



LLOYDS BANK

# Business Barometer



Overall business confidence

**31%**



Monthly change

**-6 points**



Trading Prospects

**42%**



Economic Optimism

**21%**

## Business confidence dips, despite stronger trading prospects

- **Business confidence down six points**
- **Trading prospects reach 14-month high, but tempered by lower optimism over the economy**
- **Firms expecting to raise prices hits lowest level since August 2022**
- **Retail sector shows higher confidence, reflecting stronger transport services**

Business confidence fell by six points to 31%, driven largely by lower economic optimism, which fell to a five-month low.

The confidence level in July remains above the long-term average of 28%, although it is below the average of 33% seen in the last three months and down from June's 13-month high of 37%.

Firms are now more than twice as likely to cite rising interest rates as their biggest concern, compared to six months ago.

Business confidence fell for three of the four main industry sectors, with only the retail sector showing resilience this month and reporting higher business confidence.

Firms' trading prospects were more upbeat this month, with 55% (unchanged) of businesses anticipating stronger business activity in the next 12 months, compared with 13% (down one point) expecting weaker outcomes. This results in the net balance increasing one point to 42%, the highest level in 14 months.

However, 49% (down five points) expressed greater optimism about the economy, while 28% (up six points) are more pessimistic. As a result, the net balance decreased by 11 points to 21%, the lowest level seen since January and the biggest one-month drop since June 2022.

## Employment insights

Pricing expectations fell to the lowest levels since August 2022, with 57% (down two points) expecting to increase prices, while four percent (up one point) anticipate reducing prices. The resulting net balance fell by three points to 53%, but remains high relative to pre-pandemic levels.

Firms' hiring intentions remain stable with 46% (unchanged) expecting to increase their workforce. However, 21% (up three points) plan to reduce the number of staff, the highest level seen in five months. The resulting net balance fell



## Contact

Charlotte Varney | [charlotte.varney@lloydsbanking.com](mailto:charlotte.varney@lloydsbanking.com) | 07384 909364



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three points to 25%, below the average of the last three months (26%), but higher than the average seen in the first three months of the year (20%).

Wage growth remains stable this month, following a steady increase in the past three months and the proportion of firms expecting higher wage growth remains elevated compared to pre-pandemic levels. In July, firms expecting at least two percent wage growth edged up one point to 49%, and those expecting three percent pay growth was unchanged at 27%, both in line with the averages for the past three months.

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

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“The Barometer presents a complex picture for firms this month, with the data showing that trading prospects remain strong with businesses feeling under less pressure by inflation to raise prices. However, there is clearly uncertainty about the wider economy and rising interest rates. This may be causing net hiring intentions to moderate slightly. Nevertheless, wages and jobs growth continue to support staff with the current cost of living.

“However, the sectoral analysis this month shows some positive signs for the retail sector, while there are indications that pent-up demand may be boosting confidence in tourism and travel. As businesses continue to adapt to the economic environment, we expect to see ongoing resilience broadly across all sectors.”

## **Sector insights**

Retail was the only broad sector registering higher confidence (up six points to 35%), mostly reflecting stronger transport services.

The fall in overall business confidence this month was led by the service sector sentiment falling by seven points to 30%. While the fall in confidence was seen broadly across this sector, hospitality firms appeared to be more resilient.

Confidence also was lower in manufacturing (down 16 points to 34%) and construction (down eight points to 31%).

### **Paul Gordon**

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

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“It’s not surprising that the challenging economic environment is continuing to weigh heavily on businesses and reduce their overall confidence. However, the resilience in their trading prospects, pricing and wage expectations is more encouraging.

“Increased spending in the retail sector is clearly having a positive impact and as we look ahead into the second half of the year, I am sure that businesses will be starting to gear up for the months ahead and ultimately to the busy Christmas season. Managing costs, staffing and inventory during this time is crucial to savvy financial planning, and business should not hesitate to reach out for business support should they require it.”



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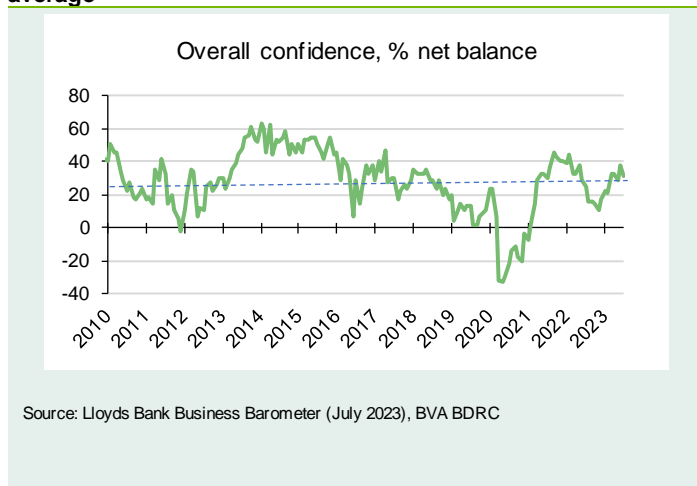
## Notes to editors

