



PRESS RELEASE

BUSINESSES' CONFIDENCE REMAINS STEADY DESPITE RISING PRICE CONCERNS

The latest Lloyds Bank Business Barometer shows:

- Business confidence took a slight dip (down one point) to 39%
- Price expectations reach new high with nearly half of firms (49%) expecting to raise prices due to increased costs
- Firms expecting average pay growth of two percent dropped to a five-month low (down seven to 41%)
- Six of the UK's 12 regions recorded increases in confidence with Yorkshire and the Humber (up 13 points to 48%) being the most confident region
- Sector confidence was varied with manufacturing (up three points to 43%) reaching its highest level in three months

The latest Lloyds Bank Business Barometer shows that overall business confidence¹ dropped by one point to 39% as firms highlighted continuing concerns about the pandemic and rising costs. The survey captured responses between 4th January and 18th January before the easing of work from home guidance by the UK governments and shows price expectations reached a new high. Nearly half of firms (up four points to 49%) said they expect their prices to rise. Two-fifths (39%) said their main response to higher costs is to raise prices, compared to 29% that said it was to absorb costs.

The small drop in confidence reflected a slight fall in trading prospects (down two points to 41%) and economic optimism (down one point to 38%). However, confidence remains above the long-term average (28%). Economic optimism was down for a fourth month (but was still at a historically strong level) and may partly reflect that businesses are expecting to transition to more normalised growth rates as economic output returns to pre-pandemic levels.

Despite ongoing inflationary challenges, coupled with market expectations, pay pressures eased in January. The number of firms expecting average pay growth of two percent dropped seven points (41%) to a five-month low from last month's high of 48%. Those firms expecting pay growth of three percent dropped to 21% (down from 26%) while pay growth of more than four percent remains in line with the last four months at 12% (down from 14%).

Similarly, hiring intentions were more downbeat in January reaching their lowest level since August, despite nearly half of firms (46%) expecting to increase their headcount in the next twelve months. 17% of firms (up one point from 16%) plan to reduce their staffing levels over the coming year, resulting in net balance dropping four points to 29%.

Media contacts

David Thomas

07912 098 781

David.Thomas3@lloydsbanking.com

See it on social media



@LloydsBankNews

#BusinessBarometer



Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: "January's survey shows a continued resilience with minimal fluctuation as economic optimism remains at a historically strong level.

"A larger decline in confidence was potentially prevented by the reduction in Covid infection rates from early January and the prospects of the easing of restrictions across the UK.

"However, businesses remain cautious about the pandemic and are facing into challenges from rising cost pressures although many are raising their prices in response."

REGIONAL AND SECTOR INSIGHTS

From a regional perspective Yorkshire and the Humber saw the most marked improvement in confidence, rising 13 points to 48%, replacing the North East (down 18 points to 40%) as the most confident region.

Despite a slight fall, the East of England (down three points to 47%) replaced London (down 11 points to 46%) as the second most confident region. The North West (down four points to 44%) and the West Midlands (up nine points to 39%) were the only other regions to be at or above the UK average.

The remaining six regions are all below the UK average this month. Confidence rose in Scotland (up 13 points to a four-month high of 37%), Northern Ireland (up 10 points to 28%) and the South West (up eight points to 37%) while the South East remained unchanged at 29%. However, Wales (down 10 points to 26%) and the East Midlands (down four points to 33%, a fourth monthly decline) registered declines.

Industry sector performance was mixed during January with confidence among manufacturers increasing by three points to 43%, reaching its highest level for three months due to an easing of supply chain pressures. Retail confidence also rose (up one point to 44%) while confidence among firms in IT/communications remains particularly strong at 72%.

The impact of Omicron over the festive period meant the service sector extended its recent run of modest decreases in January, dropping one point to 38%. Positively, hospitality has recovered some of December's decline, rising from 6% to 38%.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said: "2022 has started in a positive place as Omicron infection rates have slowed and restrictions have eased following this survey, providing encouragement that there is a light at the end of the tunnel for UK businesses.

"Six regions are at or above the UK average while businesses in Northern Ireland have given another show of confidence during January, rising for a second month from its low in November of -5%.

