



LLOYDS BANK

Business Barometer



Overall business confidence

35%



Monthly change

-7 points



Trading Prospects

44%



Economic Optimism

27%

Business confidence falls to end 2023 on more cautious note

- **Economic optimism falls to five-month low, but ends the year higher than December 2022**
- **Fewer businesses predict increase in staffing levels for 2024 than last month**
- **Over a third of companies expect to increase wages by at least 3% in the next 12 months**
- **Retail and construction firms outperform, while service sector sees decline in confidence**
- **North East businesses were the most upbeat, while eight out of twelve regions and nations saw confidence fall**

Business confidence fell by seven points in December to 35%, the largest one month decline since August 2022.

The fall in business confidence, while still significantly above the long-term average of 28%, was largely driven by businesses feeling more cautious about the wider economy. Despite the decline this month, confidence remains notably higher than a year ago, when business confidence was at 17% in December 2022.

The Barometer survey shows optimism about the wider economy decreased this month, with 50% (down seven points) of firms reporting greater optimism, while 23% (up four points) were less upbeat. The net balance therefore was down 10 points to 27%, the lowest since July.

Firms' confidence in their trading prospects were also dampened this month with 52% (down four points) of businesses anticipating stronger activity in the next 12 months, compared with an unchanged eight percent expecting weaker outcomes. This resulted in the net balance falling four points to 48%, bringing levels back in line with October's results.

Employment insights

Companies' hiring intentions cooled in December, following the highs seen in the previous month, mainly driven by lower hiring intentions in the service sector. The net balance of companies expecting to raise their staffing levels was down six points to 29%, back to levels last seen in September this year.

The proportion of firms planning to increase their headcount fell to 46% (down five points), while 17% (up one point) expect to reduce the number of employees. Hiring intentions continue to remain stronger than at the start of the year which saw a net balance figure of 17% in January, against 29% this month.



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However, expectations for average wage growth increased this month with 36% of companies (up six points) expecting pay growth of three percent or more, and 19% (up one point) expecting at least a four percent growth.

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

“This December data was collected following several key announcements, including energy prices rises and the UK economic outlook being revised down in the Autumn Statement. All of this will undoubtedly have had an impact on business confidence as we head into 2024.

“Businesses are also balancing cost pressures with a challenging labour market that will see increases to minimum wage in April 2024, as perhaps indicated in the wage growth figures, at a time when they are managing staff retention and recruitment decisions.

“However, over the course of the year confidence has steadily increased from an average confidence of 25% in the first three-months of 2023 and ending the year with a three month average of 39% - an indication of the positive trajectory business has seen this year. This provides a healthier position to begin 2024 with, compared to 2023.”

Pricing insights

The pricing expectations of companies fell in December following four months of increases between August and November. Sixty-two percent (down two points) of firms plan to raise their prices with an unchanged 3% planning to reduce them. This results in a net balance decreased two points to 59% from November’s all-time high.

Sector insights

Firms in the services industry reported a significant decrease in confidence, down 16 points to 30%, due to moderation in both trading prospects and economic optimism. Manufacturing confidence also eased back (38%, down seven points). However, retail and construction both bucked the trend with rises to 44% (up two points) and 37% (up two points) respectively.

Paul Gordon



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

“After some strong performances in November, a number of sectors have declined this month including services and manufacturing. However, both are still higher and stronger than a year ago. Retail and construction firms are both marginally more confident this month and significantly more so than in December 2022.

“Despite the falling confidence figures for this month, we can be comforted that businesses have been resilient during a year of challenging economic conditions and continue to be positive about the future.

“However, as recent ONS GDP data has shown, the UK near-term economic outlook remains tough and that will no doubt have an impact on consumer and business behaviour alike. If businesses take time to look at their financial stability now to ensure cash-flow remains a priority, as well as planning ahead their staffing levels and requirements, that should put them in good stead to both manage headwinds and seize opportunities in 2024.”