### Regional insights

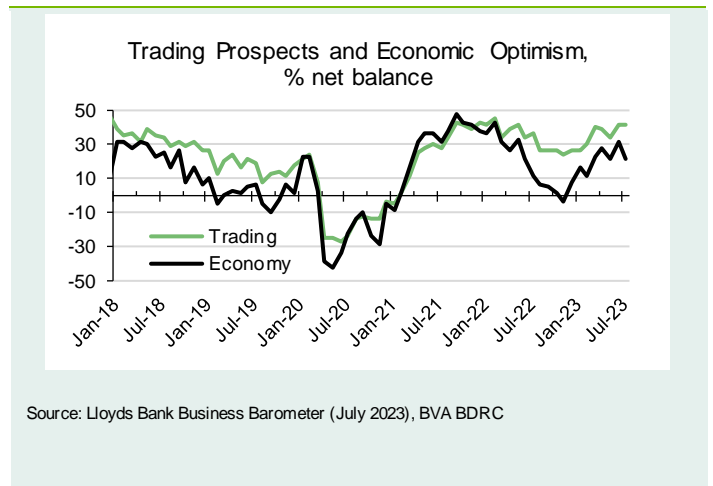
The divergence in business confidence narrowed across the UK's twelve regions and nations, with a fall in nine areas and a rise in three. The largest declines were in the East Midlands (down 22 points), Scotland (down 18 points) and the East of England (down 17 points). The rises occurred in the South West (up five points), the West Midlands (up two points) and Northern Ireland (up two points). This month's confidence levels were the highest in the North East (43%), Northern Ireland (41%), Yorkshire & the Humber (38%) and the West Midlands (38%), and lowest in the East of England (25%), Wales (27%) and the North West (27%).

- The fieldwork for the Lloyds Bank Business Barometer was conducted during 3-17 July 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.

**Chart 1: Confidence slipped but still above the long-term average**



**Chart 2: Economic optimism fell to a five-month low**



**Chart 3: Employment prospects still positive**

**Chart 4: Higher wage pressures remained widespread**



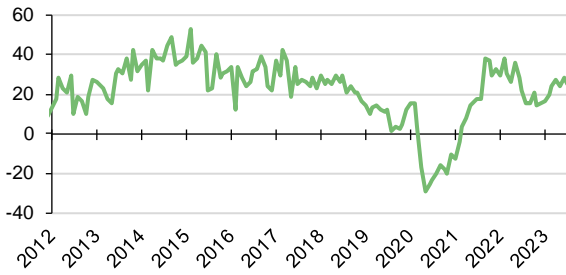
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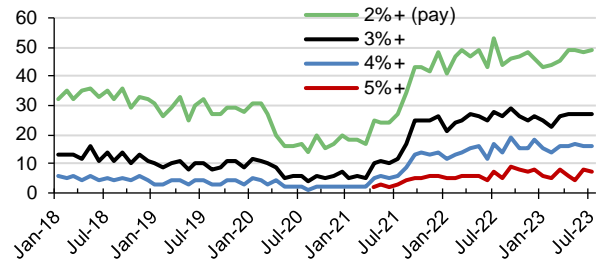
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Staffing levels year ahead, % net balance



Source: Lloyds Bank Business Barometer (July 2023), BVA BDRG

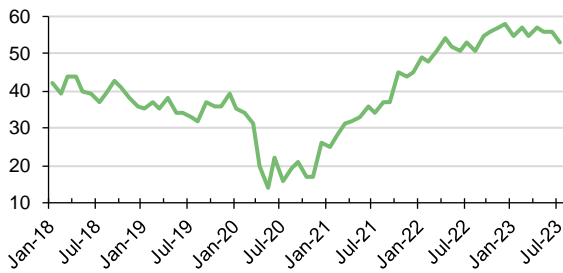
Pay expectations next 12m, % firms



Source: Lloyds Bank Business Barometer (July 2023), BVA BDRG

Chart 5: Start of a downtrend for prices?

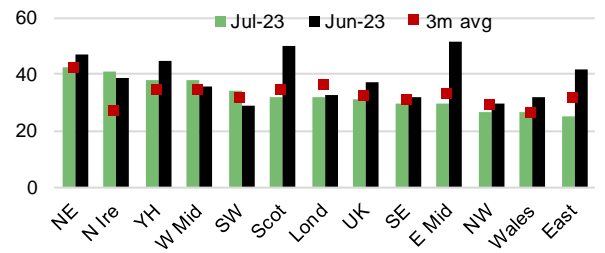
Firms' own pricing, % net balance



Source: Lloyds Bank Business Barometer (July 2023), BVA BDRG

Chart 6: Regional and country differences narrowed

UK regional confidence (% net balance)



Source: Lloyds Bank Business Barometer (July 2023), BVA BDRG

Chart 7: Confidence up only in retail

Sector confidence, % net balance



Source: Lloyds Bank Business Barometer (July 2023), BVA BDRG



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