



PRESS RELEASE

BUSINESS CONFIDENCE RESILIENT AS EARLY SIGNS OF OMICRON IMPACT EMERGE

The latest Lloyds Bank Business Barometer shows:

- Business confidence remained resilient at 40% during the two week sample period (26th November – 10th December)
- Sentiment dipped in the second week of polling as Omicron emerged
- Hiring intentions (up one point to 49%) improved for the first time in three months while pay expectations reached new highs
- The North East (58%) is the UK's most confident region while Northern Ireland saw an increase of 23 points to 18%
- Construction confidence recovered to 39%, however hospitality sentiment continues to fall

The latest Lloyds Bank Business Barometer shows business confidence¹ remained unchanged at 40%. The survey captured responses between 26th November and 10th December, during which the Omicron variant emerged and before the Bank of England's decision to increase base rate to 0.25%. While confidence remains above the long-term average (28%), during the second week of polling there was a fall back with sentiment (32%) dropping to similar levels seen during the spring and summer.

Overall, the business confidence level reflects a rise in trading prospects (up four points to 43%), offset by a marginal dip in economic optimism (down three points to 38%). While confidence remains significantly higher than a year ago, it suggests businesses' concerns are growing about the full extent of the Omicron variant of the virus and the potential for further restrictions – a clearer picture will emerge in January's survey results.

Despite these challenges, firms are looking to recruit with the Barometer showing a slight uptick in job prospects two months after the end of the furlough scheme. 49% (up one point from 48% last month) expect to increase their workforce in the next 12 months, while 16% (down two points from 18%) anticipate a reduction. This creates a net balance of 33% (up three points from 30%) in December, and while the second week of the survey was lower, hiring intentions still remained positive.

Pay expectations continue to show strength, reaching new highs of 48% and 26% for firms expecting average pay growth of 2% and 3% respectively. More than one in ten businesses (14%) anticipate pay growth of 4% or more which remains in line with the last three months.

With continued pricing pressures being experienced across all sectors it comes as no surprise that pricing expectations have risen significantly in 2021. The net balance of firms expecting to raise prices in the next 12 months

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rose to 45% (up one point from 44%). These expectations remained particularly high in the hospitality sector while pipeline pressures have risen in manufacturing.

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: "It is a challenging end to 2021 as businesses are now having to adapt to the new Omicron variant and resultant restrictions across the UK. Nevertheless, business confidence remains resilient and above the long-term average due to a rise in trading prospects, while pay and price expectations continue to be elevated.

"Businesses face into a number of headwinds and challenging trading conditions, including higher interest rates, as we move into 2022, but many remain resilient and hopeful that acute downside risks are not realised."

REGIONAL AND SECTOR INSIGHTS

From a regional perspective the most marked improvement was reported in Northern Ireland (up 23 points to 18%) but it remains below the UK average.

The North East (up 13 points to 58%) is now the UK's most confident region replacing London which dropped six points to 57%. The North West (up 14 points to 48%) and the East of England (up 12 points to 50%) both recorded strong upticks in confidence. Yorkshire and the Humber (up four points to 35%) was the only other region to record an increase.

The West Midlands (down 12 points to 30), the South East and South West (both down five points to 29%) as well as Scotland (down three points to 24%) are all below the UK average. The remaining regions – the East Midlands (down five points to 37%) and Wales (down one point to 36%) remain near the UK average.

In the industry sectors, construction recovered to 39% from November's seven-month low of 28%, following a minor easing in supply-chain disruptions. Despite a slight fall in confidence in manufacturing to 40%, trading prospects in the sector have remained higher than the whole economy throughout this year.

There were also small declines for retail (43%) and services (39%) ahead of the festive period. There have been some marked differences in these sectors in recent months, with notable strengths in the professional services sector (including finance) and in IT/communications. However, the current three-month average sentiment among hospitality firms is at its lowest level (24%) since the first quarter of the year (4%). This has been fuelled by a significant monthly drop of 48 points to 6% between November and December.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said: "December's Business Barometer shines a light on the resilience of the UK's sectors and regions. However, businesses need to remain cautious as they move into 2022 as demand is set to be impacted by the rise of Omicron and likely tightening of restrictions across the UK.