Regional insights

Confidence was highest in the North East (an unchanged 48%) and East of England (45%, down one point), with London (38%, down 18 points) also among the more confident regions, despite a sizeable fall this month. Similar decreases were recorded for the North West (32%, down 22 points) and Yorkshire & the Humber (33%, down 17 points) leaving their confidence levels slightly below the UK average. Overall, confidence fell in two-thirds (eight of twelve) of the UK's regions or nations.



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Notes to editors

- The fieldwork for the Lloyds Bank Business Barometer was conducted during 28 November -12 December 2023 (following the Autumn Statement on 22 November) 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 @Lloydspic on Twitter.

Chart 1: Confidence trended higher in 2023

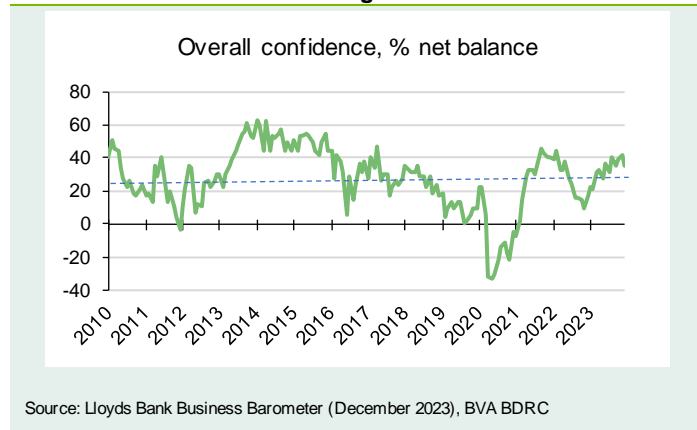


Chart 2: Trading prospects and economic optimism fell

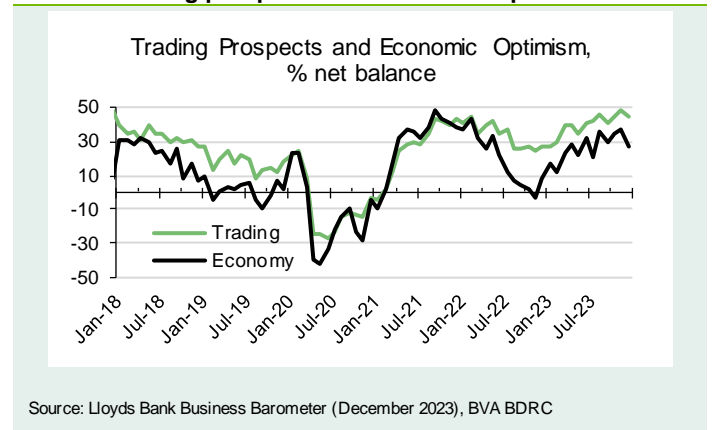


Chart 3: Hiring intentions edged lower

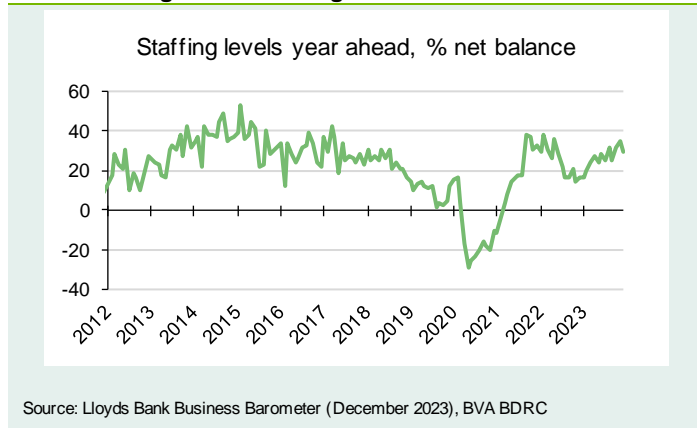
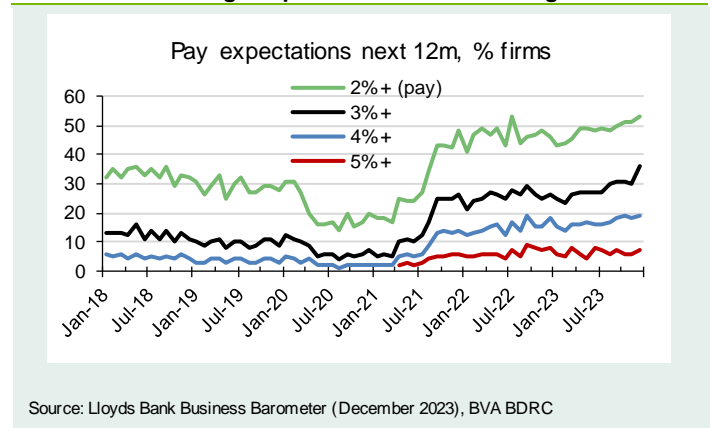


