Not since December 2006 has the net balance been lower (+1 per cent).

However, despite this decline in economic confidence, there has only been a marginal drop in confidence about firms' own trading prospects, with the balance of firms anticipating a rise rather than a fall in business, decreasing from 65 per cent to 61 per cent. Within the detail, just three per cent of firms expect their own business activity to drop over the coming year.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "Firms are clearly feeling jittery about the chance of interest rates rising above six per cent and the resulting downward pressure on their profits. Encouragingly though, this slump in optimism has not translated to a corresponding fall in business confidence, perhaps helped by a loosening of the labour market and subsequent slow down in wage growth, which will help to offset any fall in pricing power."

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Trevor Williams continued: "With May's CPI inflation data weaker than expected, it may be that the one per cent rise in rates since last August has done the job and rates may not need to rise further. We wait with interest to see what the minutes of June's MPC meeting indicate for the next base rate decision."

Barometer Questions

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

	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07
Optimistic	35%	54%	54%	50%	55%	46%
Same	30%	23%	18%	28%	31%	27%
Pessimistic	34%	22%	26%	21%	14%	26%
Balance	+1	+32	+28	+29	+41	+20

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

	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07
Increase	58%	62%	69%	63%	67%	64%
Stay same	37%	31%	27%	30%	30%	32%
Decrease	6%	6%	3%	7%	2%	3%
Balance	+52	+56	+66	+56	+65	+61

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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>

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