



PRESS RELEASE

BUSINESS CONFIDENCE SURGES TO FOUR YEAR HIGH

The latest Lloyds Bank Business Barometer shows:

- Business confidence increased by six points to 36% to reach its highest level since April 2017.
- Economic optimism rose by 6 points (38%), offsetting the slight July dip.
- Pay growth expectations reached a three year high, with over a third (34%) of businesses predicting rises of at least 2%.
- Nine of the twelve UK regions and nations reported increases in confidence with the North West (64%) registering the highest level while Northern Ireland back in positive territory.
- Confidence in construction (40%), manufacturing (40%) and services (36%) reflected rises in trading prospects for the year ahead.

Overall business confidence¹ among UK companies rose to its highest level in over four years (April 2017), rising by six points to 36% in August, according to the latest Lloyds Bank Business Barometer. The surge in confidence, following a slight dip in July, was driven by improvements in firms' trading prospects with the net balance gaining six points (34%) to a three-year high which reflects a significant rise to 48% (up seven points) in those companies expecting stronger business activity in the year ahead.

Economic optimism also rose by 6 points to 38%, the first rise in three months, more than offsetting last month's fall. In addition, pay growth prospects remain strong with one-third (34%) of businesses surveyed expecting average pay growth of at least 2% over the next 12 months, reaching its peak level for nearly three years. Companies anticipating a 3%-plus wage growth increased by five points to 17%, a record level since the question was first asked in 2018. However, the net balance of firms' expecting to increase their headcount remains at last month's level (18%).

The improvements to confidence, optimism and wage growth are reflected by companies' expectations for the prices charged for goods and services which reached its highest level since December 2017. Almost half of companies (44% up five points from 39% in July) are expecting to charge higher prices over the next year, only partly offset by a slight rise of those expecting to charge lower prices (up two points to 7%).

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: "Business confidence reaching its highest level in over four years tells a positive story about the country's economic recovery. This confidence is driven by the continued success of the vaccine rollout, the removal of lockdown restrictions and adjustments to self-isolation rules.

Staff shortages remain a challenge, but as the economy moves back towards pre-pandemic levels we can be optimistic that the momentum for business confidence and economic optimism can be sustained in the months ahead."

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REGIONAL AND SECTOR INSIGHTS

Business confidence increased in nine out of the twelve UK regions and nations in August with particularly strong rises in the North West (up 26 points to 64%) and the East of England (up 14 points to 39%). Smaller increases were seen in the North East (up 6 points to 46%) and London (up 4 points to 41%) with these four regions now being the most confident in the UK. For the North West, East of England and North East, confidence was at its highest since the survey sample was expanded in 2018.

Increases in confidence were also recorded for Scotland (34%), the South East (32%), the South West (37%) and Wales (19%), although the level in Wales was still the second lowest in the UK.

In Northern Ireland, confidence rose significantly to 18% (from -6% in July), bringing it back into positive territory, but it remains the region of the UK with the lowest level of confidence. The remaining three regions saw slight confidence declines with the West Midlands at 27%, Yorkshire & the Humber (26%), while there was a larger 10-point fall in the East Midlands to 28%.

In sector terms, there was notable strength in sectors benefiting from the further easing of Covid restrictions. Services confidence saw the greatest month-on-month increase, rising by 8 points to 36%, the highest level since January 2018. Confidence in both manufacturing and construction also picked up (both up 7 points to 40%), led by rises in trading prospects for the year ahead. The increase in manufacturing confidence came despite ongoing supply disruptions, although the level remains below the high in May. Retail confidence posted a smaller 2-point rise to 34%, remaining below the recent peak in May.

Gareth Oakley, Managing Director for Business Banking, Lloyds Bank, said: “Since the start of the year business confidence has been increasing, and August has been a particularly strong month. Many of the regions have seen significant upticks in confidence and it’s encouraging that Northern Ireland has moved back into positive territory.

“It is clear there is still some level of uncertainty on inflation and the impact of price pressures, but with further boosts to confidence in the services, manufacturing and construction sectors we can be hopeful that demand across all sectors will drive consumption throughout the rest of the year. The last few months of the year will be pivotal to the future of UK economic growth and we remain by the side of businesses as the country continues to reopen.”

