



LLOYDS BANK

# Business Barometer



Overall business confidence

**41%**



Monthly change

**+10 points**



Trading Prospects

**46%**



Economic Optimism

**36%**

## Business confidence surges to 18-month high

- **Business confidence up ten points**
- **Highest level of business confidence since before Russia's invasion of Ukraine**
- **Economic optimism rebounds, after 50 bps rise in interest rates did not materialise**
- **Trading prospects highest since December 2017**
- **Half of companies expect to increase headcount this year, with pay expectations remaining strong**
- **Confidence climbed in the construction, retail and service sectors**

Business confidence rose by 10 points to 41% in August to reach the highest level since February 2022 (44%), just prior to Russia's invasion of Ukraine.

The 10-point increase is the largest month on month rise since March 2023. Business sentiment was largely driven by a more upbeat view of the wider economy, after the latest rise in base rates of 25 basis points was lower than the 50 basis points increase some firms had been expecting. This led to an overall 15-point rise in economic optimism to 36%.

The August survey was conducted between August 1 and August 15, with most responses taken after the Bank of England's decision on August 3 to raise the base rate 25 basis points to 5.25%.

The rise in confidence followed a six-point dip in July to 31%, though this level was above the long-term average for the Barometer of 28%.

However, the rise in economic optimism was not consistent among those surveyed last month. Smaller businesses and mid-sized firms (turnover between £250,000 and £3 million, and £5 million to £25 million respectively) expressed a greater rise in optimism (smaller firms, 37% up 17 points, mid-sized firms, 39% up 17 points) in the economy than larger businesses (turnover of more than £25 million) (37%, up six points), reflecting bigger companies' exposure to global demand.

Firms' trading prospects rose for the third month in a row, with 57% (up two points) of firms anticipating stronger activity in the next 12 months, compared with 11% (down two points) expecting weaker outcomes. This results in the net balance increasing four points to 46%, the highest level since December 2017. However, manufacturers and large firms with turnover above £25 million were more pessimistic about their trading prospects. Manufacturers trading prospects fell 11 points to 35%, and large firms similarly decreased 10 points to 48%.



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## Employment insights

Companies hiring intentions rose to a 15-month high, with 50% (up four points), of firms expecting to increase their workforce. In contrast, 18% (down three points) plan to reduce the number of staff. The resulting net balance was up seven points to 32%, reflecting the stronger demand for staff among smaller firms and in non-manufacturing sectors.

The August survey saw some firming of wage growth expectations, with the proportion of firms expecting higher wage growth remaining elevated compared to pre-pandemic levels. Firms expecting any increase in the average wage of their employees rose 83% (up three points), the highest since this question began in 2018. Even firms expecting a 3% rise increased to 30% (up three points), also a record high.

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

“The bounce in economic optimism this month is the standout point. Our analysis shows that businesses felt relief that interest rates may be reaching their peak, alongside hopes that measures to tackle inflation are having an impact. With trading prospects remaining stable, and hiring and wage intentions also rising, the macro environment for small businesses and those outside the manufacturing sector is more upbeat.

“From the data, large firms and manufacturers are experiencing some degree of caution, which is likely to reflect the wider global economic environment and, for manufacturing, the rotation of spending towards services.”

## Pricing insights

Pricing expectations increased in August, with the net balance up three points to 56%. This is reflected in 61% (up four points) of firms intending to raise their prices and 5% (up one point) expecting to reduce them. However, these factors were not felt equally among all sectors, with manufacturers more likely to reduce prices.

## Sector insights

The construction, retail and service sectors all saw a rise in business confidence in August. Services gained 12 points to reach a 22-month high of 42%, while retail firms were up nine points to 44%, an 18-month high. Construction firms' confidence also increased by 11 points to a four-month high of 42%. In contrast, manufacturing confidence fell for a second consecutive month with a 4-point decline to 30%, taking it to the lowest level since April 2023.



