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PRESS RELEASE

BUSINESS CONFIDENCE DIPS TO A 19-MONTH LOW BUT TRADING PROSPECTS REMAIN RESILIENT

The Lloyds Bank Business Barometer for October shows:

- Overall business confidence fell by 1 percentage point to 15%, the lowest level since March 2021
- However, almost half of businesses reported better trading prospects (up 2 percentage points to 46%)
- Over a third of businesses felt pessimistic about the economy, 39% (up from 36%), the fifth straight month to show a decline in optimism
- Firms expecting to increase staffing levels rose for the first time in five months to 42% (up from 39%)
- Almost two thirds of businesses (60%, up 1 percentage point) said they expect to raise prices in the next 12 months

Business confidence fell by 1 percentage point in October, the weakest since March 2021 and a nineteen-month low according to the latest Lloyds Bank Business Barometer.

While business confidence remained below the long-term average of 28%, it remains above the lowest levels seen in 2020 during the first Covid wave (-33% in May 2020). The survey was conducted between 3 October and 17 October, and followed the mini-budget announcement by the UK government.

For the fifth month in a row, overall economic optimism declined, with an unchanged 41% of businesses saying they felt optimistic about the economy but 39% (up from 36%) said they were more pessimistic, resulting in a net balance of 2%, the weakest since early 2021. However, this was buoyed by 46% (up 2 percentage points) reporting better trading prospects, with 19% (up 1 percentage points) preparing for worse trading conditions, creating a net balance at 27% (up 1 percentage points).

Despite the tight labour market, firms' expectations regarding their own staff levels for the year ahead improved for the first time in five months. 42% (up from 39%) anticipate a higher headcount and 21% (down from 23%) forecast a smaller workforce. This creates a net balance of 21%, up from last month's 16%, a three-month high, although still lower than the first half of the year.

Wage expectations eased this month, with businesses planning to increase salaries by 3% or more slipped by three percentage points to 26%.

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The upward trend in pricing expectations continued this month for products and services, despite weakening overall confidence. 60% (up 1 percentage point) of companies said they expect to raise prices in the next 12 months, with an unchanged 4% intending to lower prices. The net balance was a record high of 56% (from 55%). This type of pressure is most likely to affect manufacturing and businesses that rely on imported goods, reflecting significant pressure to pass on the higher costs.

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: “While business confidence has marginally fallen this month, along with a drop in forward looking economic optimism, it is encouraging to see businesses still looking to increase their headcounts. However, cost pressures remain evident as businesses raise prices to protect their margins and wage pressure continue to be impactful. Given the recent turbulence in financial markets, it will be interesting to see how this will affect business confidence.”

REGIONAL AND SECTOR INSIGHTS

In line with recent trends, business confidence was strongest and remained well above the UK average in London (49%, up 16 points) and the West Midlands (27%, up 8 points). The survey revealed some short-term volatility in some parts of the country, including a fall in the North East (10%) and Scotland (5%) from previous strong levels. In contrast, in the East of England (9%) and Wales (5%) confidence increased.

Elsewhere, confidence levels in three areas dipped into negative territory. There were falls in the South East (-11% from 15%), Northern Ireland (-1.1% from 7%) and the South West (-4% from 0%). However, when looking at the average figures over the past three months, confidence levels in these regions are more positive, for example the South East three month average is 1% while the South West is 6%.

Business confidence in the manufacturing sector fell for the fifth month in a row, to 13%, down 1 percentage point, the lowest confidence level since February 2021. Confidence in the retail sector declined by 6 percentage points to 9%, while confidence in the services sector also fell to 16%, both the lowest levels since early 2021.

However, the construction sector saw a 10 percentage point rise to 20%, although this level still remains weaker than in the first half of the year.

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

“While confidence has marginally decreased this month, this also comes at a time of great economic uncertainty. The fact that it has only fallen by 1% suggests that businesses are showing resilience. As we head into the winter months and price pressures continue, energy price increases will start to bite and we are seeing continued pressure on pay expectations. Businesses need to keep a watchful eye on costs to ensure they are in the best possible position to face any future headwinds. For businesses that may be struggling, we encourage them to reach out to their networks for support. At Lloyds Bank we remain by the side of businesses to help navigate these challenging times.”