Chart 1: Business confidence at a four-year high

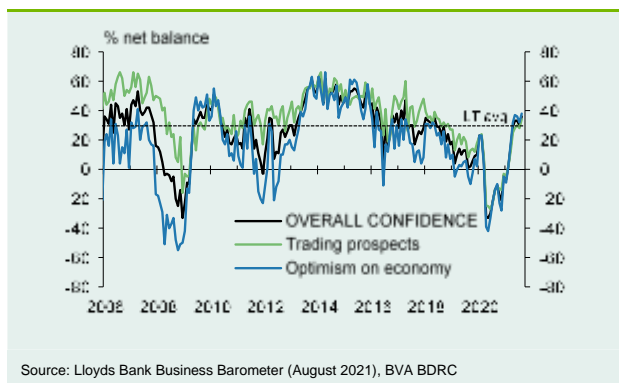


Chart 2: Employment intentions unchanged but remain positive

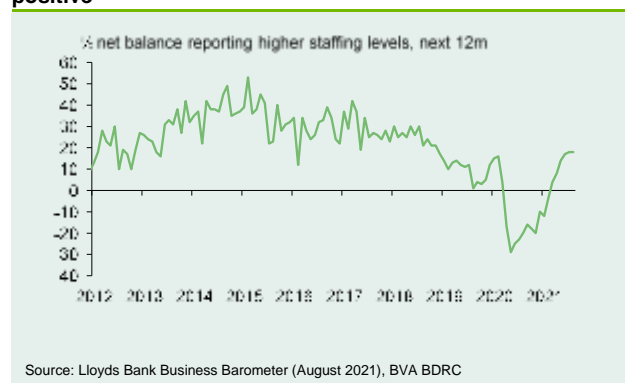




Chart 3: Expected wage growth picks up

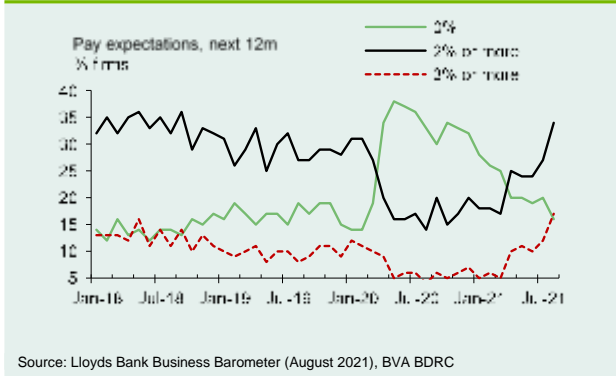


Chart 4: More firms plan to raise their prices



Chart 5: Confidence up in nine UK regions

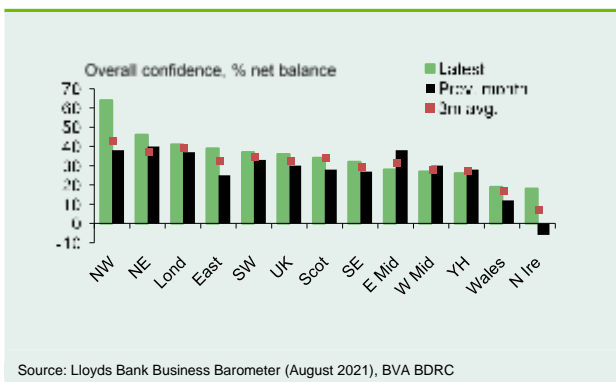
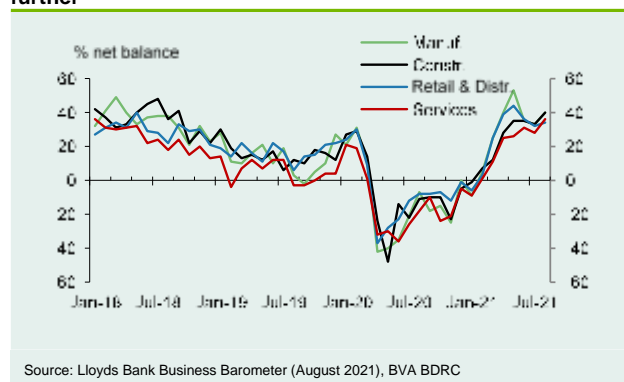


Chart 6: Services confidence catches up as restrictions ease further



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 2nd August – 16th August 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.