"There are positive points with significant rises in confidence in Northern Ireland and the North West, while trading prospects in manufacturing remain higher than the rest of the economy despite the continued pressures the sector is facing into.

"We remain by the side of businesses as they continue to pursue growth despite these challenges."

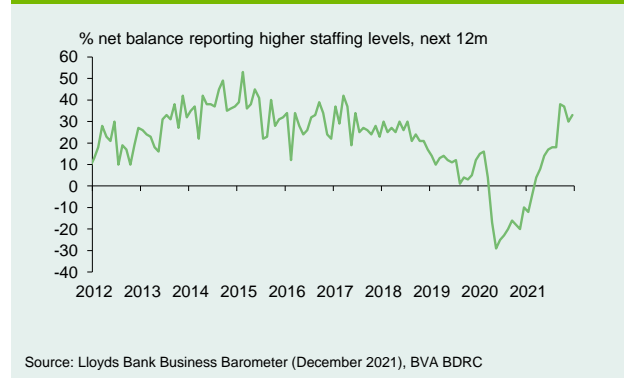


Chart 1: Business confidence resilient as the omicron variant emerges



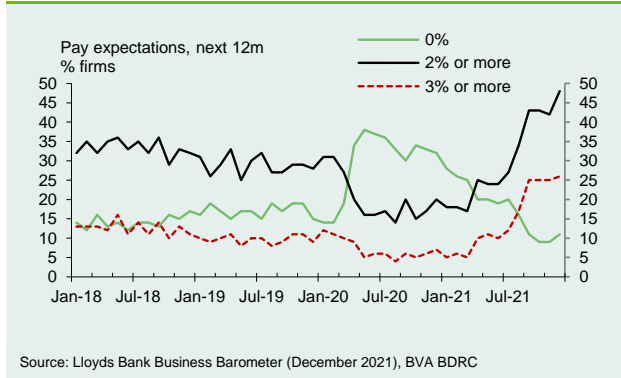
Source: Lloyds Bank Business Barometer (December 2021), BVA BDRC

Chart 2: Labour demand remains strong



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

Chart 3: Pay pressures have increased



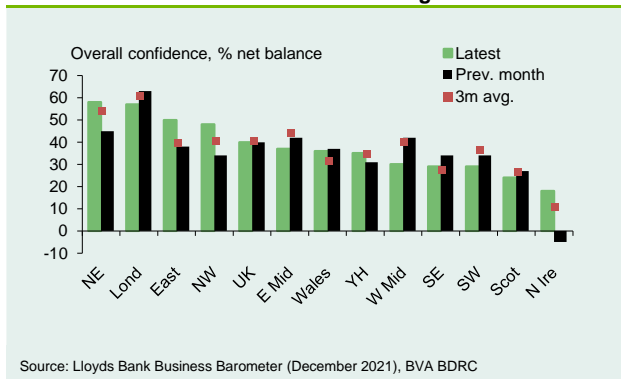
Source: Lloyds Bank Business Barometer (December 2021), BVA BDRC

Chart 4: Pricing expectations have trended higher



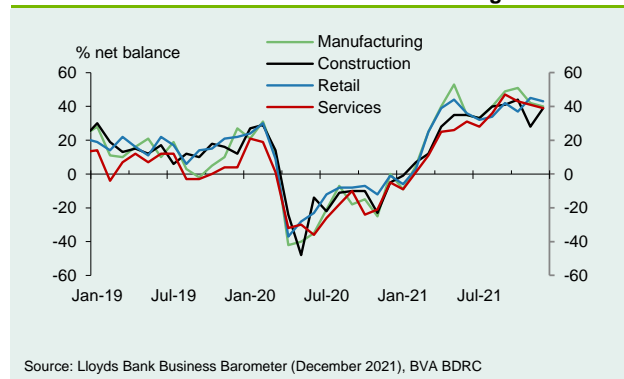
Source: Lloyds Bank Business Barometer (December 2021), BVA BDRC

Chart 5: Confidence rose in five of the regions and nations



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

Chart 6: Broad sector confidence levels converge



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



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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 BDRG Continental.
- This survey was conducted with 1,200 companies from 26th November – 10th December 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.