

BUSINESS CONFIDENCE EDGES UP TO A 5-MONTH HIGH BUT IMPACT OF BREXIT LOOMS FOR LARGER COMPANIES

Lloyds Bank's Business Barometer for December 2017 shows:

- Overall business confidence increased by 4 points to a 5-month high of 28%
- Economic optimism rose by 4 points to 8%, but still remains low compared to the pre-EU referendum average of 39%
- Confidence in business prospects rose for the fourth consecutive month by 4 points to 48%
- Firms' hiring intentions remained positive, but declined by 5 points to 23%
- Companies with a larger turnover are more concerned about the impact of Brexit on their business prospects

Chart 1: Business prospects strengthen, but economic optimism is lower

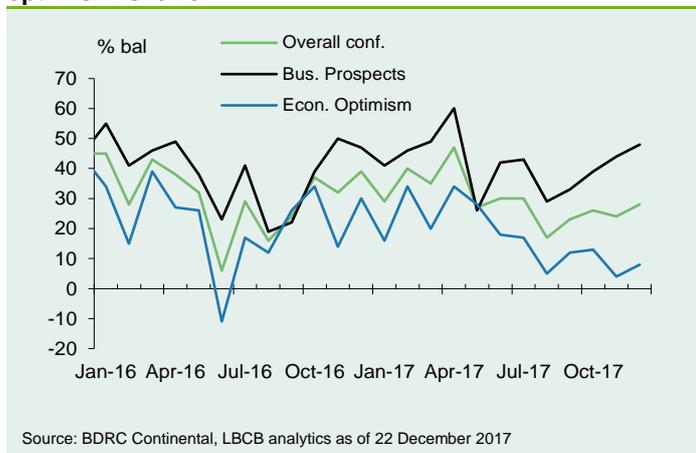
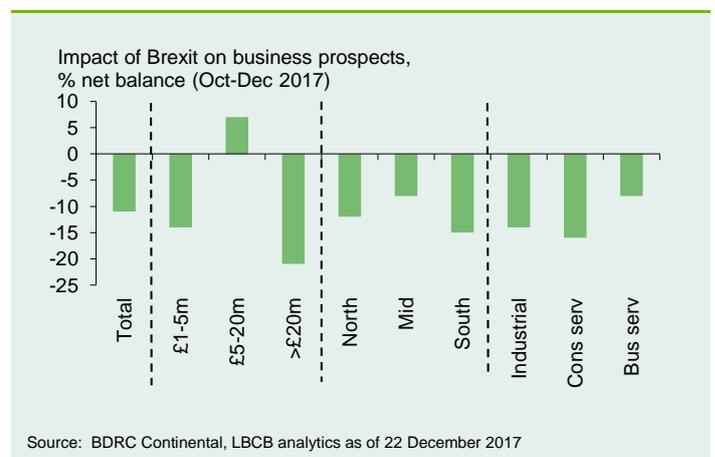


Chart 2: Larger firms report greater Brexit concerns



Overall business confidence increased by 4 points to a 5-month high of 28% in December, according to the latest Business Barometer from Lloyds Bank Commercial Banking. The increase this month reflects rises in both business prospects and economic optimism. However, the upward shift still falls short of the pre referendum average of 44%.

This decline is mainly driven by a sharp fall in economic optimism, despite the December increase of 4 points to 8% it remains somewhat weaker than the pre referendum yearly average of 39%, and the long term average of 19%*.

Firms' confidence in their own business prospects remain consistent overall, it increased for a fourth consecutive month by 4 points to 48%, the highest level since April 2017. This was driven by a shift of 4 points to 54% in those expecting a rise in business activity in the next year. Throughout the fourth

quarter of the year, overall business confidence rebounded in the North by 11 points to 28%, while the Midlands and South were little changed at 24% and 26%, respectively.

Confidence in the industrial sector fell by 6 points in the last three months to 22%, driven by a sharp decline in economic optimism which offset an improvement in business prospects. Confidence in the fourth quarter increased by 7 points to 26% for consumer services and by 4 points 28% in business and other services.

Companies' hiring intentions are showing signs that they have softened in recent months, with the net balance of firms expecting to increase headcount over the next year remaining positive. However, hiring intentions fell by 5 points to 23%, which is the weakest level since May 2017 and slightly behind the long term average of 29%**. Companies indicating that they expect to increase staff levels over the next year fell by 1 point to 32%, while the share expecting lower staff levels rose by 4 points to 9%.

In the last three months, firms with an annual turnover above £20 million reported a 20 point decrease in business confidence to 22%. These companies (a net 21%) also indicated that Brexit is expected to have a negative impact on trading prospects in the next 12 months. Meanwhile, confidence for firms within the £5-20 million bracket decreased by 2 points to 32% but those with a turnover of £1-5 million indicated a more positive view with a rise of 7 points.

Hann-Ju Ho, senior economist for Lloyds Bank Commercial Banking, commented:

“Despite a slight increase in overall business confidence, firms continue to remain concerned about the outlook for the economy. The results point to the economy continuing to expand in Q4 at a similar pace to recent quarters. However, larger companies reported weakest business prospects as well as biggest concerns about the impact of Brexit.”

- Ends -

Business Barometer measure of overall business confidence is the average of responses about how businesses regard the economic outlook and their own trading prospects.

- The overall “balance” of opinion weighs up the percentage of firms that are positive in outlook against those that are negative. Responses are weighted to reflect the composition of the economy.
- The industrial sector in this report represents mainly manufacturing and construction; the consumer services sector comprises distribution and transport & communications; business & other services consists of financial & business services and the public sector.
- The Business Barometer results provide early signals about UK economic trends and other business surveys such as the PMI survey. The survey started in January 2002 and research is carried out monthly on behalf of Lloyds Bank by BDRC Continental.
- This survey was conducted with around 300 companies with turnover above £1 million between 27th and 11th December 2017 from all sectors and regions of Great Britain.

Notes to Editors

* Refers to the long term average on economic optimism for firms set in 2002.

** Refers to the long term average for staffing levels set in 2011.