



PRESS RELEASE

BUSINESS CONFIDENCE DECLINES BUT REMAINS ABOVE LONG-TERM AVERAGE

The Lloyds Bank Business Barometer for March shows:

- Business confidence fell by 11 points to 33%, as inflation and Ukraine conflict increase uncertainty
- However, the 11 point fall is lower than drops in confidence in the first two months of the pandemic
- Over half of firms (55%, up three points) expect to increase prices in response to ongoing inflationary challenges
- Employment hiring expectations continue to signal strong demand for staff despite a seven-point fall to 31%
- Just three of the UK's 12 regions recorded increases in confidence, with London increasing by 13 points to 60%
- Manufacturing (down 19 points to 35%) and retail (down 19 points to 28%) saw significant drops in confidence in March

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#BusinessBarometer

Business confidence¹ dropped significantly in March (down 11 points to 33%), but remained above the long-term average (28%), according to the latest Lloyds Bank Business Barometer.

The fall in confidence was the biggest since the first two months of the pandemic when it dropped by 17 points and 38 points in March and April 2020 respectively as overall sentiment in March 2022 reached its lowest level since August 2021 (36%). However, the Barometer level remains above the long-term average (28%)² due to confidence having been relatively buoyant in recent months.

An 11-point fall in both trading prospects (down to 34% from 45%) and economic optimism (down to 32% from 43%) drove March's drop in confidence. Both fell to their lowest levels since the summer of 2021.

Hiring intentions were more downbeat in March, but remain higher than the start of the year (29%). Nearly half of firms (49%), down from 52%, expect to increase their headcount in the next 12 months, while 18% (up from 14%) expect to reduce. The net balance fell by seven points to 31%, but continues to signal strong demand, particularly since the end of the furlough scheme in September 2021.

The ongoing pay pressures experienced by businesses remained, with a record 49% expecting average pay growth of at least 2% in the next 12 months, an increase of 32% points since March 2021. This is comprised of nearly a quarter (24%) of firms anticipating an average pay rise of 2-3%, while 11% expect 3-4% wage growth and 14% anticipate over 4% pay growth. A fifth (19%) of businesses with annual turnover above £100 million expect to increase their average pay by more than 5%, compared with 6% of all firms.



Furthermore, the ongoing inflationary pressures meant that, for the fifth consecutive month, at least half of firms expect to raise prices in the next 12 months. In March, a record 55% (up three points from 52%) expected to charge higher prices, while only 4% (unchanged) anticipate lower prices. This creates a new high net balance of 51% (up three points from 48%).

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: “March’s data shows UK businesses are facing significant challenges from the impact of Russia’s invasion of Ukraine in increasing economic uncertainty and ongoing inflationary pressures. Following encouraging improvements at the start of the year, March’s fall in confidence is therefore disappointing, but not surprising.

“There are positives with the fact that confidence remains above the long-term average and it appears for now that growth will moderate. But it is difficult to gauge what the full impact will be and therefore businesses have become more cautious.”

REGIONAL AND SECTOR INSIGHTS

London (up 13 points to 60%), Yorkshire and the Humber (up six points to 57%) and the North West (up one point to 45%) were the only three regions to record increases in confidence in March. London becomes the most confident region again, having been replaced by the North East (down 21 points to 36%) in February.

There were significant drops in Wales (down 34 points to -5%) and the South West (down 38 points to 8%) while Northern Ireland reversed its surge over recent months, falling 36 points to 18%.

The remaining five regions are the South East (down 25 points to 11%), Scotland (down 18 points to 17%), the East Midlands (down 12 points to 22%), the West Midlands (down 15 points to 32%) and the East of England (down 13 points to 39%).

From a sector perspective the impact of the war in Ukraine appears to have had the greatest impact on manufacturing and retail firms. Both sectors saw drops in confidence of 19% from February’s highs (to 35% and 28% respectively). From a manufacturing perspective confidence levels are now at their lowest since last summer, while retail has fallen to a one-year low.

In the other sectors, services dropped by six points (32%) while construction dropped eight points to 43%, but remained higher than at the start of the year.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said: “There is little doubt that businesses across all sectors are being impacted by the current geo-political and financial situations. Businesses that were beginning to see green shoots are now having to reconsider their approach and adapt to a new set of challenges.

“It is yet to be known whether the changes to the National Insurance threshold and business rates for the tourism, hospitality and leisure sectors announced by the Chancellor will help these consumer facing businesses and it will be interesting to see how they respond to next month’s survey.”



