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PRESS RELEASE

BUSINESS CONFIDENCE HITS SIX MONTH HIGH, AFTER BACK-TO-BACK MONTHLY RISES

The Lloyds Bank Business Barometer for January shows:

- Business confidence increased by five points to 22%
- Economic optimism increased by four points to 47%
- Pricing expectations fell for the first time since August 2022 to 55% (down three points)
- Manufacturing and service industry firms' confidence increased to a seven-month high, however, retail confidence fell to a near two-year low.
- Regionally, business confidence in London bounced back 29 points to 37% with Wales, North West and North East also seeing strong growth

Business confidence made a positive start to the year with strong gains for a second month in a row, rising by five points to 22% in January. This is the first back-to-back increase since September 2021, bringing business confidence to a six-month high and moving closer to the long-term average of 28%.

The increase in business confidence was driven by a more optimistic assessment of the wider economy, with 47% (up four points) of firms expressing greater optimism and 30% (down five points) being more pessimistic, resulting in the net balance rising by nine points to 17%.

Firms' predictions of their own trading prospects also saw a gain with 46% (up one point) expecting stronger trading. However, 19% (up one point) anticipated weaker business activity, leaving the net balance unchanged at 27%.

The overall hiring intentions of companies slightly improved with a net balance of 17% (up one point). This was based on 40% (down from 41%) of businesses surveyed saying that they expect to increase staffing levels over the coming year, but this was offset by a decline to 23% (from 25%) expecting to reduce their headcount.

Wage expectations eased in the first month of 2023 with 25% (down one point) expecting to increase pay by 3% or higher. In addition, a smaller proportion (6%, down two points) of firms anticipate making wage increases of 5% or greater in the year ahead.

Rising costs fell for the first time in five months, with firms' expectations for prices of their own goods or services down three points to 55% from the record high of 58% in December 2022. Overall, 61% of businesses (down from 62%) expect to charge more for their goods or services next year, while six percent (up from four percent) plan to lower prices. As a result, the net balance declined by three points.

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Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said: “Business confidence continues to improve following the December boost. Firms are clearly more optimistic about the wider economy and this is driving the increase, helped by precursory signs that wage and other cost pressures may be easing.

“It is still a tough environment for businesses, with high energy bills remaining a concern during the winter months, but there are grounds for optimism for 2023 if inflation starts to trend lower.”

REGIONAL AND SECTOR INSIGHTS

Confidence increased across half of the UK’s regions and nations, with the biggest increase seen in London, which rose to 37% up 29 points from 8%. Other regions saw strong growth, including the North West (47%, up seven points), North East (45%, up 11 points) and Wales (34%, up 16 points) as well as in Northern Ireland (16%, up 13 points).

Confidence fell in Yorkshire and Humberside (12%, down 10 points), East Midlands (10%, down 18 points), South West (10%, down seven points) and South East (5%, down nine points).

For the second month in a row, confidence in the manufacturing and service sectors increased, with manufacturing rising to 28% (up 15 points) and services up to 25% (up seven points). Business confidence in construction was down two points to 27%, while retail confidence fell for the second month in a row to 7% (from 13%), the lowest level since February 2021.

Paul Gordon, Managing Director for Relationship Management, Lloyds Bank Business & Commercial Banking, said:

“After a challenging 2022, it’s heartening to see confidence rising for the second consecutive month. This is the first back to back increase since September 2021. There is no doubt that the business environment remains challenging and uncertainty still remains, but this improvement in optimism is very welcome as we start 2023.

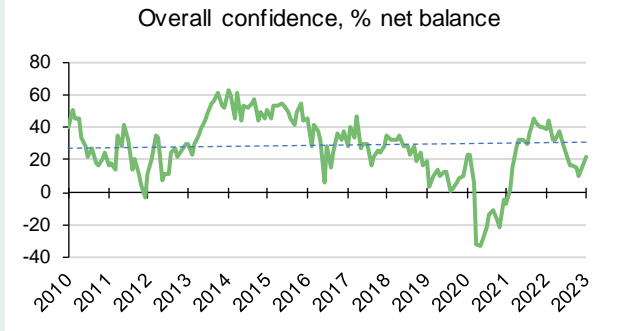
“With pay expectations tempering, trade expectations set to improve, and a clearer way forward on energy price support, this may give businesses a bit more certainty and the confidence they need to inspire investment and promote growth.”

