



PRESS RELEASE

BUSINESS CONFIDENCE FALLS IN JANUARY AS CONCERNS OVER TRADING PROSPECTS RISE

The latest Lloyds Bank Business Barometer shows:

- Overall business confidence fell by three percentage points to -7% in January, reflecting renewed concerns about the pandemic and the impact on trading prospects.
- Current restrictions continue to have a significant negative impact on most firms, with 52% reporting lower sales and 10% temporarily closed.
- More than half of businesses (54%) said that the vaccine rollout has increased confidence in their trading prospects; however, only 16% expect sales in 2021 to return to or exceed pre-COVID-19 levels.
- In terms of new EU trading arrangements, 6% reported serious disruptions leading to delays or higher costs, with a further 18% fearing future disruption.

Overall business confidence¹ fell slightly by three percentage points to -7% in the New Year according to the Lloyds Bank Business Barometer (chart 1), revealing concerns about trading prospects and the wider UK economy. The survey captures responses between 4th and 18th January 2021, during which the UK's tiering system was replaced by a national lockdown. While confidence remains the second highest since May 2020, it suggests that worries about the new variant has dented previous optimism regarding vaccine rollout.

This month's dip in confidence was driven by a two percentage point fall in trading prospects to -5% and a four point fall in optimism regarding the wider economy to -9%. In parallel, firms' view of their employment prospects for the next year (chart 2) fell by two percentage points to -12%, with 21% expecting to increase staff and 33% (up one point) anticipating a smaller workforce. Overall business confidence is calculated by averaging the views of 1,200 companies on their business prospects and optimism about the UK economy.

With many UK firms adapting to new EU trading arrangements, 6% reported experiencing serious disruptions leading to significant supply chain delays or higher costs to their business. In addition, 16% of firms indicated slight, but manageable, delays while 18% felt no impact, but anticipate disruption in the future.

Responding specifically to the current COVID-19 restrictions, businesses stated that these were having a negative impact on sales. More than half (52%) reported lower sales as a direct result of lockdown measures and 10%, were unable to operate or were temporarily closed. However, 38% of businesses said that their turnover saw little impact or a slight increase.

Responding to the Covid-19 vaccination programme, 54% said that the rollout has improved confidence in their trading prospects. Only 16%, however, expect their sales in 2021 or output to return to or surpass levels prior to the pandemic,

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while 38% see improving sales but expect sales to fall short of pre-COVID-19 levels for this year. However, nearly a quarter (23%) said that their business will continue to struggle despite the vaccine.

Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking, said: “It has been a challenging start to the New Year for UK businesses adapting to a third national lockdown alongside the new EU trade arrangement taking effect. Nevertheless, while confidence remains below average, it is encouraging that business sentiment is still the second highest since the low of May 2020. Overall, the vaccine rollout programme has lifted confidence and that will hopefully buoy business optimism in the coming months.”

Chart 1: Business confidence only partially reverses last month's rise

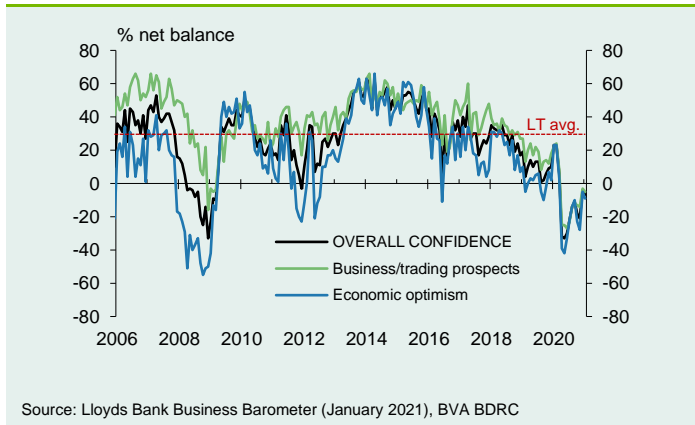
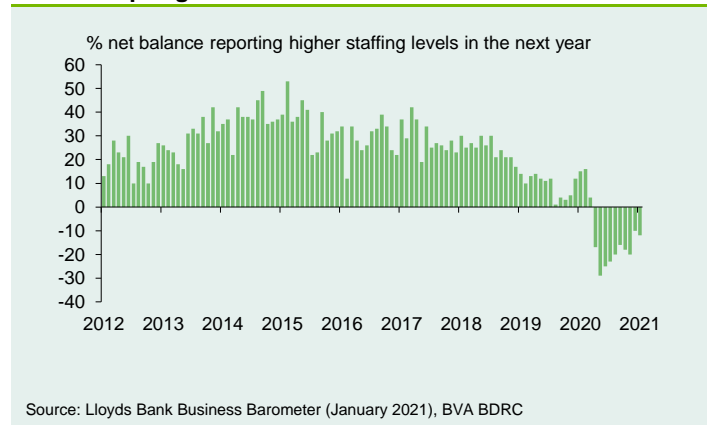


