

FIRMS' PESSIMISM OVER UK ECONOMY HITS 5-YEAR LOW

Business Barometer for December 2007 shows:

- *Firms' pessimism about UK economy worst since December 2002*
- *Confidence in firms' own business performance nudges upward but still below-trend*
- *Increased pessimism among distribution firms but sentiment strengthens in the service and industrial sectors*

Despite a slight upturn in expectations for their own business performance, UK firms' optimism about the wider UK economy nose-dived in December, according to the latest **Lloyds TSB Corporate Markets Business Barometer**.

The percentage of firms feeling pessimistic about the general economy soared from 28 per cent to 51 per cent which matches the worst ever survey outcome last seen in December 2002.

In addition, the number of firms expressing confidence in the economy fell by 10 per cent from 44 per cent in November to 34 per cent. Overall, the balance of firms feeling optimistic rather than pessimistic, fell by 33 per cent, from plus 16% to minus 17% during the last month of the year.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "While there has been a steady trend towards economic pessimism during the last four months, firms became far more cynical in December. This would indicate the UK is set for a period of below-trend growth but the Bank of England's decision to start cutting interest rates could still reverse the spiral."

On a brighter note, this general pessimism is not fully reflected in firms' expectations for their individual business prospects. The balance of firms feeling more, rather than less, confident about their own level of business activity rose by 3 per cent from 47 per cent to 50 per cent in December. This upturn was supported by service sector and industrial firms, possibly buoyed by higher expectations of exports.

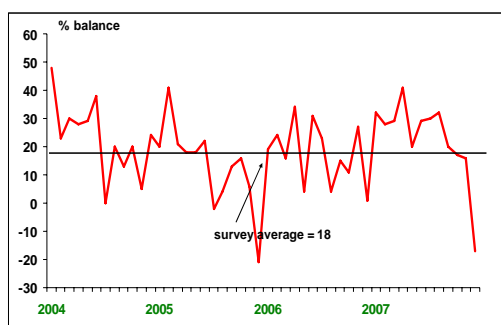
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Trevor Williams continued: “The strengthening of the euro and sterling’s subsequent rise in competitiveness have boosted expectations for exports. This, in addition to UK firms’ progress in meeting growing emerging market demand for goods and services, has boosted confidence. Only distribution sector firms are less confident about their own activity, a likely fall-out from their dependence on the UK market.

“Although slower house price growth and tight credit markets have undoubtedly weakened economic growth, more cuts in official interest rates in the first quarter of 2008 should restore some of the lost optimism among UK companies.”

Current ‘economic optimism’ falls sharply



Barometer Questions

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

	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07
Optimistic	53%	58%	56%	49%	46%	44	34
Same	17%	13%	16%	20%	22%	23	11
Pessimistic	24%	28%	24%	29%	29%	28	51
Balance	+29	+30	+32	+20	+17	+16	-17

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

	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07
Increase	53%	54%	59%	70%	64%	57	58
Stay same	34%	36%	30%	21%	26%	31	30
Decrease	8%	5%	7%	7%	7%	10	8
Balance	+45	+49	+52	+63	+57	+47	+50

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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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