Ends



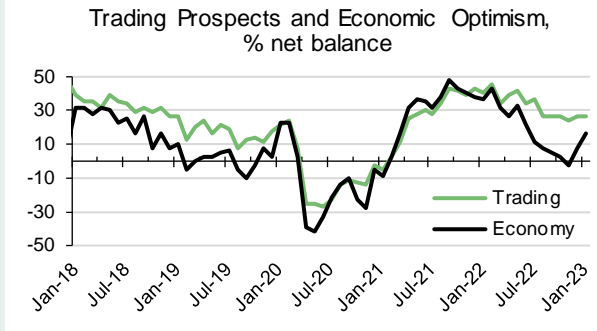
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Chart 1: Overall confidence up for a second month



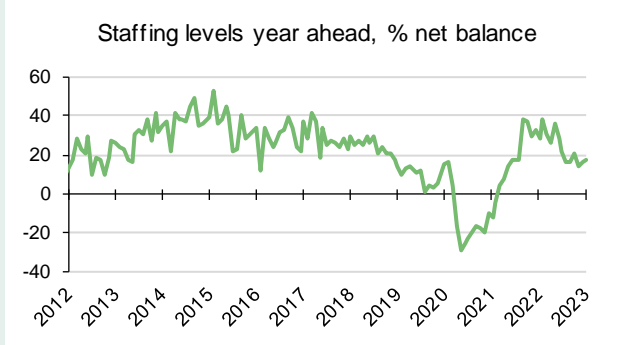
Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC

Chart 2: Trading prospects remain relatively resilient



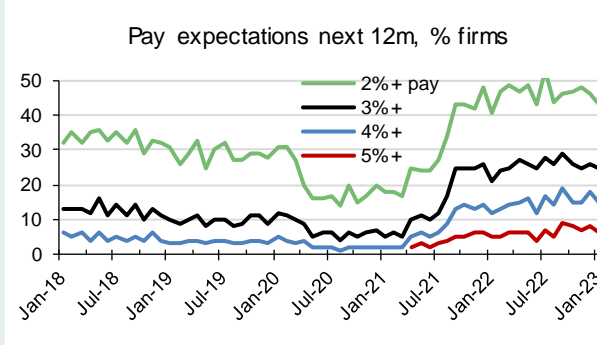
Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC

Chart 3: Labour demand moderating



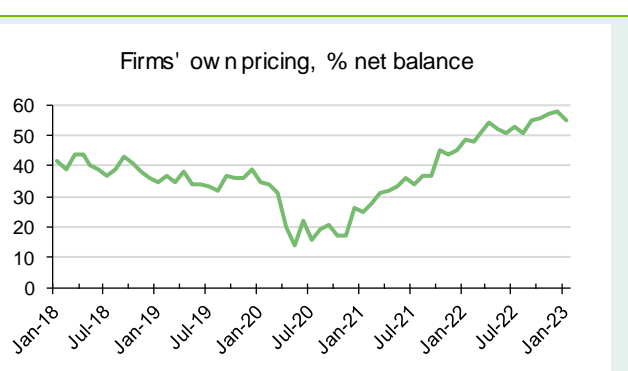
Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC

Chart 4: Pay growth still high



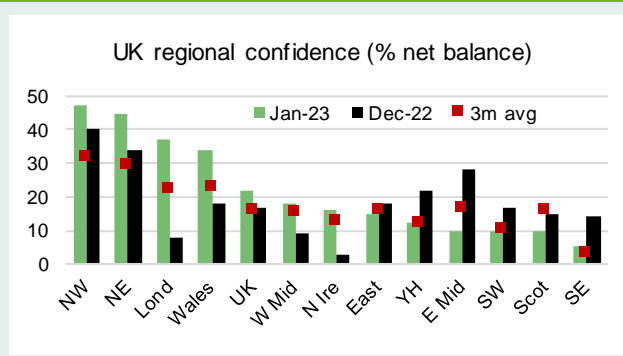
Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC

Chart 5: Inflationary pressures still elevated



Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC

Chart 6: London and Wales also up strongly



Source: Lloyds Bank Business Barometer (January 2023), BVA BDRC



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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 1–15 January 2023 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.