Chart 2: Employment prospects remain negative, but less than last spring



REGIONAL CONFIDENCE REMAINS ABOVE PRE-VACCINE LEVELS

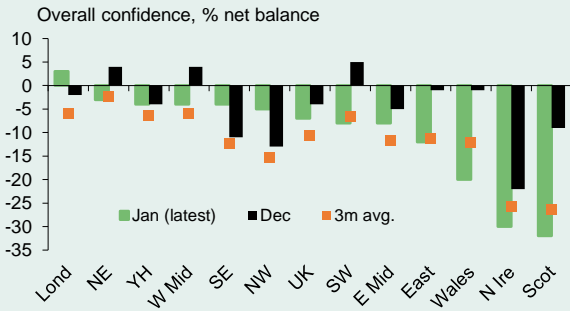
Apart from Northern Ireland, business confidence remained higher compared with November (pre-vaccine) levels in all parts of the UK. Compared with last month, confidence fell in five of the nine English regions, with South West (down 13 points to -8%) and East of England (down 11 points to -12%) reporting the largest declines (chart 3). Scotland saw the largest decline in the UK, down 23 points to -32%. London’s confidence was significantly above the national average, up five percentage points to 3%.

Similarly, in the industry sectors confidence remained above pre-vaccine levels (chart 4). While some sectors reported declines, manufacturing slipped by nine points to -9%, services fell by four points to -9% and retail by five points to 6%. Confidence levels in the construction sector improved for a second month, rising four points to -1%.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said: “It has not been an easy start to 2021, but nonetheless businesses continue to persevere and remain resilient in the face of uncertainty and change – the construction sector’s confidence improving for a second month and more broadly, industry and the majority of the regional confidence sitting above pre-vaccine levels. While the road ahead will be challenging, we hope the news of the vaccine rollout progress will positively impact regional and sector confidence in the coming months.”

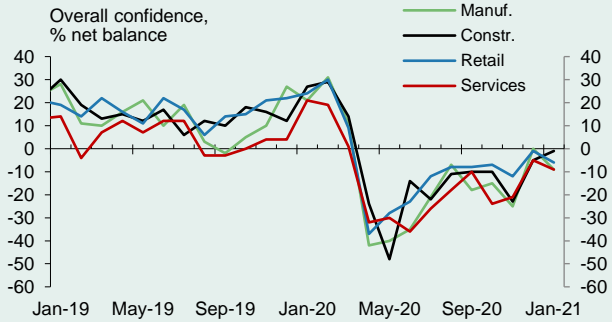


Chart 3: Confidence significantly above national average in London



Source: Lloyds Bank Business Barometer (January 2021), BVA BDRC

Chart 4: Sector confidence slightly lower in manufacturing, retail and services



Source: Lloyds Bank Business Barometer (January 2021), BVA BDRC

Notes to editors

¹ 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.

² The long-term average for business confidence is calculated as the average since the survey began in 2002, taking into account the expansion of the survey’s sample size at the start of 2018 when firms with turnover below £1m were included for the first time.

- 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 from 4 January- 18 January 2021 covering 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.
- For further summaries and infographics, see #BusinessBarometer or follow @LloydsBankNews on Twitter.