

BUSINESS CONFIDENCE HOLDS UP DESPITE RISE IN MARKET VOLATILITY Companies evenly balanced on the impact of Brexit on prospects

Lloyds Bank's Business Barometer for February 2018 shows:

- Overall business confidence remains above the long-term average of 32%, but has decreased by 2 points from 35% in January
- Economic optimism remains the same at 31%
- Confidence in business prospects falls by 4 points to 35%, below the long-term average of 44%
- Scotland shows biggest rise in confidence from 18% to 35%; London remains the strongest performer at 50% followed by the East Midlands and the North East both at 42%

Chart 1: Economic optimism holds on to last month's sharp increase

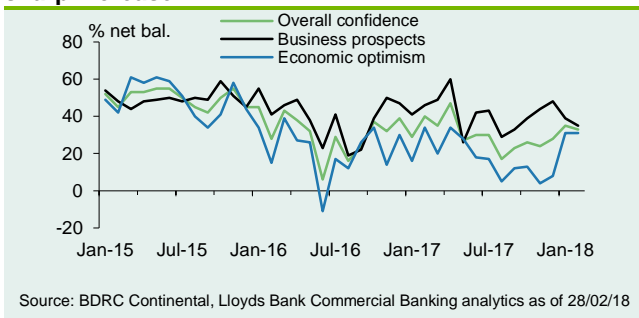


Chart 3: Regional map of UK business confidence

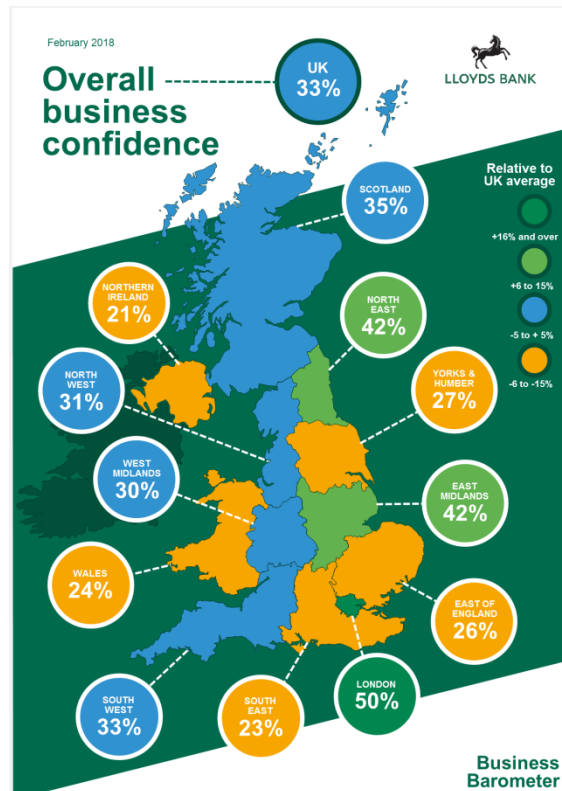
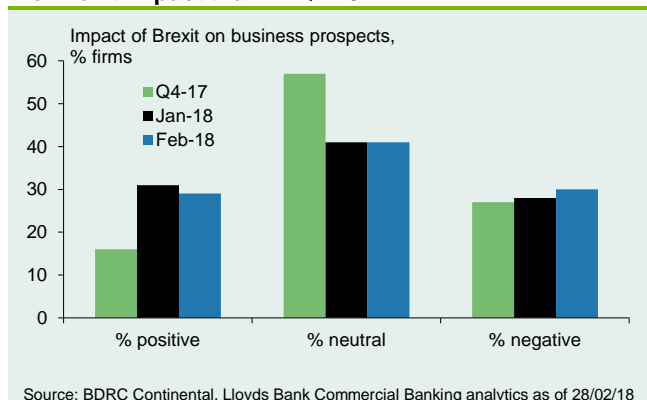


Chart 2: A higher share of firms are more positive about the Brexit impact than in Q4 2017



Business confidence – an average of business prospects and economic optimism - in February has slightly decreased from 35% to 33%, according to the latest Business Barometer from Lloyds Bank Commercial Banking. However, this remains above the long-term average of 32%.

Overall confidence in the first two months of the year is higher than in Q4 2017 and is driven by a rise in economic optimism. Levels of economic optimism remain consistent with last month's results at 31%, having jumped up from 8% in December, which is well above the long term average of 19%.

Firms' confidence in their own business prospects dipped further this month from 39% to 35% and remains below the long-term average of 44%.

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

"Firms continue to remain resilient as is demonstrated by the stable levels in business confidence and the continuation of strong economic optimism. The survey is consistent with slightly stronger growth in GDP in the first quarter of 2018 than was seen in the last quarter of 2017."

The rise in economic optimism since December - which has been maintained this month - seems to be related, in part, to improved sentiment regarding firm's assessment of the impact following the UK-EU agreement on the first stage of negotiations in December. Companies are evenly balanced on the impact of Brexit, that contrasts with the final quarter of last year when there was a negative net balance of -11%.

Hiring intentions for the coming year decreased from a seven-month high, but remains positive. There is still little sign that firms expect average wage growth to accelerate over the coming year. Employment expectations for the coming year fell, having risen to a seven-month high in January. The net balance anticipating a rise in staff levels, nevertheless, remained positive, although it decreased by 5 points from 30% to 25%.

Despite expectations of further employment growth for the coming year, there remains little sign that companies foresee a significant pickup in average pay growth. According to our survey, median annual increase in average pay was in the range of 1% to 2% over the past year. The same median increase is anticipated for the next twelve months. Only 15% of firms in our survey expect average pay in the coming year to rise by more than the current rate of consumer price inflation at 3%.

Gareth Oakley, managing director, SME, Commercial Banking, commented:

"Businesses do seem to be confident in the economic outlook despite current uncertainty, and this is good news. However, there's no escaping the fact that firms are less upbeat about their own prospects. This lack of optimism might cause some businesses to reflect on investment plans, but it is vital that they do not let anything get in the way of opportunities for future growth."

London (50%) maintained its high level of business confidence, followed by the East Midlands (42%) and the North East (42%). There was significant improvement in Scotland, which rose from 18% to 35%, slightly above the UK average of 33%. Confidence in the West Midlands, however, fell back from last month's strong reading of 45% to 30%. The weakest confidence levels were in the South East (23%), Wales (24%) and Yorkshire and the Humber (27%). Employment expectations by region largely reflect overall confidence, with strongest net balances in London (34%) and the North East (32%). The lowest net balances for expected staff levels were in the West Midlands (12%) and Northern Ireland (18%).

The manufacturing sector reported the highest level of overall confidence at 41%, taking the lead from the construction sector in January whose confidence dropped from 42% to 37%. In other areas, confidence in consumer services (including retail) rose to 31% from 27%, driven by stronger retail sentiment which gapped higher to 37% from 17%.

- Ends -

Notes to Editors

** Overall business confidence is a measure of responses from surveyed companies, which is calculated as an average based on their views on business prospects and optimism on the UK economy.*

*** 'Other' services include financial, property and business services, education and health, and arts and entertainment.*

- The Business Barometer results provide early signals about UK economic trends. The survey started in January 2002 and research is carried out monthly on behalf of Lloyds Bank by BDRG Continental.
- This survey was conducted with 1,200 companies between 1st February 2018 and 16th February 2018 from all sectors and regions of the UK. Prior to January 2018, the fieldwork was based on 200-300 companies.
- The results are reweighted to match proportions by size, sector and region of the total business population, as published by the Department for Business, Energy and Industrial Strategy and the Office for National Statistics.