



# PRESS RELEASE

## ECONOMIC OPTIMISM AT FIVE-YEAR HIGH AS RESTRICTIONS EASE

The latest Lloyds Bank Business Barometer shows:

- Optimism regarding the economy climbed five points to 37%, the highest since 2016, while firms' trading prospects rose three points to 28%.
- Overall business confidence increased for a fourth consecutive month – by four percentage points to 33% in May, the highest level for three years.
- Confidence increased across eight of the UK's twelve regions and nations, with Wales reporting the biggest increase in confidence.
- Confidence increased across all sectors and is the highest in manufacturing (53%) and retail (44%), followed by construction (35%) and services (26%).

Increased optimism about the wider economy amongst UK companies increased by five percentage points to 37% in May, the highest level for five years, according to the Lloyds Bank Business Barometer (chart 1). The more positive sentiment led by a further easing of COVID-19 restrictions saw overall business confidence<sup>1</sup> rise by four percentage points to 33%, a level last reached three years ago.

Survey responses were captured between 4<sup>th</sup> May and 18<sup>th</sup> May 2021, with the latest increase in confidence reflecting further improvements in trading prospects for the year ahead (up three points to 28%), sitting at the highest level since late 2018. Firms' expectations of strengthened business activity also increased by three points to 42%, while 14% continue to anticipate weaker output (unchanged from April).

This month witnessed a jump in the net balance of businesses anticipating higher employment (up six points to 14%). This is the fourth consecutive increase and reflected that 32% of businesses (up four points from April) now expect to expand their workforce, while 18% (down two points) expect to downsize (chart 2). However, the proportion of companies expecting to make pay freezes in the next twelve months remained unchanged at 20% having fallen in each of the previous six months (chart 3). The share of businesses anticipating average pay growth of at least 2% edged down marginally to 24% from 25%, below the average level (28%) seen just before the start of the pandemic.

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Chart 1: Business confidence at a three-year high

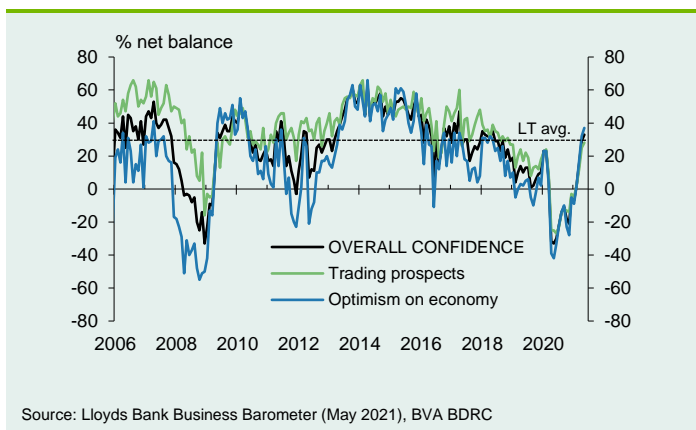
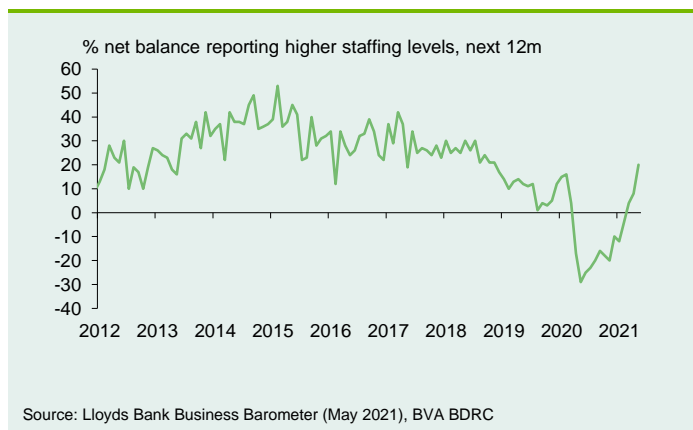