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## Paul Gordon

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

“We’ve seen a strong rebound in confidence, now higher than at any time since the Russian invasion of Ukraine and well above the long-run average. Business optimism is helped by the outlook on peak interest rates and the direction of travel on inflation.

“However, this month we are seeing a clear difference in confidence levels between large and smaller firms. Larger firms are continuing to feel the headwinds of the overall macroeconomic climate, while smaller firms, which are more likely to trade locally, are benefiting from the counter-inflationary measures and relative economic stability.

“We are here to support businesses of all sizes and can offer expertise not just for those who trade in the UK, but internationally as well.

“Manufacturing confidence in the UK has fallen this month once again, reflecting the overall challenges for the sector in most major economies. Some manufacturing businesses continue to experience challenges with recruitment, resulting in upward pressure on wages. The Bank of England will need to consider carefully in its next decision for interest rates.”

## Regional Insights

Confidence increased across ten of the twelve UK regions and nations, with only Yorkshire & the Humber (32% vs 38% in July) and the East Midlands (25% vs 30%) reporting lower sentiment. London (52% vs 32%), the South East and the South West recorded the biggest monthly increases, as well as having the highest levels of confidence. Yorkshire & the Humber and the East Midlands, along with the North West, have the lowest confidence relative to the rest of the country. Confidence levels elsewhere were close to the UK average.

## Notes to editors

- The fieldwork for the Lloyds Bank Business Barometer was conducted during 1-15 August 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



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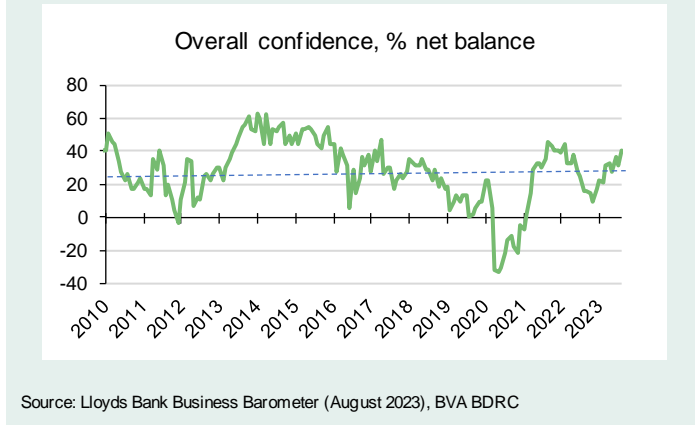


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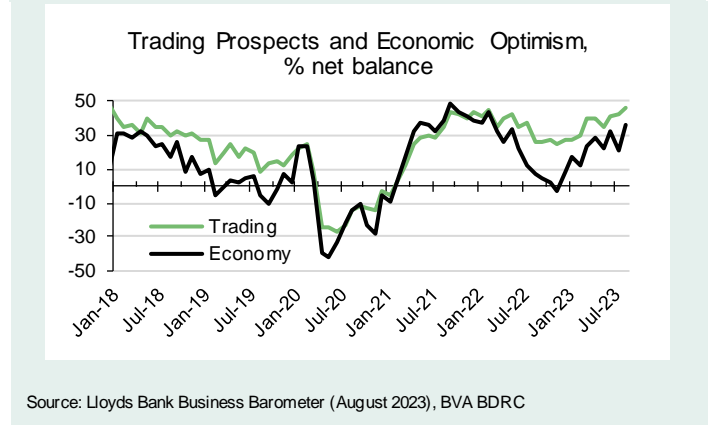
firm sizes with annual turnover above £250,000.

- 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.

