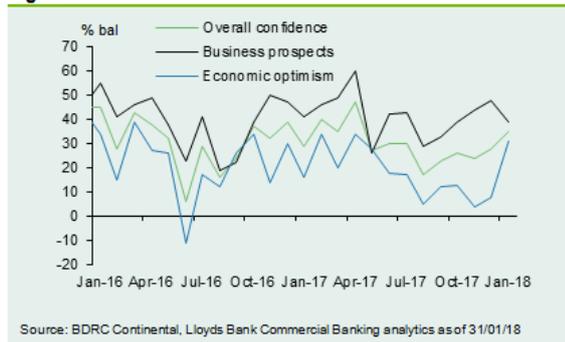


## BUSINESS CONFIDENCE JUMPS TO ITS HIGHEST LEVEL FOR 9 MONTHS Firms more positive on the impact of Brexit on their activity

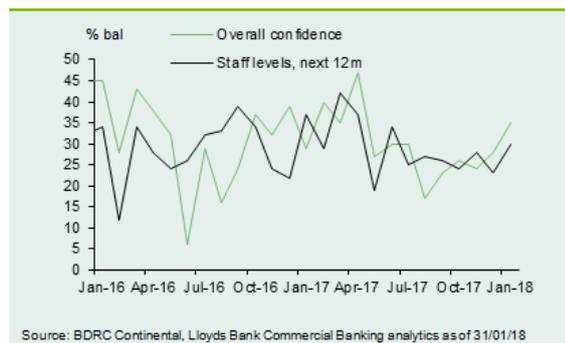
Lloyds Bank's Business Barometer for January 2018 shows:

- Overall business confidence increased by 7 points to a 9-month high of 35%
- Economic optimism rose by 23 points to 31%, well above the long-term average of 19%
- Confidence in business prospects fell by 9 points to 39%, below the long-term average of 44%
- Firms' hiring intentions improved by 7 points to 30%, the highest level since June 2017
- Businesses that are positive about Brexit jumps from 16% to 31%

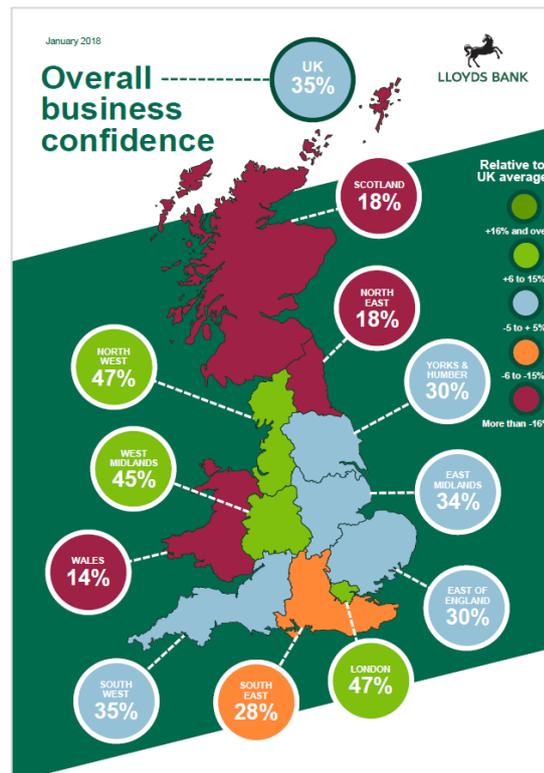
**Chart 1: Economic optimism drives overall confidence higher**



**Chart 2: Hiring intentions improve at the start of 2018**



**Chart 3: Regional Map of UK confidence**



Business confidence\* increased by 7 points to 35% at the start of this year, according to the latest Business Barometer from Lloyds Bank Commercial Banking. The increase this month is to the highest level since April 2017, and is above the long-term average of 32%. However, the measure still remains below the pre-EU referendum average of 44%.

The rise in overall business confidence is driven by a 9-month high in economic optimism, which jumped 23 points to 31%. This is well above the long term average of 19%, but still remains below the pre-EU referendum average of 39%.

Firms' confidence in their own business prospects dipped this month by 9 points to 39%. This was driven by a downward shift of 4 points to 50% in those expecting a rise in business activity this year. Businesses expecting to see lower activity this year edged up by 5 points to 11%, while those expecting the same levels of activity dropped by one point to 39%.

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

*“Although business prospects have softened from last month's high, overall business confidence has started the year on a strong footing. The sharp increase in economic optimism signals that downside risks have eased and the economy is likely to continue to expand in Q1 this year.”*

Following the agreement on the first stage of Brexit negotiations last December, companies are now slightly more positive than negative about the impact on their business activity of the decision to leave the EU. Thirty-one percent said that Brexit is expected to have a positive impact on activity, while 28% said it would have a negative impact. In the final quarter of 2017, 16% said that Brexit would have a positive impact and 27% said it would be negative.

Overall, companies' hiring intentions are showing signs that they have improved in recent months, with the net balance of firms expecting to increase headcount over the next year remaining positive. Hiring intentions improved by 7 points to 30%, which has now breached the long term average of 29%. Companies indicating that they expect to increase staff levels over the next year jumped by 14 points to 46%, whereas those expecting lower staff levels also increased by 7 points to 16%.

There is little sign, however, of any significant pickup in average pay growth predicted for the coming year. Companies reported a median annual increase in average pay in the range of 1% to 2% over the past year and expect a similar increase for the next twelve months, although there appears to be a slight shift in the share towards 1% to 2% for the coming year from lower pay growth in the past year.

**Scott Barton, Managing Director, Mid Markets, Commercial Banking, commented:**

*“Business confidence hit a nine month high in January, which also saw increased economic optimism - reflected in the boost to firms' hiring intentions. London and the North West recorded the strongest confidence levels, whilst Scotland and the North East the lowest.”*

Regionally, overall business confidence in London and the North West recorded the strongest sentiment, both at 47%. The South West (35%), East Midlands (34%), Yorkshire and the Humber (31%), East of England (30%) and South East (28%) were all near the national average. Weakest overall confidence levels were in Wales (14%), the North East (18%) and Scotland (18%). Concerns about the demand outlook were particularly high in Wales and Scotland, while competition was a notable challenge cited by companies in the North East.

The construction sector reported the highest level of overall confidence at 42%, followed by 'other' services\*\* at 36% and manufacturing at 32%. Overall confidence is weakest in consumer services at 27%, and is weighed down by retail 17%.

In terms of employment expectations by industry, the findings broadly reflect their overall confidence. The strongest net balances for staff levels were in construction (42%), while manufacturing (32%) and 'other' services (30%) were near the average. The weakest net balance was in consumer services (15%), which was again pulled down by weaker performances in the retail sector (1%).

**- 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 BDRC Continental.
- This survey was conducted with 1,200 companies between 2<sup>nd</sup> January 2018 and 17<sup>th</sup> January 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.