Chart 4: Firms' wage expectations remained higher



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Chart 5: Down from last month's high

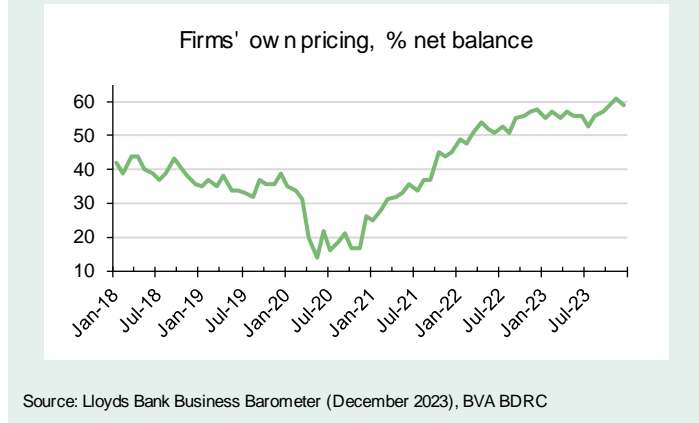


Chart 6: The North East and East of England on top

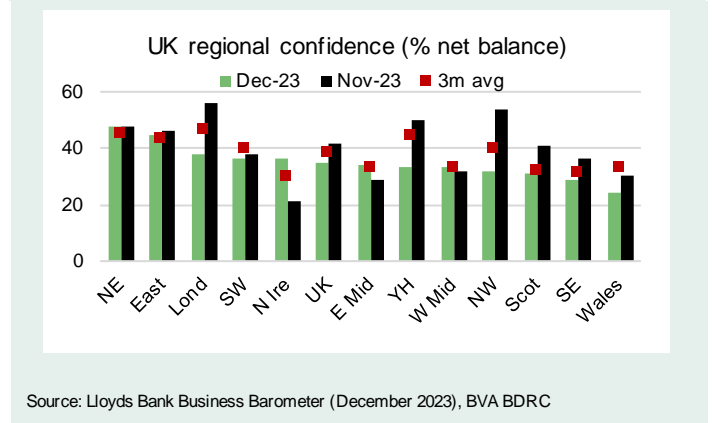
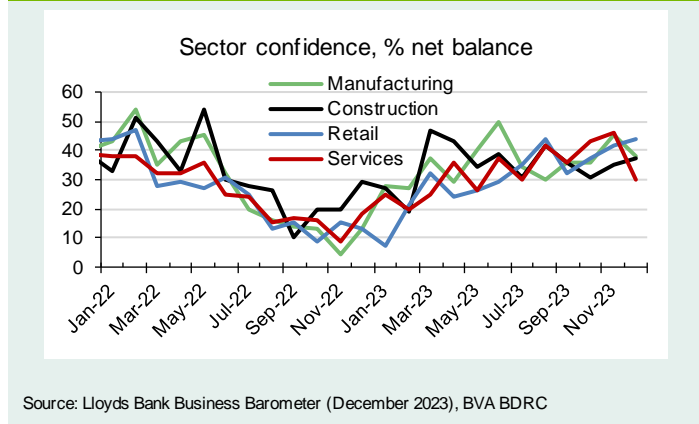


Chart 7: Retail and construction confidence rose



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