End



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Chart 1: Business confidence still falling

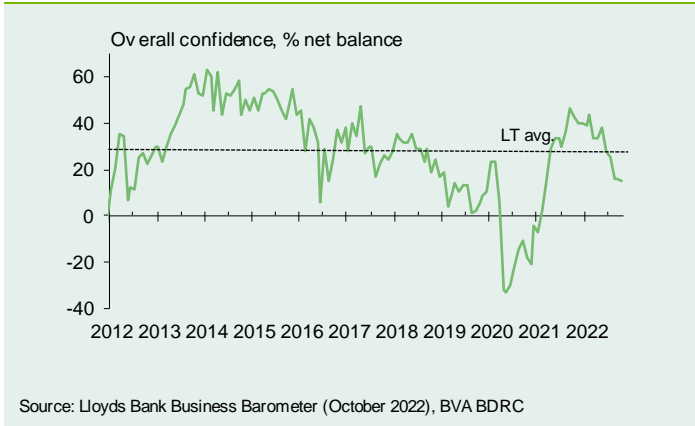


Chart 2: Hiring intentions remain lower than earlier in the year

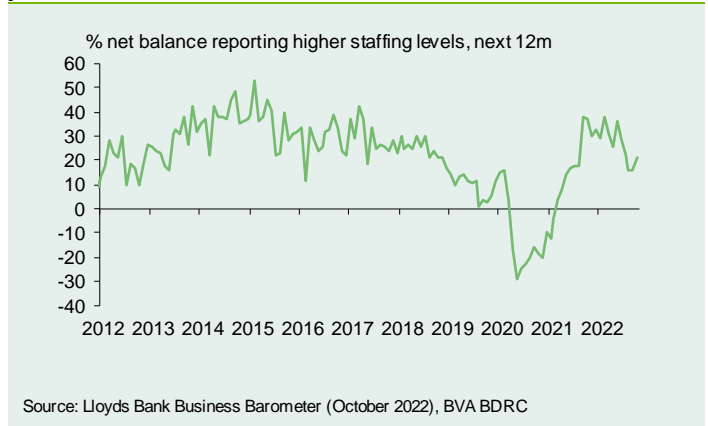


Chart 3: Pay expectations dipped but remain elevated



Chart 4: Further price rises signaled for the year ahead

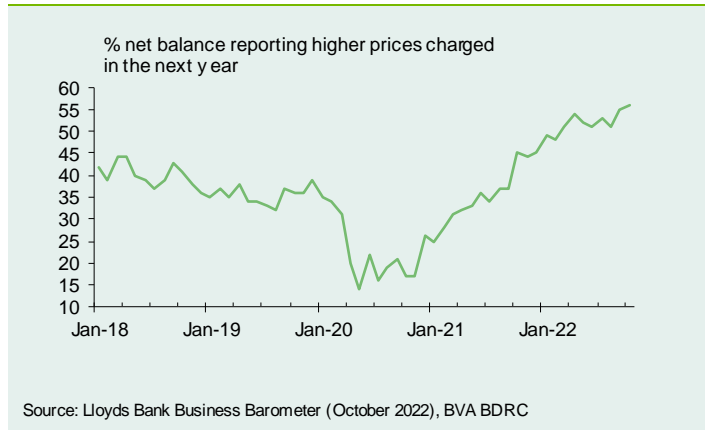


Chart 5: Regional disparity rises

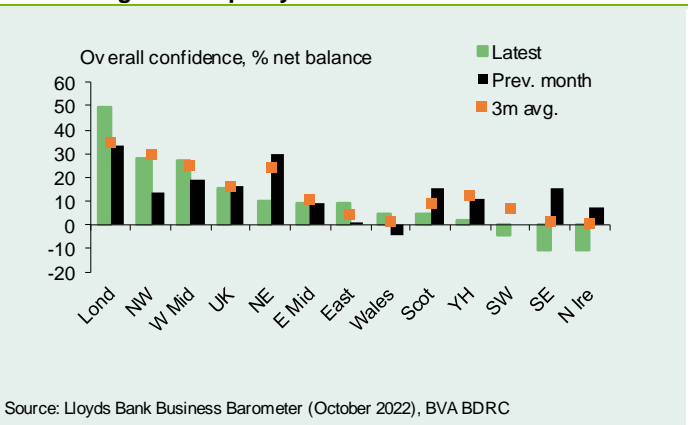
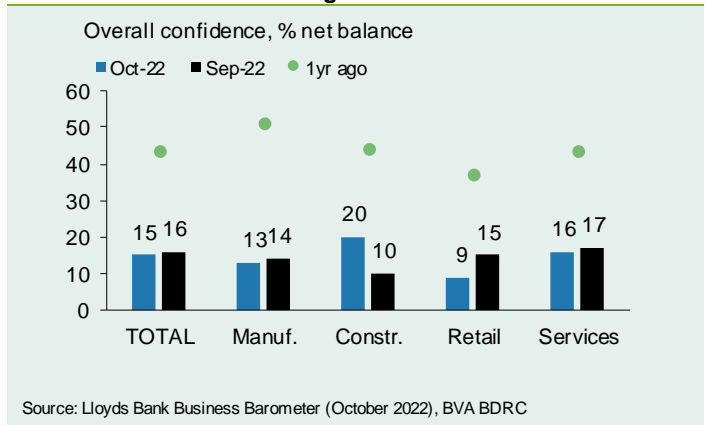


Chart 6: Confidence trending lower across sectors





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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 BDRG Continental.
- The fieldwork for the Lloyds Bank Business Barometer was conducted during 3-17 October 2022 by BVA BDRG. 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.