

Financial Markets Economic Research

Business Barometer

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.



Business confidence rises sharply in May

- Our latest LTSB Corporate Markets Business Barometer shows that business confidence improved for the third consecutive month in May, to the highest level in almost a year. The balance of firms expecting higher rather than lower levels of business activity over the next twelve months increased sharply by 14 percentage points to +28% in May from +14% in April. In May, 44% of firms expected business activity to rise (versus 35% in April), whereas 16% expected it to fall (versus 21%) and 36% expected no change (versus 42%).
- Further, the Business Barometer's economic sentiment balance amounted to +40% in May, a 29 percentage point increase compared with April when the balance was +11%. Firms were more optimistic about the UK economy than in any survey since April 2007. 61% of firms were more optimistic (45% in April), 21% were more pessimistic (34%) and 17% were neither more nor less optimistic (20%).
- In May, service and industrial firms were significantly more confident about their business activity. Service firms' balance rose by 16 percentage points to 30% and industrial firms' balance rose by a significant 29 percentage points to 15%. The latter may be related to stronger EU economic data, which may have raised firms' expectations of trading with Europe. Distribution firms' confidence balance increased by just one percentage point to 32%. But this was still the best sector outcome in the survey and was underpinned by a significant improvement in the industry's perceptions of the UK economy in May.
- Similarly, firms in all regions expect their level of business activity to increase over the next twelve months - Midlands firms have the strongest confidence balance (+53%), followed by North firms (+24) and Southern firms (+13%). Surprisingly, although industries in the South are least confident about their own business prospects, they are most optimistic about the UK economy.
- Larger firms with turnover over £20m were significantly more optimistic about their own business prospects in May than they were in April - their confidence balance rose by seventy percentage points to 40%. This may be related to stronger equity markets and less negative prospects for overseas trade. By exception, firms with turnover over £20m were less optimistic about UK economic prospects rather than more. Firms with turnover between £5-20m reported their confidence balance rising by 16 percentage points to 29%. Firms in the £1-5m turnover bracket showed a smaller rise in confidence - plus eight percentage points to 26%.
- Business confidence is a key ingredient of economic recovery so the strengthening in firms' expectations of business activity evidenced in the last three Business Barometer surveys is encouraging. But the Bank of England will need to continue to support credit flows to business via measures such as holding Bank rate at 0.5% and by continuing to adjust its quantitative easing programme to limit upward pressure on longer term benchmark bond yields to help the recovery process. But for now, at least, the signs are encouraging and we forecast GDP to shrink by less in Q2 than in Q1 and to start to stabilise possibly in the second half of this year.

Table 1: Headline survey responses - survey conducted 11-15 May

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

			Balance (%)	
			May	Change*
Increase	Same	Decrease		
44	36	16	28	+14

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

			Balance (%)	
			May	Change*
Optimistic	Same	Pessimistic		
61	17	21	40	+29

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

Charts of historical responses

Chart 1: Business confidence improved for the third consecutive month in May...

Own company prospects

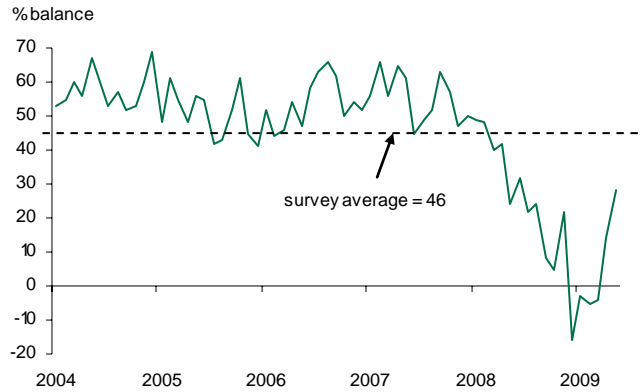


Chart 2: ... as firms are significantly more optimistic about general UK economic prospects

General economic conditions

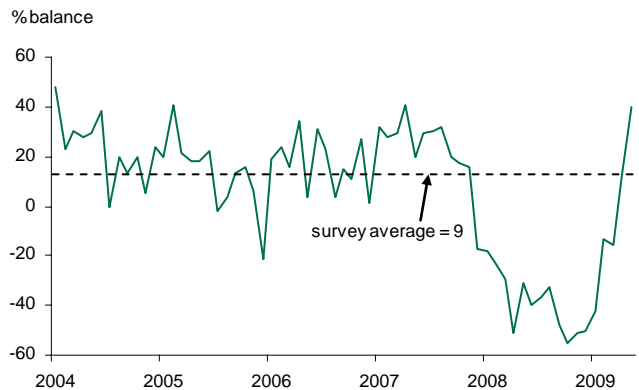
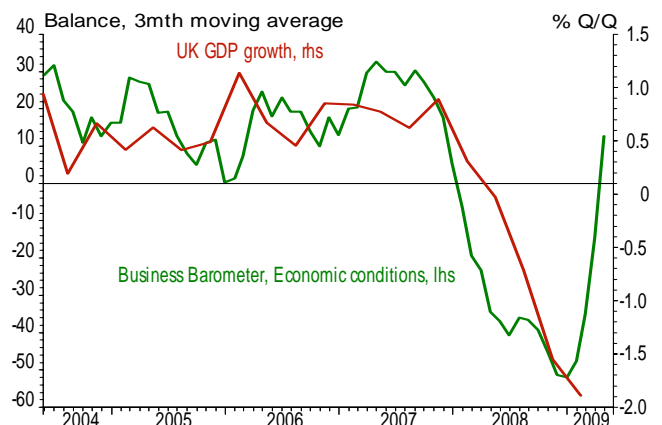


Chart 3: Comparing the Business Barometer's general economic conditions index with official GDP implies that the economy will contract in Q2, but at a slower pace than in Q1

Economic conditions index compared with quarterly UK GDP



Detailed responses, by corporate sector, region and company size

Table 2

During the next 12 months, do you expect your level of business activity to increase?						
May - 09	Increase	Same	Decrease	Balance % (increase minus decrease)	Change in balance May/April	
Total	44	36	16	28	+14	
Sector						
Services	45	36	15	30	+16	
Distribution	46	36	14	32	+1	
Industrials	39	34	24	15	+29	
Region						
North	47	28	23	24	+10	
South	32	42	19	13	+2	
Midlands	59	34	6	53	+37	
Size						
£1-5m	44	34	18	26	+8	
£5-20m	38	49	9	29	+16	
£20m+	53	33	13	40	+70	

Table 3

Are you presently more optimistic about the economy than you were three months ago?						
May - 09	Optimistic	Same	Pessimistic	Balance % (optimism minus pessimism)	Change in balance May/April	
Total	61	17	21	40	+29	
Sector						
Services	63	15	21	42	+26	
Distribution	67	14	19	48	+55	
Industrials	48	28	24	24	-3	
Region						
North	51	6	43	8	-3	
South	71	13	15	56	+48	
Midlands	57	34	9	48	+35	
Size						
£1-5m	59	18	23	36	+29	
£5-20m	68	12	14	54	+56	
£20m+	68	18	14	54	-7	

About us

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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