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PRESS RELEASE

INFLATION WORRIES DRIVE SENTIMENT DOWN WHILE TRADING PROSPECTS REMAIN RESILIENT

The Lloyds Bank Business Barometer for July shows:

- Overall business confidence fell three points to 25%
- Firms' views of trading prospects remain resilient despite challenging economic climate
- Over half of businesses are most concerned about inflation
- Highest recorded proportion of firms expecting pay growth of over 4%
- Four regions experienced higher confidence than previous month

Businesses reported a fall in confidence this month, declining three points to 25%, according to the latest Lloyds Bank Business Barometer. This puts confidence below the long-term average (28%) for the first time since March 2021 when the economy emerged from the second Covid-19 wave.

Despite the more challenging outlook, businesses' assessment of their own trading prospects remained relatively resilient, with the net balance for trading prospects for July up three points to 37%.

The fall in business confidence comes as inflation reaches its highest level for 40 years as the cost of living pressures on households continue to grow.

Businesses stated they are most concerned about inflation (54%), followed by economic slowdown (38%) and tightening labour markets (25%). Although businesses maintain an overall positive view on the economy, it has decreased in recent months as economic uncertainties have gained momentum, with economic optimism remaining positive but dropping by 10 points to 12%.

The proportion of firms expecting to raise their prices in the coming year increased to match the record high of 58% from April this year (up two points on last month), while an unchanged 5% of companies planned to lower their prices.

The majority of firms (66%) said inflation is having a negative impact, suggesting that they have been able to pass on some, but not all, of their rising costs to their customers. This compared with only 9% of businesses indicating it is having a positive impact.

Businesses reported a pickup in their expectations for wage growth in the year ahead with 17% of firms expecting average pay growth of 4% or more for their employees, an all-time high since tracking this data in 2018. In contrast, the share anticipating pay growth below 2%, including pay freezes, fell to a four-month low.

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Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: “Business confidence declined this month, suggesting that economic headwinds are becoming more forceful. Despite this, firms’ assessment of their own trading prospects showed some resilience in the face of a challenging environment. Meanwhile, price pressures have shown no clear signs of a downward trend and there appears little sign yet that wage pressures are abating.”

REGIONAL AND SECTOR INSIGHTS

Confidence increased in four of the UK’s twelve regions and nations this month, up from one last month with rises in the East of England (46%/+15), the West Midlands (38%/+8), Wales (30%/+7) and the North East (31%/+4). These regions were all well above the UK average (at 28%) and in the top five of the most confident UK regions, along with London where confidence was unchanged at 35%. The remaining seven registered lower confidence, with the biggest decline in the North West (18%/-24).

Business confidence declined across all four of the sectors in July, reflecting lower optimism about the economy. Confidence within manufacturing declined the most this month (20%/-12), with firms citing moderating trading prospects and a notable drop in economic optimism, but also issues with inflation and supply bottlenecks. There were small falls in confidence for construction (28%/-2), retail (25%/-6) and services (24%/-1).

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Business & Commercial Banking, said:

“With economic pressures gaining momentum, this is undoubtedly a challenging time for businesses.

“Naturally, concerns around an economic slowdown continue to bear down and it is important that firms keep a tight rein on input costs where they can and a close watch on profit margins in what are already tough conditions.

“As many businesses feel the strain, they should look to lean on their support networks, including their banks to help them structure their finances to make sure they are in the best position possible for the months ahead. At Lloyds we remain by the side of businesses to deliver that support.”

Ends



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Chart 1: Confidence drifting lower