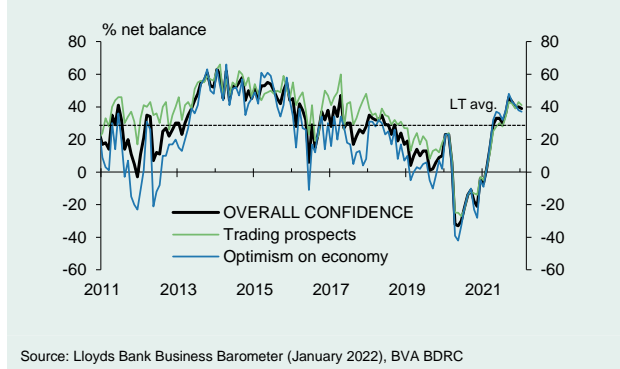
"Although there has been mixed performance in the sectors its reassuring to see an easing of the supply chain pressures that manufacturers faced into during 2021 while the new year has hopefully brought a turn in the fortunes of hospitality firms.

"We remain by the side of businesses as they look forward to the year ahead."



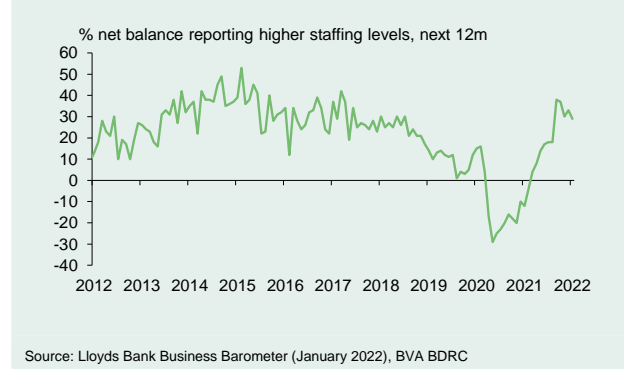
LLOYDS BANK

Chart 1: Business confidence remains above the long-term average



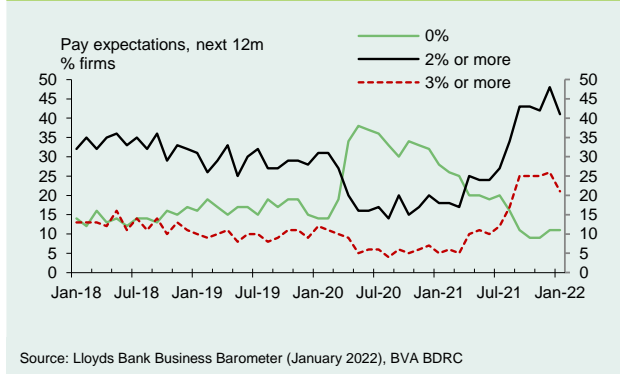
Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG

Chart 2: Employment expectations edge lower from recent highs



Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG

Chart 3: Pay pressures remain near highs



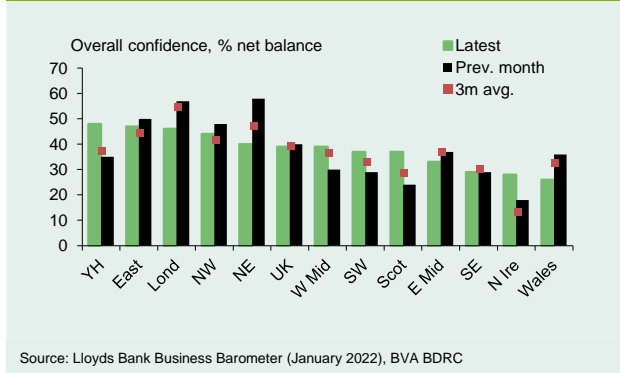
Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG

Chart 4: Pricing expectations reach new highs



Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG

Chart 5: Yorkshire & the Humber jumps up to first place



Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG

Chart 6: Manufacturing confidence improved this month



Source: Lloyds Bank Business Barometer (January 2022), BVA BDRG



LLOYDS BANK

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 4th January – 18th January 2022 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.