



BRITISH BUSINESSES READY TO TOUGH OUT YEAR AHEAD

Confidence amongst British businesses may have been dented by the tougher conditions of recent months but firms are taking a balanced view of 2008, according to the **Business in Britain** survey from **Lloyds TSB Commercial**, out today.

The report, based on the responses of more than 1,800 UK firms shows that the balance¹ of firms expecting improved, rather than worsening conditions over the next six months is 18 per cent². This does represent fewer firms who are hopeful of a strong start to the year for orders, sales and profits over the coming six months against 41 per cent in July's survey but is far from indicating a recession.

The less positive outlook comes after six months of slower orders, sales and profits. The number of firms which reported higher, rather than lower sales, during the second half of 2007, fell to 26 per cent, from 41 per cent in the last survey, while the balance of companies which saw higher order book levels dropped from 33 per cent to 19 per cent. Although this is a weaker result than has been seen in recent years, it is not as significant as the drop in confidence in December 1998.

As a result, expectations are that profits will be maintained rather than grow as strongly as recently. A balance of just 4 per cent of companies expect higher profits in the first half of 2008 - down from 30 per cent in July 2007. The number of firms expecting higher order book levels also fell, dropping to 22 per cent, from 42 per cent in the last survey, while those anticipating sales growth is down from 51 per cent to 28 per cent.

Weaker profit forecasts have also taken an inevitable, albeit short term, toll on businesses investment and recruitment plans. The balance of firms expecting to increase, rather than decrease capital spending, dropped from 11 per cent to minus 1 per cent, while the number of businesses expecting to recruit more staff dropped from 19 per cent to 8 per cent.

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There is little evidence that businesses are feeling the pinch on their finances, with only a slight increase – from 19 to 21 per cent - in the number of firms reporting strains on cash flow. And this is still far below the peak reached during the 1990s recession when 56 per cent of firms reported problems with cash flow.

Despite the tougher times ahead, firms are still optimistic about their scope for increasing prices, in the hope of countering falling sales. The balance of firms expecting to be able to raise prices has reached a 15 year high of 34 per cent - up from 23 per cent in the last survey. This could have implications for the Bank of England, which has to consider inflationary pressures when making interest rate decisions over coming months.

John Maltby, managing director, Lloyds TSB Commercial, said: “There’s no doubt 2008 will prove more of a challenge for many firms, but it’s a ride most will be able to endure.

“It’s clear that investment spending will be capped, as businesses tighten their financial belts, but British firms are well versed in the art of cash management and financial planning and these are skills that should help them weather the storm throughout 2008 and beyond.”

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Notes to Editors:

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

²The Business Confidence Index, which this figure reflects, takes into account order book levels, sales and profit expectations over the next six months.

- The Business in Britain survey has been carried out twice a year since 1992. Responses from 1,881 firms with turnover over £1 million were collated in December 2007.
- Data available by region, sector and company size from the Lloyds TSB Press Office.

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