



PRESS RELEASE

BUSINESS CONFIDENCE DECLINES AS INFLATION CONCERNS GROW

The Lloyds Bank Business Barometer for August shows:

- Overall business confidence fell nine points to 16%
- 70% of businesses are most concerned about inflation, particularly related to raw materials and energy costs
- 38% of businesses expect to increase their headcount in the year ahead as demand for staff continues
- However, salary increase expectations stabilise
- Trading prospects see the largest decline (11 points) since March 2022

Businesses reported a fall in confidence for the third consecutive month in August, declining nine points to 16%, according to the latest Lloyds Bank Business Barometer.

The pressures on households and businesses continued to grow, leading confidence to fall below the long-term average of 28% and reach the lowest level since March 2021 when the economy emerged from the second Covid-19 wave.

Inflation continued to outweigh concerns about an economic slowdown. Over 70% of businesses (up from 54% last month) said that the impact of inflation was one of their biggest concerns, particularly in relation to raw materials and energy costs, while almost 40% were concerned about slower UK and global growth.

However, 38% of businesses still anticipate an increase in their headcount in the year ahead, although hiring intentions moderated for the third month in a row. In addition, wage and price pressures remain high even though recent trends suggest expectations have stabilised. The number of businesses anticipating at least a 3% wage increase for their employees decreased this month from 28% to 26%.

Less than half of businesses (43%, a fall of 11 points) expect stronger trading prospects in the year to come, with 17% (up one point) expecting weaker performance. However, on the wider economy, 41% of firms (down five points) expressed optimism.

The proportion of firms that expect to increase their prices in the coming year edged down two points to 56% in August, with 5% still expecting to lower their prices. Fewer firms expect to raise prices in the next 12 months (51%, down two points on last month), but this remains significantly higher than the average figure in 2021 (37%).

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: "Business confidence declined for a third consecutive month as firms continue to face economic challenges in the period ahead and as inflation concerns intensify. Despite edging lower this month, the outlook for both wage and price pressures remains elevated. However, there are some brighter points as the demand for staff remains positive, and firms reported lower concerns about staffing issues and the pandemic."

Media contacts

Charlotte Varney
07384 909364
charlotte.varney@lloydsbanking.com

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REGIONAL AND SECTOR INSIGHTS

Confidence increased in three of the UK's twelve regions and nations this month, with rises in the North West (44% up 26 points), Yorkshire and the Humber (23%, up 9 points) and the South West (23%, up 12 points). Confidence in the North East was unchanged at 31%. Confidence in the remaining regions fell mostly in line with the national decline. There were notably bigger falls in East of England (2%, down 44 points) and Wales (1%, down 29 points). The East of England showed a three-month average confidence level of 26%, a fall of 4 points on the previous three months, while businesses in Wales reported a similar decrease across the three month view, down 8 points to 22%, both broadly in line with the trend seen across the regions. Business confidence is measured from -100% to +100%, with a net positive result showing the majority of firms are feeling confident in their overall outlook.

Business confidence declined across all four of sectors in August. Confidence within the retail sector declined the most this month (13%, down 18 points), with the service sector also seeing a significant nine-point decrease (15%). Other sectors saw moderate decreases, with manufacturing down by four points (16%) and construction (26%, a fall of two points), in line with recent trends.

Paul Gordon, Managing Director for SME and Mid Corporates, Lloyds Bank Business & Commercial Banking, said:
"With inflationary pressures growing, businesses will no doubt be looking to their supply networks along with tight control of costs and profit margins where they can.

"We know that rising costs are already dealing a heavy blow to businesses, but remaining agile to the changing economic environment will be vital for businesses in the months ahead. Firms must keep a tight watch on costs and structure their finances wisely, so they are in the best position possible. Businesses should try to remain flexible, and use the capital and cashflow available to them. At Lloyds we remain by the side of businesses to help deliver that support."