Chart 2: Net hiring intentions pick up

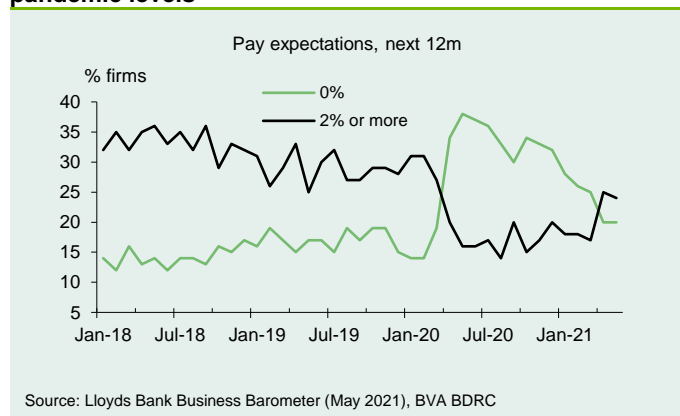




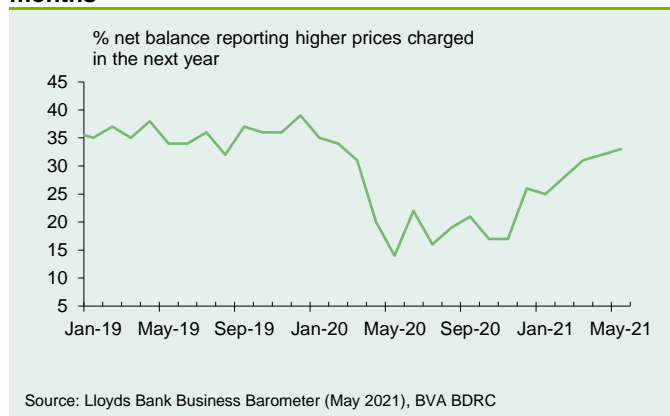
Firms' pricing expectations for their goods and services increased for a fourth straight month (chart 4) – the net balance of firms expecting to increase their prices moved up one point to 33%, reflecting 38% (up two points) reporting higher prices and 5% (up one point) anticipating lower prices. That compares with an average net balance of 40% in 2018 and 36% in 2019.

**Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking, said:** “A fourth consecutive monthly increase in business confidence, and the highest in three years, leaves us hopeful for the UK’s economic recovery. The increase in confidence was buoyed by a further easing of lockdown restrictions and a rise in optimism about the wider economy. While we need to wait and see how the months ahead will unfold, the recent rise in positive outlook is an encouraging sign that firms are emerging from the COVID-19 crisis with renewed resilience and vigour.”

**Chart 3: Pay pressures trend higher, but remain below pre-pandemic levels**



**Chart 4: Firms' price expectations increase in recent months**



## REGIONAL AND SECTOR INSIGHTS

Business confidence increased in eight of the UK’s nations and regions (Chart 5). Wales reported the biggest increase, up eighteen points to 27%. There were also significant gains for Yorkshire & the Humber and the South West, up twelve points to 44% and 42% respectively. The West Midlands also recorded a strong ten point increase to 41%, while in the South East, there was an eight point rise in confidence to 37%. Also above the national average are the East Midlands (unchanged at 40%) and the North West (down one point to 38%). Confidence also rose in Scotland (up six points to 15%), Northern Ireland (up four points to 17%) and the East of England (up two points to 26%). In contrast, sentiment fell in London (down eight points to 24%), the North East (down eleven points to 26%) and the North West (down one point to 38%). These three regions had all previously seen confidence levels above the UK average.

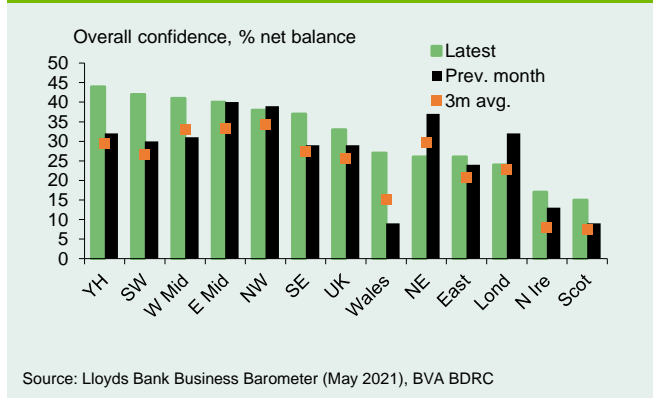
From a sector perspective, manufacturing reported the sharpest increase in business confidence (up thirteen points to 53%). Construction confidence was up seven points to 35%, and retail gained five points to a four-year high of 44% with the easing of lockdown measures leading to hopes of stronger business conditions. Wider services confidence posted a more modest rise of one point to 26%.

**Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said:** “The UK’s regions and nations continue to report positive business confidence in recent months, which is a welcome change from where we were at this time last year. Wales, in particular, has shown a significant improvement in outlook, reporting the sharpest increase in confidence this month. In the sectors, manufacturing continues to outperform,

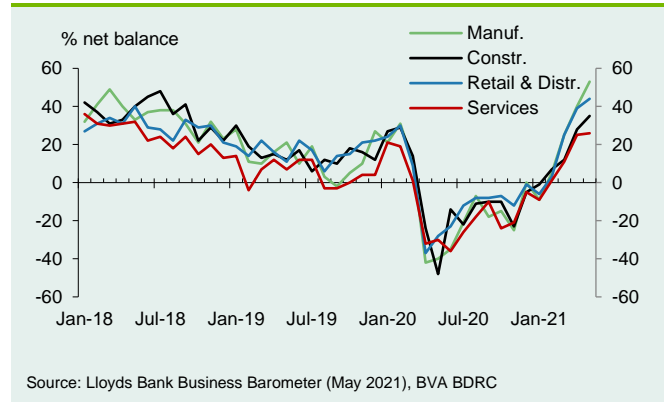


reflecting strong domestic demand, while retail once again reported stronger confidence as restrictions ease across the UK. We have reason to be optimistic that this upbeat outlook will continue in the months ahead and we'll remain by the side of businesses on their road to recovery."

**Chart 5: Confidence jumps higher in Wales, Yorkshire & Humber and the South West**



**Chart 6: Manufacturing and retail lead the way**



### Notes to editors

<sup>1</sup> 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.

<sup>2</sup> 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 May – 18 May 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.