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Sales Boom Pushes Confidence To 12-Year High

UK business confidence is at its highest level since 1994 following the best sales performance for over a decade according to the **Business in Britain** survey from **Lloyds TSB Corporate Markets** out today.

The report, compiled from survey responses from more than 2,500 UK firms, shows that during the last 12 months the net balance¹ of firms reporting higher rather than lower sales almost tripled from 13 per cent at the start of the year, to 37 per cent at the year end; a high not seen since June 1995.

Within the detail, 55 per cent of firms reported an increase in sales in the second half of 2006, compared to just 41 per cent 12 months ago. These blistering sales were matched with bulging order books and during the last six months, 49 per cent of firms reported an increase in orders, compared to 36 per cent a year ago. The balance, at 33 per cent, represents a four times increase from 8 per cent in December 2005. The average balance across the lifetime of the survey (14 years) is 20 per cent.

Confidence levels reach 12-year peak

On the back of the successes of 2006, confidence amongst firms has shot up to levels not seen for 12 years, when the UK was emerging from the recession of the early 1990s. The survey's unique confidence index - which measures firms' expectations for orders, sales and profitability over the next six months - was +37; a figure not achieved since June 1994 and almost double that of +19 in December 2005.

Last week's interest rate rise is not expected to dent confidence levels as 81 per cent of firms predicted at least one rise early in 2007.

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¹ The balance demonstrates the percentage of companies reporting an increase minus those reporting a decreasing figure.

SALES BOOM PUSHES CONFIDENCE TO 12-YEAR HIGH

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Higher prices stoke profits

Strong sales growth allowed firms to increase prices throughout 2006 and the price balance rose sharply to the highest level reported since June 1995. The balance of firms reporting increasing rather than decreasing prices was 22 per cent, up from 17 per cent in June and 0 per cent (firms raising prices were cancelled out by firms cutting prices) in December 2005. Indeed, 34 per cent raised their prices whilst only 12 per cent lowered their prices in the second half of the year.

Firms also enjoyed increasing profits in 2006 on the back of strong sales and price increases. The profit balance doubled to 11 per cent from 5 per cent in June and compares with a negative balance of 4 per cent 12 months ago.

Strong expectations for first half of 2007

This robust recovery means firms are very optimistic about sales for the first half of 2007, with the balance of firms expecting higher rather than lower sales at 47 per cent, up from 27 per cent twelve months ago. Expectations for order books are also high for the next six months; the balance of firms expecting order books to grow rather than shrink has increased to 39 per cent, up from 21 per cent a year ago. This suggests UK GDP growth will remain strong well into next year.

Diana Brightmore-Armour, CEO of Corporate Banking and Co-Head of Corporate Markets at Lloyds TSB said: “UK firms weathered the difficult trading environment of the last two years by cutting production costs and increasing their efficiency. This has put them in a great position to exploit the improved market conditions.

“By raising their prices companies have taken full advantage of stronger UK and global growth last year and we think 2007 will be another good one for UK company profits. Undoubtedly the service sector will continue to expand quickest of all because strong global demand for UK business services and robust domestic conditions is a sure-fire recipe for success.”

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SALES & ORDER BOOM SETS PLATFORM FOR ROBUST RECOVERY IN 2007/...3

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Notes to Editors:

- The Business in Britain survey has been carried out twice a year since 1992. Responses from 2,541 firms with turnover over £1 million were collated in December 2006.
- Data available by region, sector and company size from the Lloyds TSB Press Office.
- Lloyds TSB Corporate Markets provides comprehensive expert financial services to businesses ranging from privately-owned firms to multinational corporations and financial institutions. The wide range of services and innovative solutions includes: dedicated relationship banking, capital market funding, debt and equity finance, treasury and risk management services, structured finance solutions, import and export trade finance and structured credit investments and securitisation facilities.

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