PRESS RELEASE

LLOYDS BANK

NOT FOR BROADCAST OR PUBLICATION BEFORE 00.01 HRS TUESDAY, 26TH SEPTEMBER

Britain has £535bn in hidden cash that could be used to fund growth

- British businesses have £535bn tied up in excess working capital, with record pressure to tie up more cash
- But firms are reporting increasing input costs and delays in getting paid
- For the year ahead, one in three firms cite economic uncertainty or decline in sales as their biggest concerns for managing cash flow

Sustained economic growth and the fall in the Sterling exchange rate have put record pressure on British businesses to increase the amount of money tied up in working capital, leaving them at risk if growth were to weaken in the months ahead, according to the latest report from Lloyds Bank Commercial Banking.

Firms across Britain now have around £535bn tied up in excess working capital – up seven per cent from £498bn since the last report was released in May – meaning that firms could struggle to free up cash either to grow or to weather turbulent financial conditions.

The sustained growth seen in the past 12 months – particularly in manufacturing and in the services sector – has increased the amount of cash tied up in the day-to-day running of businesses, with the impacts from the fall in Sterling, forward purchasing of inventory and a rise in input costs, being fully realised.

At the same time, one in four businesses said their customers had taken longer to pay during the past 12 months, increasing the value of firms' outstanding invoices. This comes as businesses are continuing to rapidly build up inventory, leading to more cash being locked up in stock, which is then unable to be used for growth.

With as many as one in three firms saying they are concerned by economic uncertainty or a fall in sales during the next 12 months, these factors could spell trouble for British businesses if economic conditions declined.

Adrian Walker, managing director, head of Global Transaction Banking at Lloyds Bank, said: "Increasing pressure for British businesses to hold more working capital has to date largely been driven by economic growth fuelled by the fall in Sterling. But, if there were any economic obstacles on the horizon this could be a double-edged sword.

"By locking up cash in this way, it stops investment in other more productive areas of the business, whether that be investing in new people, creating new products or targeting new markets.

MEDIA CONTACTS

Sarah Webb 07787 512761 **sarah.SL.webb@lloydsbanking.com**

"With as many as one in three businesses telling us that their greatest concerns for the next 12 months are economic uncertainty or a fall in sales, this reliance on future growth prospects is concerning."
The findings come from Lloyds Bank's second Working Capital Index, a six-monthly report that uses Lloyds Bank Regional Purchasing Managers' Index (PMI) data to calculate the pressure British businesses are under to either increase or decrease working capital.

Working capital is the amount of money that a company ties up in the day-to-day costs of doing business. Growing businesses tend to use more working capital, while pressure falls when firms realise they are facing challenges.

The current Index reading of 108.0 is an increase of almost four points, from 104.1 at the end of 2016, and is just below the highest point seen since the research started in 2000.
The Index highlights that with the UK's domestic outlook looking weaker, businesses are increasingly going to need to rely on exports for future growth.

While the current relative weakness of Sterling makes conditions for international trade benign, the practicalities of exporting mean that it often places even greater stress on working capital through shipping times and slower payments.

Mr Walker added: "Whether businesses expect to grow through exporting, or they anticipate challenges due to weakening domestic demand, UK firms could benefit from the operational efficiency and cash flow boost that comes from working capital improvements.

"In the past, previous highs in this Index have coincided with improving financial conditions. The fact that the Index is currently climbing while financial conditions remain relatively low means businesses are taking on more and more risk.

"Our experience is that businesses that undertake a programme of working capital improvements can typically release around three to five per cent of turnover in additional cash, allowing them much more freedom to invest in growth, trade internationally, expand their product set or to give themselves a buffer to see them through more troubling times.

"But doing so successfully isn't easy. It requires change across a number of business functions, and so the time to undertake that work should be done ahead of embarking on further growth, a new exports programme, or before any possible future storm hits."

Manufacturing under pressure

The manufacturing sector has been a source of hope and opportunity for the British economy in recent months as the fall in Sterling made British manufactured goods more competitive overseas.

MEDIA CONTACTS

Sarah Webb 07787 512761 **sarah.SL.webb@lloydsbanking.com**

But the sector's growth, together with rising import costs and pre-purchasing of materials in expectation of inflation, has pushed the sector's working capital index to 126.1, which could be hampering growth amongst manufacturing businesses.

This compares with readings of just 105.0 and 104.8 in the services and construction sectors respectively.

Regional variations

The pressure to increase working capital grew in every region apart from the East of England, where the Index fell from 112.0 to 107.8. Although, the East of England still saw high pressure on businesses to hold more working capital.

Scotland, where a reading of 99.5 indicated pressure to reduce working capital six months ago, saw the biggest increase, with the Index reading rising more than five points to 105.2.

Wales remained the region with the highest pressure to increase working capital with the Index climbing from 113.7 in April to 114.3 now.

For more information about the Lloyds Bank Working Capital Index visit
www.lloydsbank.com/workingcapital
Ends
September 2017

For press information contact: Sarah Webb on 07787 512761 or email **sarah.sl.webb@lloydsbanking.com** .

Notes to Editors

Working Capital Index

The Lloyds Bank Working Capital Index is a single figure measure of the momentum change in operational working capital. It is based on data from Markit's Purchasing Managers' Index (PMI) surveys, which contain valuable information about pressures on British private sector companies' current assets and current liabilities from month to month.

A reading of more than 100 indicates pressure to devote more cash to working capital, while a reading of less than 100 indicates pressure to prioritise liquidity.
The Regional Purchasing Manager's Index by IHS Markit surveys more than 1,200 businesses, and is supplemented by the Business outlook survey of forward looking data which surveys more than 650 companies.

Lloyds Bank Commercial Banking

Sarah Webb 07787 512761 **sarah.SL.webb@lloydsbanking.com**

- Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start-ups and small businesses to mid-sized businesses and multinational corporations.
- Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support to its clients.
- Lloyds Bank Commercial Banking offers a broad range of finance beyond term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide bespoke financial services and solutions, including tailored cash management, international trade, treasury and risk management services.

Support for SMEs

- Lloyds Banking Group is committed to helping businesses of all types and sizes, giving them the funding and support they need to grow at home and abroad. We have set out our pledges in our **Helping Britain Prosper Plan**.
- In 2016 we supported more than 10,000 first time exporters, grew our lending to small businesses and helped 120,000 start-up businesses in their next phase of growth.
- Since the start of 2011, we have grown our net lending to SMEs by 30% whilst the market has contracted by 11%.

To see the latest supporting businesses factsheet please visit:
http://www.lloydsbankinggroup.com/media/media-kit/supporting-businesses-fact-sheet/

MEDIA CONTACTS

Sarah Webb 07787 512761 **sarah.SL.webb@lloydsbanking.com**

PRESS RELEASE

LLOYDS BANK

MEDIA CONTACTS

Sarah Webb 07787 512761 **sarah.SL.webb@lloydsbanking.com**