

Financial Markets Economic Research

# Business Barometer – January 2010

**After rising strongly in November, business confidence fell back in December**

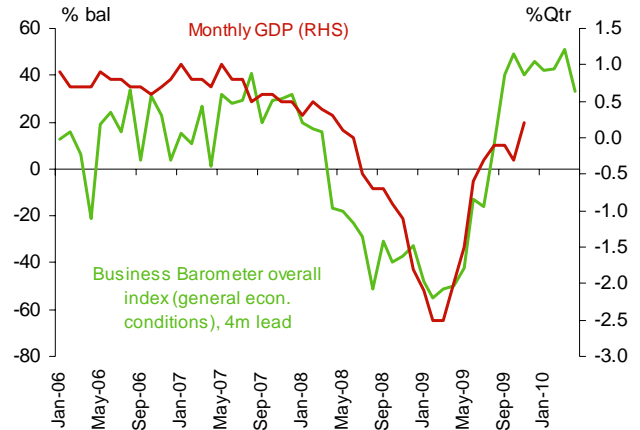
The Lloyds TSB Corporate Markets Business Barometer is a monthly survey of UK business opinion. The survey is completed around the middle of each month and should help to provide an early indicator of expectations and economic trends at the business level. Participants are asked questions, the answers to which are either an increase/improvement, no change or a decrease/worsening compared with the previous month. The balance between increase/improvement and decrease/worsening responses is used to provide the summary headline indicator for each question. The survey typically has a sample size of 200 companies with turnover of £1m upwards. Historic responses to the barometer correlate well with movements in the general economy and can be used to highlight changing business conditions in the UK.



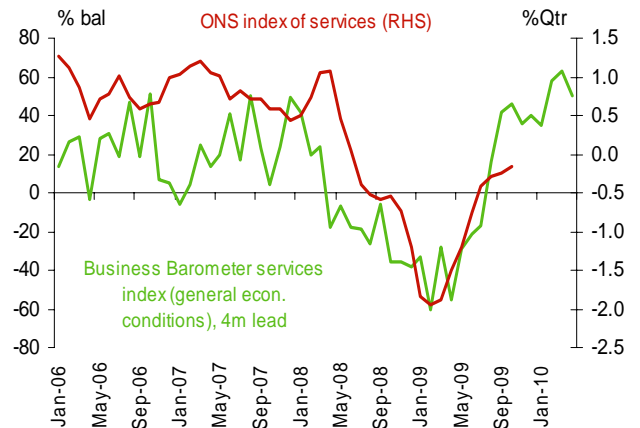
## Optimism on general economic conditions weakest in manufacturing

- Overall business confidence fell in December, with the net balance of companies reporting an improvement in general economic prospects declining to 33% from 51%, but this remained sharply higher than -50% a year ago – see chart 1. This suggests a likely return to positive growth in Q4 2009, but the pace of that recovery may ease during the first half of 2010.
- The sector breakdown of the survey shows that a net 50% of services companies (such as business services and hotels & catering) reported an improvement in general economic conditions, down from 63% in November, but sharply higher than -55% a year ago – see chart 2. The net balance for distribution companies (including retailers) was 38%, up from 28% last month and -49% a year earlier. However, the net balance for manufacturers fell back to 0% from 55%, though this was above -47% in December 2008 – see chart 3.
- From a regional perspective, companies in the South were the most optimistic, with 53% of firms reporting an improvement in general economic conditions, down slightly from 54% in November, but much higher than -44% a year ago. The net balance for firms in the North fell to 5% from 40% last month, but remained higher than -59% a year ago. In the Midlands, the net balance fell to 29% from 55% in November, though it remained higher than -54% a year ago.
- Companies with turnover of over £25m were the most confident about general economic conditions, with the net balance at 41%, down from 54% last month, but much higher than -60% in December 2008. The net balance for firms with turnover of £16-25m declined sharply to a 9-month low of 11% from 75% last month and compares with -45% a year ago. The net balance for companies with turnover of £1-15m also fell to a 9-month low of 34% from 47%, but stayed higher than -51% a year earlier.

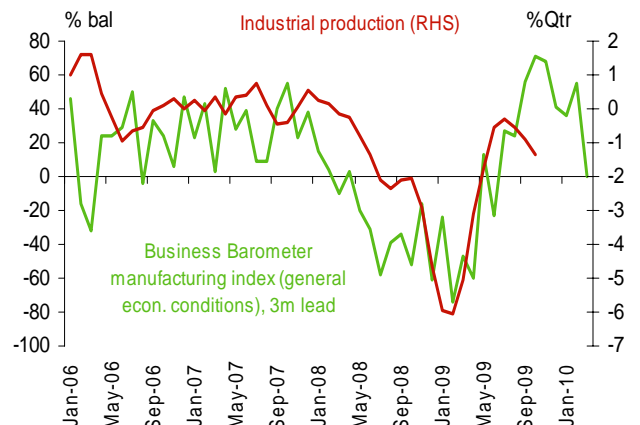
**Chart 1:** The Business Barometer survey tracks GDP with a 4-month lead and points to a return to growth in Q4 2009



**Chart 2:** The Business Barometer's services index tracks official service sector output with a 4-month lead



**Chart 3:** The Business Barometer's manufacturing index tracks official industrial production with a 3-month lead



**Table 1: Headline survey responses - survey conducted 7-11 Dec**

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

			Balance (%)	
			Dec	Change*
<b>Increase</b>	<b>Same</b>	<b>Decrease</b>		
53	37	5	48	+10

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

			Balance (%)	
			Dec	Change*
<b>Optimistic</b>	<b>Same</b>	<b>Pessimistic</b>		
52	26	19	33	-18

\* Represents the difference in balance from the previous month's survey

## Detailed responses, by corporate sector, region and company size

Table 2

Are you presently more optimistic about the economy than you were three months ago?					
Dec - 09	Optimistic	Same	Pessimistic	Balance % (optimism minus pessimism)*	Monthly change in balance
<b>Total</b>	52	26	19	33	-18
<b>Sector</b>					
Services	58	27	8	50	-13
Distribution	53	31	16	38	+10
Industrials	41	17	40	0	-55
<b>Region</b>					
North	37	25	32	5	-35
South	62	30	9	53	-1
Midlands	52	20	23	29	-26
<b>Size</b>					
£1-15m	53	26	19	34	-13
£16-25m	41	27	29	11	-64
£25m+	51	25	10	41	-13

\*any discrepancies are due to rounding

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Lloyds TSB Corporate Markets' Economics team works in tandem with relationship and financial markets teams to provide analysis of the issues impacting the economy and business areas its customers operate in. The mission of the team is to add value to customers, through superior economic analysis and insightful research into financial markets and industrial sectors.

Our Financial Markets team provides solutions to businesses of varying size – from commercial through to global corporations and financial institutions. The complexities of today's volatile financial markets mean that businesses have an even greater need for a risk management partner. Our Financial Markets experts take a consultative approach and can provide you with a risk strategy that includes FX, Inflation, Interest Rates and Commodity solutions.



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