



PRESS RELEASE

BUSINESS CONFIDENCE DIPS, BACK TO LONG TERM TREND

The Lloyds Bank Business Barometer for May shows:

- Business confidence moved back to the Barometer's long-term average of 28%
- Confidence jumped in the South East but fell in other UK regions and nations
- Hiring intentions moderated slightly but this year's uptrend remained
- Firms' wage and own pricing expectations continued to be elevated
- Manufacturing and retail confidence gains were offset by pullback in services

Business confidence fell by five points in May to 28%, the first fall in three months, according to the Lloyds Bank Business Barometer. However, confidence levels remain in line with the Barometer's long-term average and firmly above last November's low of 10%.

The first decline since February was led by moderate falls in both firms' own trading prospects and their optimism regarding the wider economy.

Firms' assessment of strong trading prospects for the next twelve months fell for a second consecutive month, from 55% in April to 49% in May, but remain above levels seen earlier in the year (27% in January).

Optimism about the wider economy fell by six points to 22%, as 48% of companies (down from 53%) were more positive while 26% (up from 25%) were more negative. This month's decline may reflect firms having already accounted for the more upbeat economic news in recent months.

Hann-Ju Ho, Senior Economist Lloyds Bank Commercial Banking, said:

"As the economic environment remains challenging, compounded by stubborn inflation and higher wage pressures, business confidence has dipped slightly this month as firms feel cautious about the wider economy and their own trading prospects.

"However, while firms' trading prospects and economic optimism both eased back, they still remain in positive territory as the UK has avoided an outright contraction in GDP - indicating a certain amount of underlying resilience in the economy."

REGIONAL AND SECTOR INSIGHTS

Confidence fell in eleven of the twelve UK regions and nations this month. The South East was the only region to post an increase in confidence, rising to 30% (up from 11% last month). Elsewhere, the highest confidence levels were seen in London (43% compared to 47% in April) and the North East (35% down from 41%) after they registered moderate falls. The South West (30%), the North West (29%) and the West Midlands (30%) were also above the national average.

The remaining areas recorded larger month-on-month declines in confidence, notably Northern Ireland (down 1% to 42%), the East Midlands (down 17% to 41%) and Wales (down 18% to 32%). Confidence in the East of England (26%), Scotland (22%) and Yorkshire & The Humber (19%) was also below the UK average of 28%.

Media contacts

Babak Mayamey

07384 901669

Babak.mayamey@lloydsbanking.com

See it on social media



@LBGplc

#BusinessBarometer



Confidence among manufacturers increased to a one-year high of 40% (up from 29%), while retail registered a more modest two point rise to 26%, and construction remained robust at 34% despite its monthly nine point decline. Services confidence, however, fell back to 26% from 36%, almost erasing last month's rise. Overall, confidence across the broad sectors remains above levels at the start of the year.

EMPLOYMENT INSIGHTS

Following increases in the past five months, there was a slight pullback in hiring intentions in May with staffing expectations edging down from a ten-month high.

The net balance remained positive at 24% compared with 27% in April. Forty-four percent (down from 47%) plan to increase their workforce and 20% (unchanged) expecting to reduce headcount. However, this was still the joint second strongest reading since last summer.

Wage expectations remain elevated compared with pre-pandemic levels. The proportion of firms anticipating average wage growth of 3% or more was unchanged at 27%, but has risen from 23% three months ago. This is perhaps related to recent more positive momentum for hiring intentions, and remains well above an average of 10% in 2019. The share of firms expecting 5% pay growth rates fell to an eleven-month low.

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

"Although we've seen a slight slowdown in hiring activity this month, there is still an overall upward trend in hiring intentions this year, with improvements in labour availability as well. While businesses may be feeling less optimistic, it's still encouraging to see confidence is still in line with the Barometer's long-term average, consistent with positive growth.

"Wage pressures continue to be at higher levels than before the pandemic, which management teams will be closely monitoring. And with inflationary pressures persisting, businesses need to remain agile to the changing economic environment, while keeping a tight watch on costs and the structure of their finances."

PRICING INSIGHTS

The net balance of businesses expecting to raise their prices in the next year declined fractionally by 1 point to 56%. With 60% (down from 61%) of businesses reporting a likelihood of higher prices and 4% (unchanged) planning to cut prices. These are around the near high levels recorded in September 2022 and remain well above the pre-pandemic average of 36% in 2019.

