EMBARGOED UNTIL 00:01 Wednesday 31st October 2018

BREXIT UNCERTAINTY DRIVES BUSINESS CONFIDENCE TO ITS LOWEST LEVEL THIS YEAR

Lloyds Bank’s Business Barometer for October 2018 shows

- Overall business confidence had its sharpest drop this year, falling 10 points to 19% to its lowest level since August 2017
- Economic confidence fell sharply by 18 points to 8% to its lowest level since the start of the year;
- Confidence fell in almost all parts of the country; the steepest fall seen in Northern Ireland (-28 points) with Yorkshire and Humberside the only region to see a modest recovery in confidence of 6 points to 17%
- Concerns about the impact of Brexit negotiations were particularly high among firms with turnover above £100m, but also for SMEs with fewer than 50 workers
- Confidence fell significantly in the construction sector (22%, down 19 points) and manufacturing (21%, down 10 points)

Chart 1: Optimism about the economy drops to the lowest level this year

Chart 2: Sentiment falls in most parts of the country

Overall business confidence – an average of business prospects and economic optimism – fell sharply by 10 points to 19%, to the lowest level since August 2017; according to the latest Business Barometer from Lloyds Bank Commercial Banking.

The main driver of this was firm’s confidence in the outlook for the economy falling by 18 points to 8% the lowest level since the start of the year. Firm’s confidence in their own trading prospects also fell to 3 points to 29%.
Impact of EU-UK Brexit negotiations
Concerns about Brexit negotiations remain at the highest level this year, with the net balance of businesses stating that the decision was having a positive or negative impact on their business prospects fell from 9% to -7%, which is the most negative this year.

Brexit uncertainty appeared to be particularly high among larger firms with turnover above £100m. Small and mid-sized firms with fewer than 50 workers also indicated a greater degree of concern about the impact of Brexit.

As the pendulum has swung further into negative territory, the regional variations are becoming more evident. Nationally 40% of businesses stated that they would be more confident about their business prospects in the event of a Brexit deal, 16% said they would be less confident. Firms in the North West (52%) would be most confident if a deal was struck, which is in sharp contrast to Scottish businesses (29%) who would be the least positive if a deal was struck.

Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking commented:
“Business confidence is continuing to fall as firms become less optimistic about the wider economy. The confidence is impacted by the mixed rhetoric on the progress being made in the ongoing EU-UK negotiations.

Regional and sector variations
Confidence fell in almost all parts of the country with the steepest fall seen in Northern Ireland (2%, down 28 points); followed by firms in the South West (2%, down 23 points) and Scotland (5%, down 2 points).

Yorkshire and Humberside was the only region to see a modest recovery in confidence of 6 points to 17%. The most confident firms were in London (overall confidence at 37%, down 5 points) and the North West (36%, down 3 points).

Overall confidence fell significantly in construction (22%, down 19 points) and manufacturing (21%, down 10 points). It also declined in consumer services (29%, down 4 points) and other services (15%, down 9 points).

Recruitment intentions
The net balance of businesses intending to increase their payroll in the next twelve months fell 3 points to 21%. Overall, 39% (down from 42%) still expect to add to headcount, while an unchanged 18% anticipate a reduction in their staffing levels.

Firms expect to see a softening of wage pressures, as the share of firms anticipating average pay growth of 2% or more in the next twelve months. The proportion of firms with more than 250 employees anticipating more than 2% wage growth fell back to 43% from 50%, matching the lowest level seen earlier this year.

Paul Gordon, Managing Director for SME Banking said:
“Alongside a gloomier national outlook, we are seeing some regional variation in confidence from businesses. It is clear that many are cautiously waiting for more positive news, with many more likely to feel confident about their trading prospects if a Brexit deal was agreed.”
Notes to editors:

* 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.

** ‘Other’ services include financial, property and business services, education and health, and arts and entertainment.

- 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 BDRC Continental.

- This survey was conducted with 1,200 companies from 1st to 16th October 2018 from all sectors and regions of the UK. Prior to January 2018, the fieldwork was based on 200-300 companies.

- The results are reweighted to match proportions by size, sector and region of the total business population, as published by the Department for Business, Energy and Industrial Strategy and the Office for National Statistics.