Ends

Chart 1: Confidence lowest since early 2021

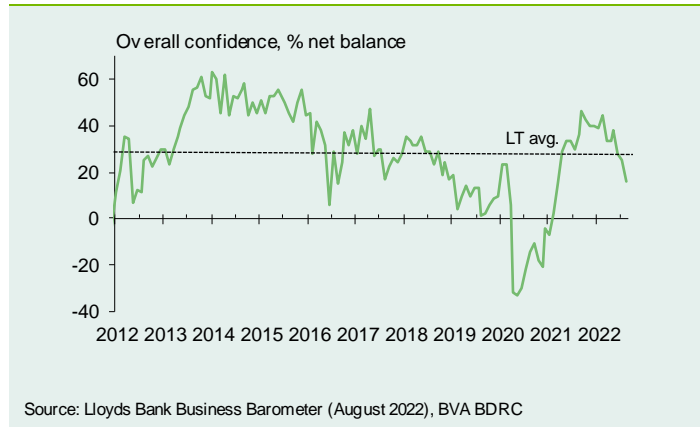


Chart 2: Demand for staff cools

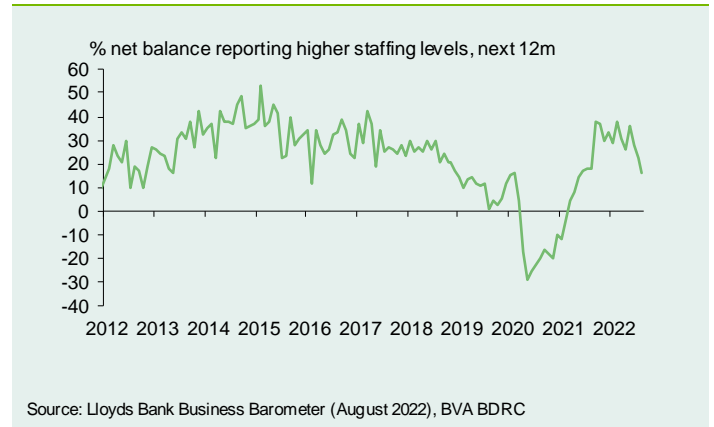


Chart 3: Pay growth still elevated

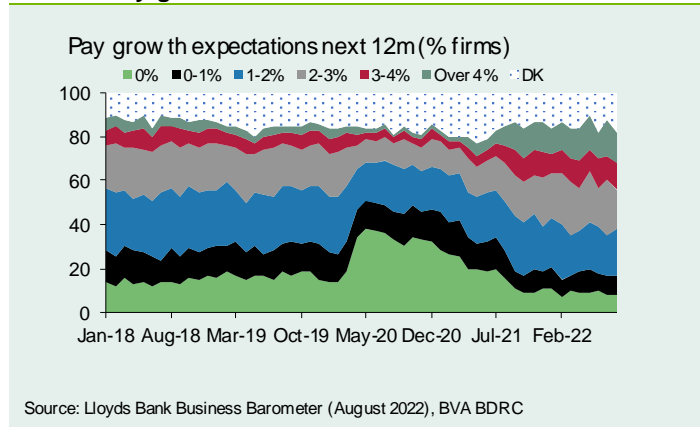


Chart 4: Inflation pressures remain elevated



Chart 5: Confidence rose in three UK regions

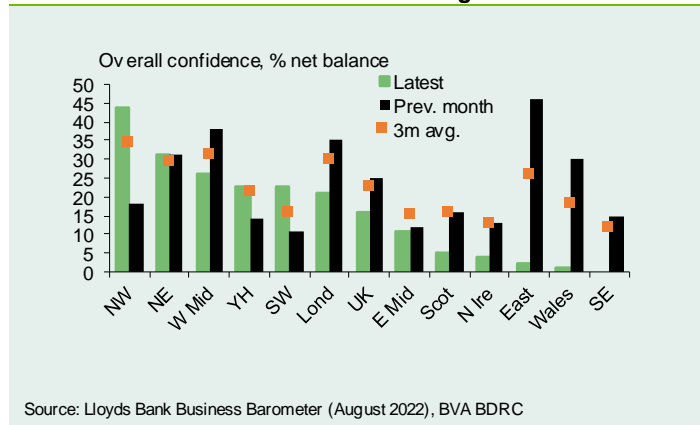
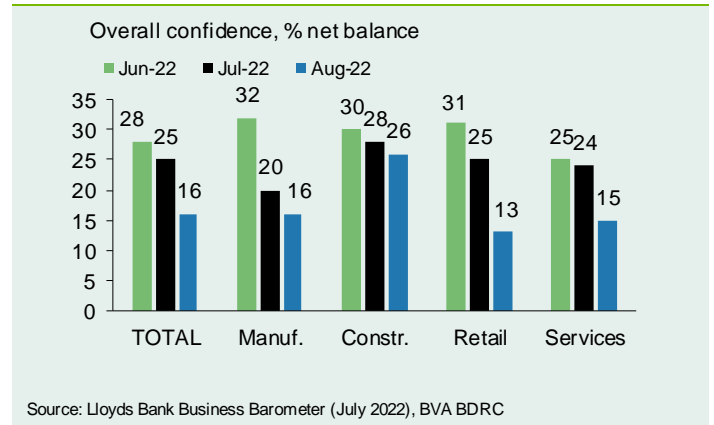


Chart 6: Confidence trends lower across the sectors





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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 August 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.
- The overall 'balance' of business confidence opinion weighs up the percentage of firms that are positive in outlook against those that are negative and gives a net balance on a scale of -100% to 100%, where a score of 0 would mean there was an even balance of positive and negative sentiment.
- For further summaries and infographics, see #BusinessBarometer or follow @Lloydsplc on Twitter.