



Thursday 28<sup>th</sup> February 2019

### BUSINESS CONFIDENCE FALLS IN FEBRUARY

The latest Lloyds Bank's Business Barometer shows:

- New Year optimism has ebbed away, with overall business confidence\* falling by 15 points to 4%, the lowest level since June 2016
- Confidence fell in all but three regions, with the steepest declines in London and the South East. Confidence was the highest in the North West and the West Midlands, but lowest in Wales and Northern Ireland
- Manufacturing (11%) and construction firms (19%) confidence levels have increased, outperforming the services sector which fell 18 points to -4%

Chart 1: Business confidence falls to near 3-year low

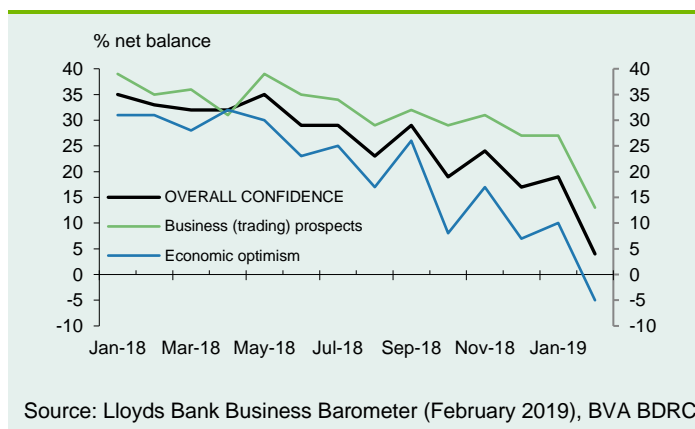
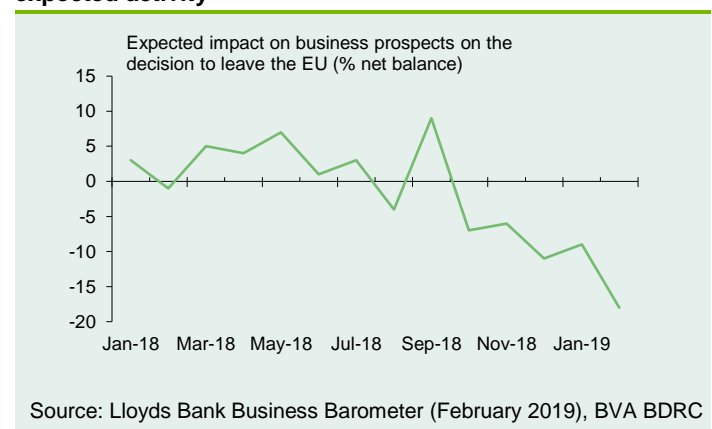


Chart 2: Firms report a more negative Brexit impact on expected activity



Last month's marginal rise in overall business confidence – an average of business prospects and economic optimism – appeared to have ebbed away as overall business confidence fell by 15 points to 4%. This was largely driven by a decrease in economic confidence which fell by 15 points to minus 5%. This measure compares to the level in the June 2016 survey when overall business confidence was 6% and economic confidence was minus 11%, which was conducted in the aftermath of the EU referendum.

The decline in overall confidence in the latest survey reflected falls in both outlook on trading prospects and also broader economic optimism. The net balance of firms expecting stronger trading prospects in the coming year fell by 14 points to 13%, while the economic optimism balance fell by 15 points to -5%, the first negative position since mid-2016.

Employment expectations for the coming year also fell for a third consecutive month, as the net balance declined by 4 points to 10%, with just under a third (31%) of businesses expecting to add to their headcount while 21% anticipated a reduction.

## MEDIA CONTACTS

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### Services sector confidence continues to wane

The latest survey highlights the varying degrees of optimism across business sectors. Overall confidence fell across the industry sectors with the largest decline in the services sector – which has been the least confident out of all sectors since the start of 2018 - where the net balance fell by 18 points to -4%. In contrast, construction remained the most positive sector, although confidence still fell by 11 points to 19%. Sentiment also declined in manufacturing (down 17 points to 11%) and retail sectors (down 5 points to 14%).

### EU-UK negotiations

Uncertainty about the outcome of EU-UK negotiations continues to weigh heavily on businesses, with 21% (down 4 points) anticipating a positive Brexit impact, while 39% (up 5 points) saw a negative impact. The resulting net balance of -18%, compared with -9% in January, was the most negative since the start of 2018.

This month, the Lloyds Bank Business Barometer asked firms whether they had taken active steps to address a possible 'no deal' Brexit scenario.

Overall, 40% said that they have no contingency plans, which was a similar response to when the question was asked in January 2018, as some businesses may be waiting for clarity on what circumstances to plan for. However, there has been an increase in the number of firms stating that they have already taken action, now at 29% up from 20%. A further 19% plan to take active steps within the next 12 months (including 14% in the next three months), while 12% are not sure.

**Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking commented:** *“Political uncertainty has clearly affected business confidence, but the underlying economy remains resilient and is able to absorb short-term volatility. The modest rise in optimism at the start of the year was no more than a blip as uncertainty continues to impact on business confidence. The results suggest that near-term economic growth prospects have moderated further, but there is potential for a recovery further out should uncertainties subside.”*

### Mixed picture across UK regions

Overall confidence fell in all but three regions this month, with the biggest declines in London (down 31 points to 5%) and the South East (down 23 points to 0%). The drop in London was notable, given that it was one of the most optimistic regions in 2018. The regions that have firms with the least confidence, however, were Wales (-2%) and Northern Ireland (-8%), with firms in the North West (12%) and the West Midlands (11%) remaining relatively resilient.

### Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking said:

*“While the national outlook appears less positive than in January, we are seeing some regional variation in confidence, with businesses in the North West and West Midlands above the national trend. With weeks to go until the UK is expected to leave the EU, it is reassuring to see that some firms have already taken steps or plan to take measures to withstand any possible headwinds over the next few months.”*

The Business Barometer questions 1,200 businesses monthly and provides early signals about UK economic trends both regionally and nationwide.

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**TABLE 1: Overall business confidence**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
FEB-19	32	40	28	4	-15
JAN-19	40	39	21	19	+2
DEC-18	39	39	22	17	-7
NOV-18	44	36	20	24	+5
OCT-18	42	35	23	19	-10
SEP-18	47	35	18	29	+6

**TABLE 2: Economic optimism compared with three months ago**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
FEB-19	30	35	35	-5	-15
JAN-19	39	32	29	10	+3
DEC-18	37	33	30	7	-10
NOV-18	43	31	26	17	+9
OCT-18	39	30	31	8	-18
SEP-18	47	32	21	26	+9

**TABLE 3: Business (trading) prospects in the next year**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
FEB-19	33	47	20	13	-14
JAN-19	40	47	13	27	0
DEC-18	41	45	14	27	-4
NOV-18	44	43	13	31	+2
OCT-18	44	41	15	29	-3
SEP-18	46	40	14	32	+3

### 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.

- 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 1<sup>st</sup> and the 15<sup>th</sup> February 2019 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.

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