



PRESS RELEASE

BUSINESS CONFIDENCE INCREASES DESPITE SIGNS OF RETAIL SLOWDOWN

The Lloyds Bank Business Barometer for May shows:

- Business confidence rose for the first time in three months, but it weakened in consumer-related sectors
- Businesses were most concerned about rising costs and economic slowdown in the next six months
- Firms' pricing expectations remain high, with 57% planning to raise prices
- The number of firms expecting to give higher pay awards increased with 16% likely to make awards of 4% or more as hiring intentions pick up
- Confidence increased in eight of the 12 UK regions (versus seven in April) and was highest in London, the West Midlands and the North West

Media contacts

Charlotte Varney

07384 909364

charlotte.varney@lloydsbanking.com

See it on social media



@LloydsBankNews

#BusinessBarometer

Businesses reported a rise in confidence for the first time since February and the start of the war in Ukraine, according to the latest Lloyds Bank Business Barometer. Confidence increased five percentage points to 38%, the highest since February 2022 and 10 points above the long-term historical average of 28%.

Confidence in the retail sector, however, fell two points to 27%, its lowest level since March last year amid the widely held concerns on the squeeze on household incomes and despite fading worries about Covid-19.

Despite the increase in overall business confidence, 46% of businesses cited higher costs as one of their biggest concerns over the next six months, while 34% cited economic slowdown. In contrast, Covid concerns have decreased to 20% since 45% at the start of the year. As a result, businesses are likely to respond by focusing on building in financial and operational resilience, including through strong working capital management and optimising inventory levels, while working closely with their suppliers and customers.

According to the Barometer, employment intentions increased for the first time in three months, with 53% (rising nine points) of firms expecting to increase their workforce. This is the second highest level seen since the start of the pandemic. Hiring intentions appeared particularly strong for construction firms, with 61% expecting to increase their work force compared to 45% of firms in consumer-related sectors.

For the fifth month in a row, the proportion of businesses planning to increase their prices continued to rise, with more than half of firms (57%) anticipating higher prices for their products or services. This is compared to 5% (up from 4%) of businesses that are planning to reduce their prices, highlighting that firms appear to be rebuilding their margins by raising their prices in response to rising costs.



Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: “Business confidence improved this month and firms in general seem able to rebuild some of their margins through price increases. However, they also report several challenges ahead, including concerns around higher costs and an economic slowdown. More immediately, consumer-facing industries, such as retail, are not feeling the same confidence uplift amid the widespread reports of a squeeze on household incomes.”

REGIONAL AND SECTOR INSIGHTS

Eight of the UK’s twelve regions or nations reported higher business confidence this month, with businesses the most positive in London (up 23 points to 63%), and the West Midlands (up 11 points to 53%).

Strong gains were also seen in the North West (up 12 points to 44%), Scotland (up 14 points to 42%) and Northern Ireland (up eight points to 41%).

In contrast, the confidence of companies in the East of England fell 20 points to 14%, while Yorkshire & Humber and the South East, both saw falls of seven points to 34% and 23%, respectively.

From a sector perspective, retail confidence fell two points to 27%, remaining lower than the all-sector average of 38% in the last three months. The confidence level is also the lowest since March 2021 as pressure on household real incomes weigh on spending prospects. In contrast, there was a 21-point rise in construction to 54%, while manufacturing sentiment remained resilient, up two points to 45%. Confidence in the services sector reached a three-month high, increasing 4 points to 36%.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Commercial Banking, said: “It is reassuring to see a number of positives coming out this month as businesses show that despite challenges, confidence is increasing once again. However, it is understandable that there continues to be caution around the future, given inflationary pressures and potential for economic slowdown.

“In response, businesses should ensure they keep a tight rein on input costs to help support profit margins and keep working closely with their suppliers and customers to ensure any changes in supply or demand are noticed in good time.

“If businesses are struggling or are unsure of what action they need to take, I would encourage them to reach out to seek advice. We remain by the side of businesses to help them navigate any challenge they face.”