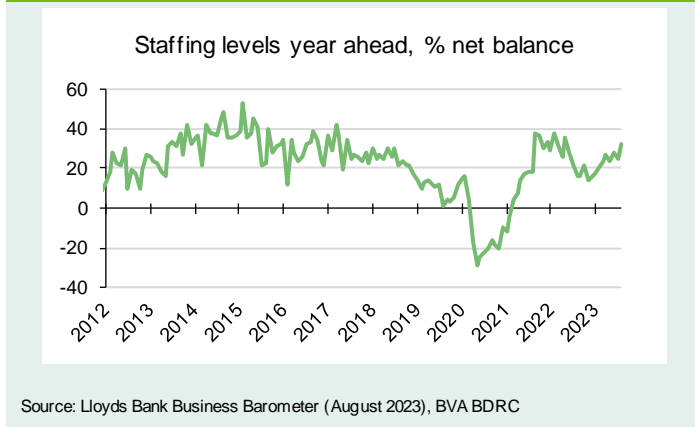
**Chart 1: Confidence at 18-month high**



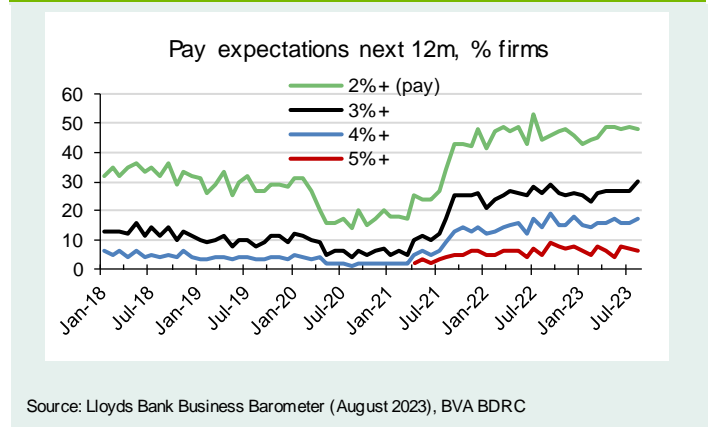
**Chart 2: Economic optimism rebounds**



**Chart 3: Employment expectations at 15-month high**



**Chart 4: New high in proportion expecting 3%+ rises**



**Chart 5: Price expectations close to the previous peak**

**Chart 6: Confidence up in most UK regions and nations**



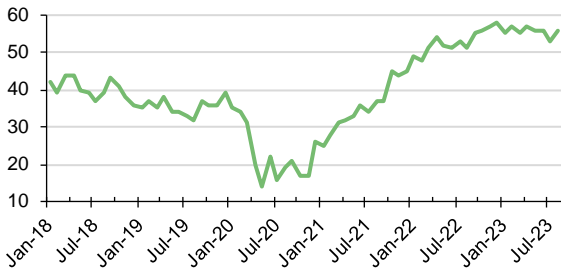
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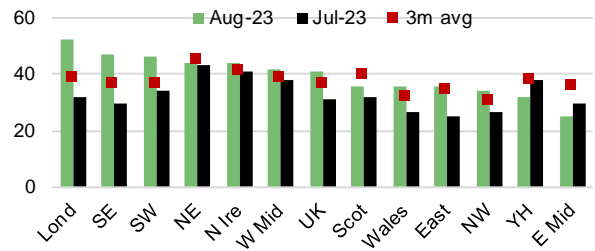
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Firms' own pricing, % net balance



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

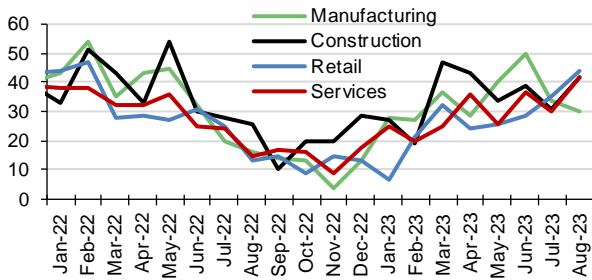
UK regional confidence (% net balance)



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

Chart 7: Confidence up except in manufacturing

Sector confidence, % net balance



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



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