Chart 1: Business confidence the lowest since last summer

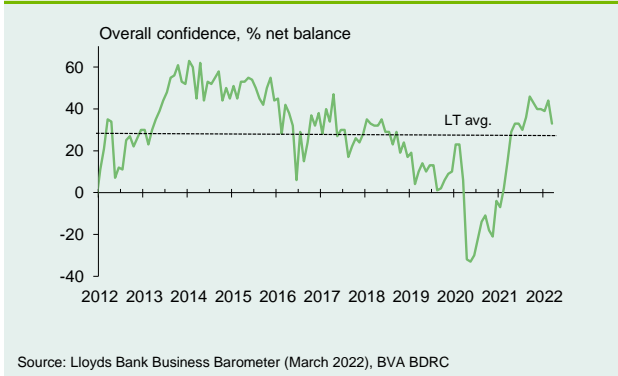


Chart 2: Hiring intentions soften slightly

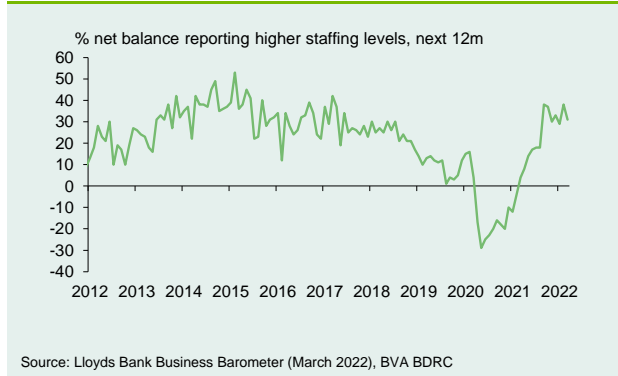


Chart 3: Pay growth moves higher

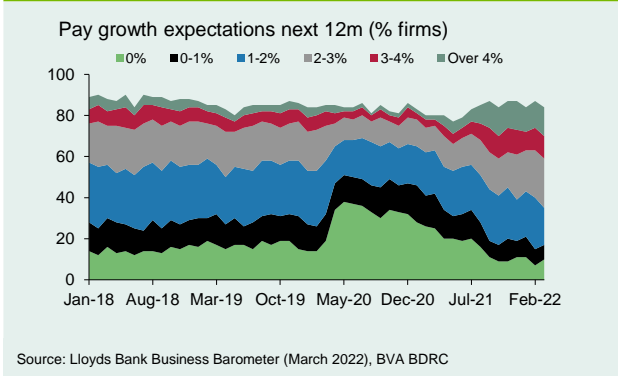


Chart 4: Price expectations reach a new high

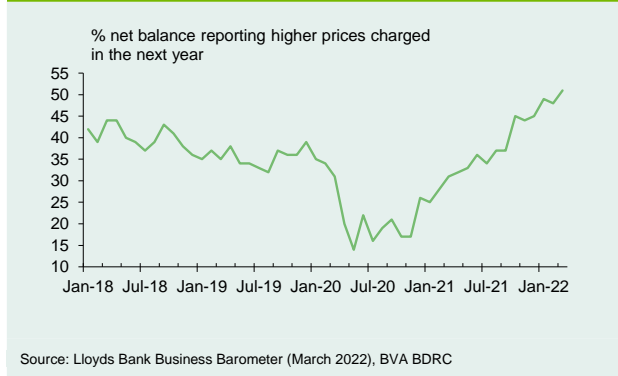


Chart 5: Confidence fell in nine UK regions

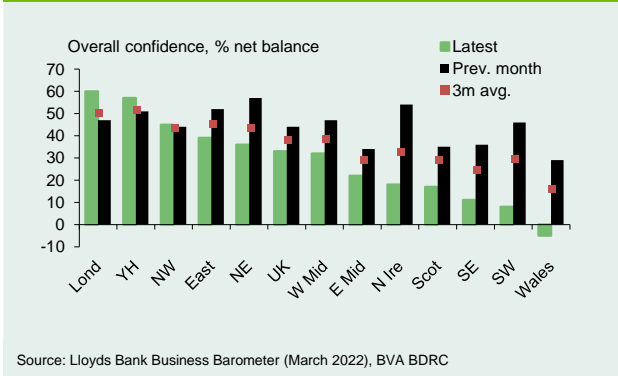
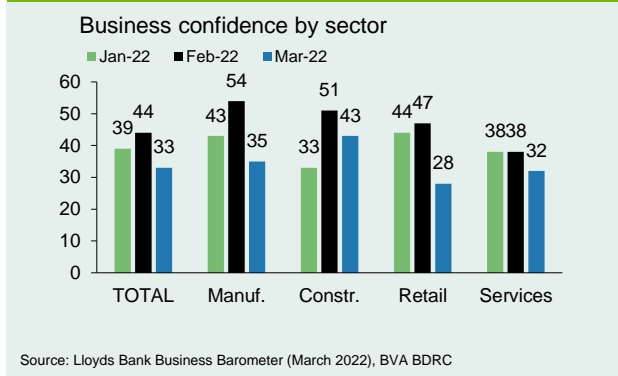


Chart 6: Manufacturing and retail declined the most





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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 BDRC Continental.
- This survey was conducted with 1,200 companies from 1st and 15th March 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.