Ends



Chart 1: Business confidence rises for the first time in three months

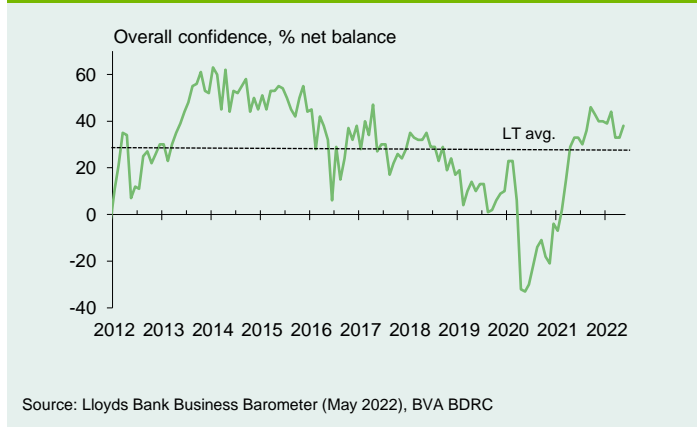


Chart 2: Employment expectations recover

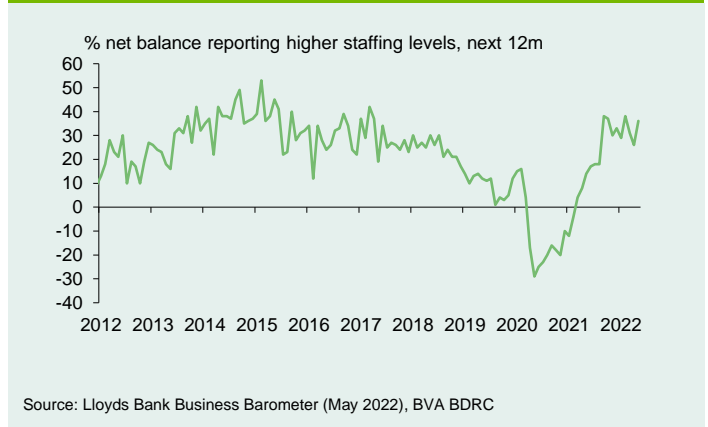


Chart 3: Wage pressures remain elevated

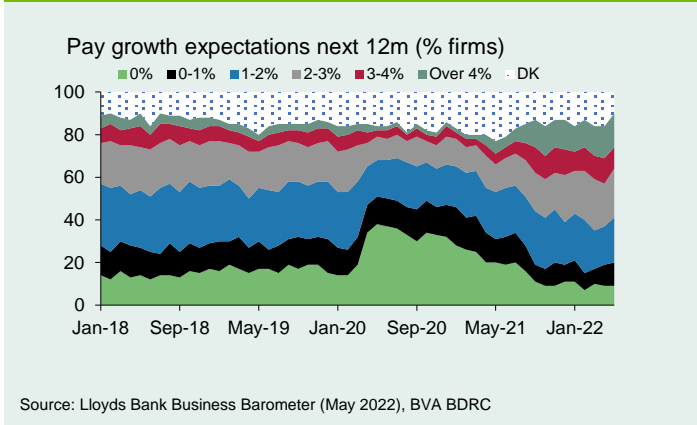


Chart 4: Own pricing expectations near highs

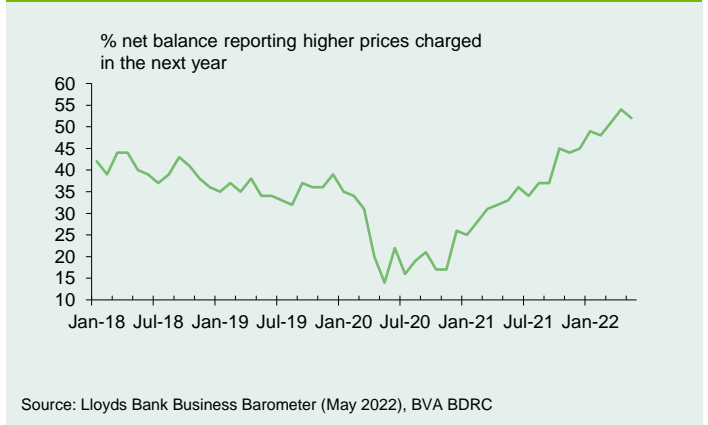


Chart 5: Confidence rises in eight UK regions

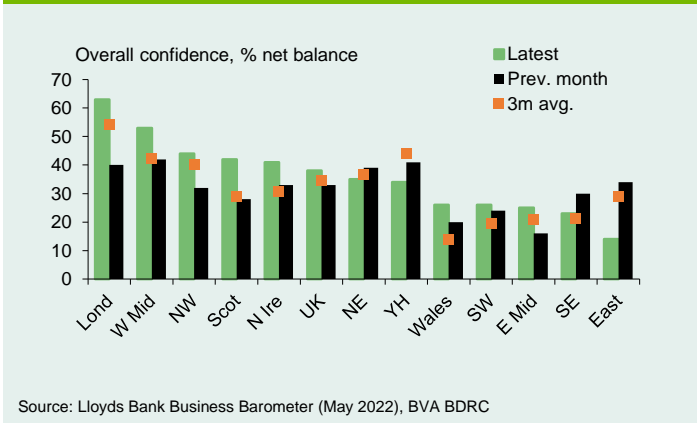
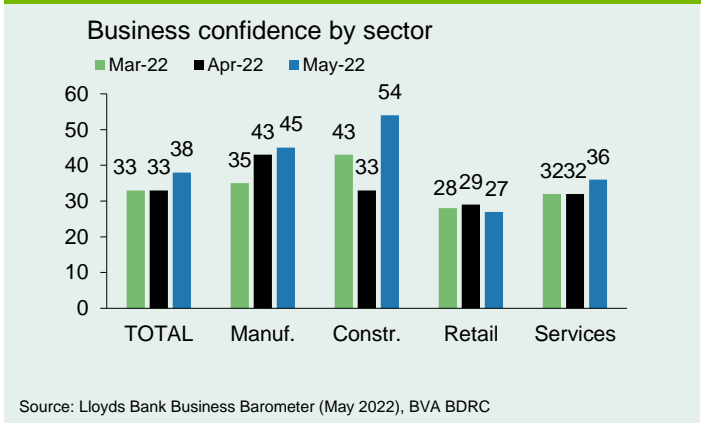


Chart 6: Consumer sectors under more pressure





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.
- The fieldwork for the Lloyds Bank Business Barometer was conducted during 3-17 May 2022 by BVA BDRC. The sample size was expanded in January 2018 and now covers the online responses of a sample of 1,200 UK companies each month from all industry sectors, regions and firm sizes with annual turnover above £250,000.
- The results are re-weighted to match proportions by sector, region and size of the total business population, as published by the Department for Business, Energy and Industrial Strategy and the Office for National Statistics. Net balances are calculated by deducting the percentage of negative responses from the percentage of positive responses. Prior to January 2018, the fieldwork was based on telephone responses of 200 300 companies with annual turnover above £1 million.
- For further summaries and infographics, see #BusinessBarometer or follow @LloydsBankNews on Twitter.