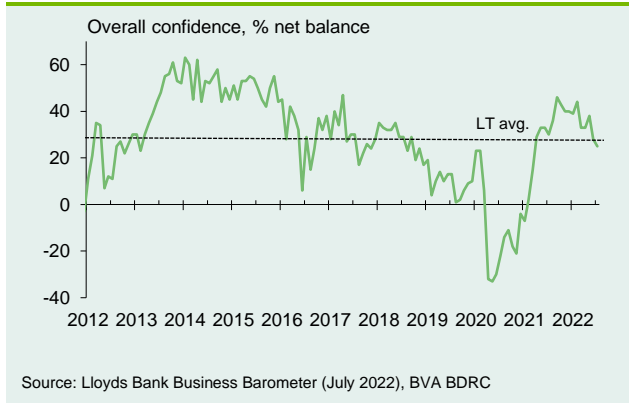


Chart 2: Employment expectations moderate further

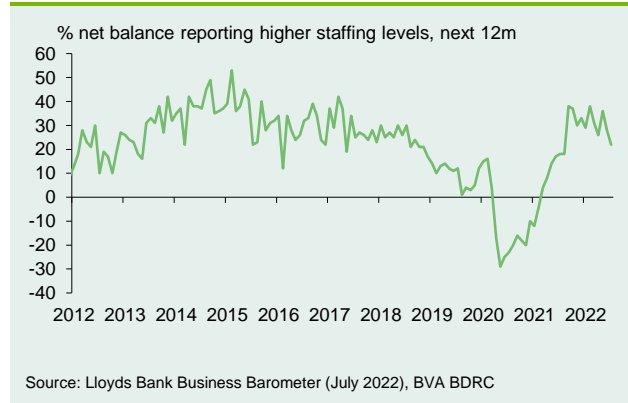


Chart 3: Wage expectations pick up again

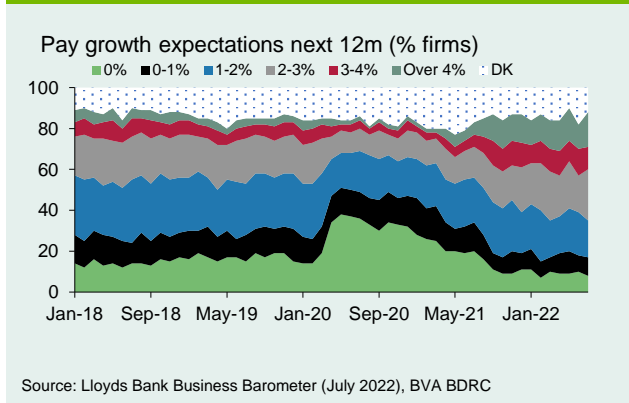


Chart 4: Price pressures remain near highs

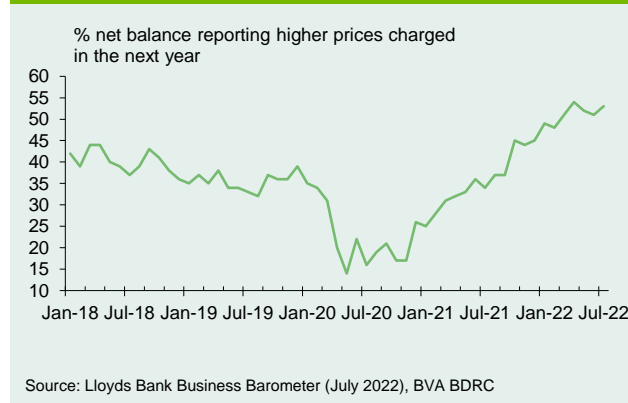


Chart 5: Confidence lower in seven UK regions

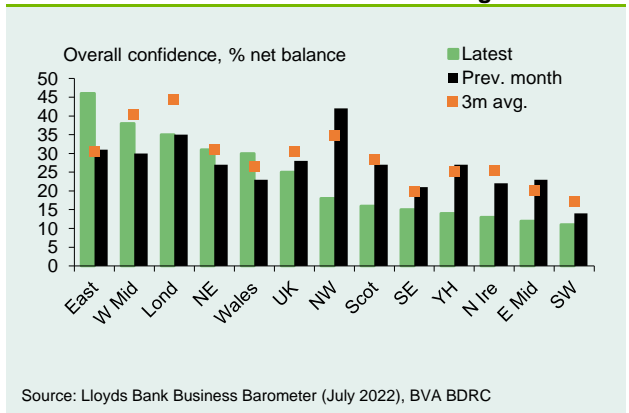
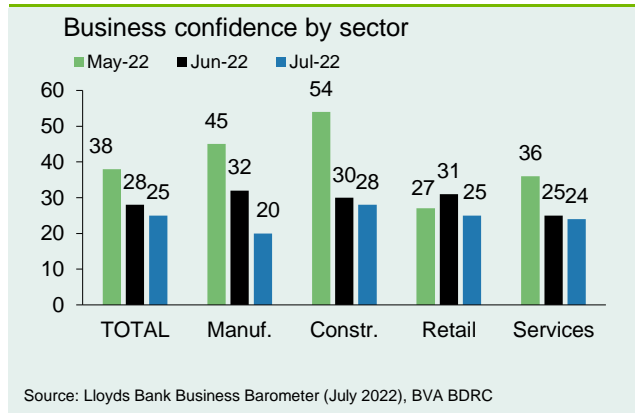


Chart 6: Confidence declined across the sectors





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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.
- The fieldwork for the Lloyds Bank Business Barometer was conducted during 1-15 July 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 @Lloydspc on Twitter.