Ends

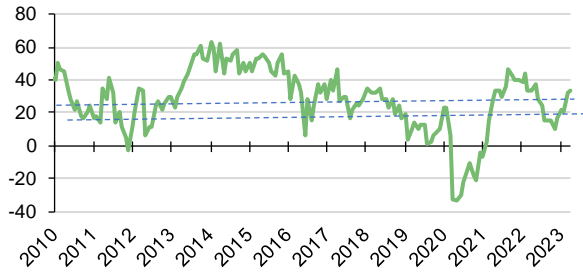
Chart 1: Confidence on an uptrend since late last year

Chart 2: Some signs of moderation this month



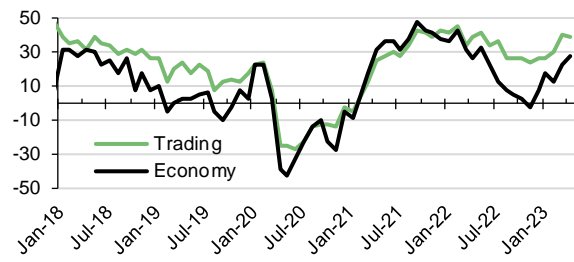
LLOYDS BANK

Overall confidence, % net balance



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

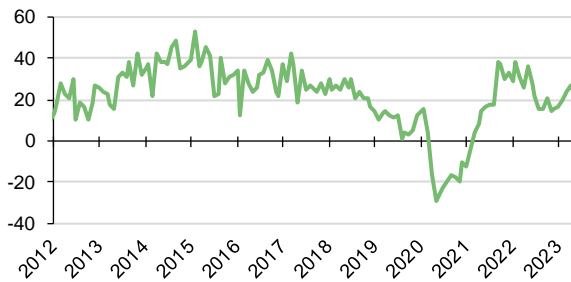
Trading Prospects and Economic Optimism, % net balance



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

Chart 3: Hiring intentions have improved this year

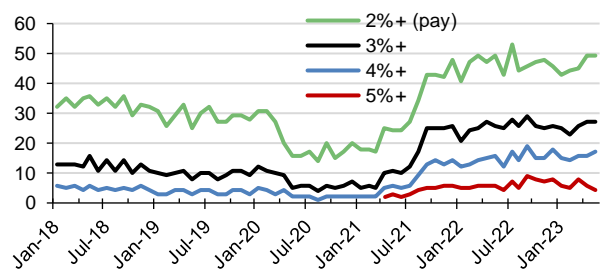
Staffing levels year ahead, % net balance



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

Chart 4: A decline in the share expecting 5% pay growth

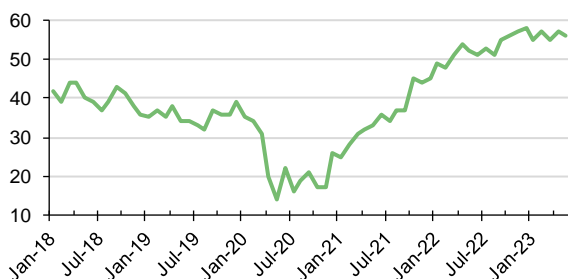
Pay expectations next 12m, % firms



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

Chart 5: Most firms plan to raise their prices

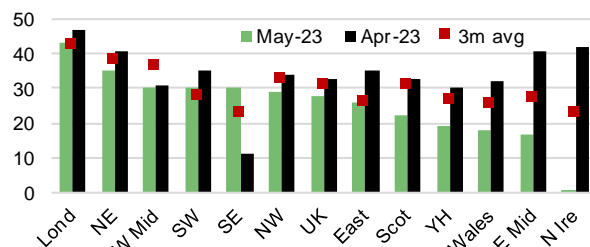
Firms' own pricing, % net balance



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

Chart 6: Confidence fell in most UK regions

UK regional confidence (% net balance)



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



Notes to editors

- The fieldwork for the Lloyds Bank Business Barometer was conducted during 2-18 May 2023 by BVA BDRC.
- The survey 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 @Lloydsplc on Twitter.