



LLOYDS BANK

Business Barometer



Overall business confidence

36%



Monthly change

-5 points



Trading Prospects

41%



Economic Optimism

30%

Business confidence dips in September

- Average quarterly business confidence still higher than the first three months of the year
- Price expectations remain high as firms focus on maintaining margins to combat rising costs
- Manufacturing confidence rose to three month high, retail and service sectors show significant falls
- Yorkshire & the Humber, North West and East Midlands were the only regions to report an increase in business confidence

Business confidence fell to 36% in September, a five point dip from the 18-month high (41%) recorded in August, as companies saw a decline in both economic optimism and trading prospects for the year ahead.

While confidence has fallen it remains higher than the first three months of 2023 (20%). Firms' trading prospects were down this month with 52% (down five points) of businesses anticipating stronger activity in the next 12 months, compared with 11% (unchanged) expecting weaker outcomes. This resulted in the net balance falling five points to 41% versus 46% in August.

Optimism about the wider economy also reduced, with 51% (down four points) of firms reporting greater optimism, while 21% (up two points) were less upbeat. The net balance therefore fell six points to 30%, although this is still the third highest level during 2023.

Overall, confidence levels remain well above the 22-year average of the Barometer of 28%, reflecting an upward trend in confidence during 2023, as monthly rises have generally been larger than any subsequent fall in following months.



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

“While the gains in business confidence we saw in August have not been maintained, it’s important to see the wider trend clearly reflected in the data which paints a very different picture to this time 12 months ago, when the economy was in significant difficulties.

“Despite some month-to-month movements, if you look at the year in quarterly time periods, confidence has steadily risen from 20% in the first quarter, 26% in the second and now an average of 27% in the third.

“Although the economic environment remains uncertain with inflation and interest rate pressures playing their part, the recent decision by the Bank of England to leave interest rates unchanged is likely to help businesses feel more upbeat about the future, which may underpin confidence in the last three months of the year.”

Pricing insights

Pricing expectations increased marginally in September, with a one-point increase to 57%. The Barometer shows that firms are prioritising maintaining or increasing their profit margins, which is likely to be as a response to inflation. The number of firms planning to cut prices fell to 3% (down two points), although firms which plan to raise prices was also down by the one point (60% from 61%), offsetting some of the change.

Employment insights

Companies’ hiring intentions were down this month, although still 45% (down five points) of firms expect to increase their workforce, while 20% (up two points) plan to reduce the number of staff. The resulting net balance was down seven points to 25%, returning to the levels previously seen in July. However, hiring intentions remain stronger than at the start of the year and firms are clear in their desire to prioritise retaining and attracting staff.

The September Barometer saw some solidifying of wage growth expectations. Firms expect higher wage growth to remain elevated compared to pre-pandemic levels, with 78% of firms expecting to award an increase in pay. This is in contrast with 68% seen in 2019, while in the same year 17% expected to offer no pay increase - a stark contrast with the 6% seen in this month’s data.

While the proportion of firms expecting to increase salaries was down five points from August (78% versus 83%), the percentage is in line with the average for the year so far.



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Paul Gordon

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

“As part of the Barometer survey data, we asked firms what represents the biggest issue for the UK Economy. The overwhelming answer from businesses this month was a combination of inflation, interest rates and energy prices.

“With recent data from various organisations in August showing inflationary measures having their desired effect, including our own UK Sector Tracker which showed demand falling across most sectors, the coming months may see a more stable environment where prices are concerned.

“Energy prices, from the wholesale market, have decreased and while businesses are not eligible for the same consumer price cap, most businesses will have longer term agreements with energy suppliers that shelter them somewhat from short term volatility. However, as we move into winter, it would be prudent for businesses to review their utility contracts and see if there are savings to be made.”

Sector insights

The fall in business confidence this month centred around the retail and services sectors, following strong sentiment in August. Retail confidence fell to 32% (down 12 points) dragged down in particular by trading prospects, while services confidence declined to 36% (down eight points). Construction confidence also fell to 36% (down eight points). However, manufacturing was stronger, with confidence rising to a three month high of 36% (up six points).

Regional Insights

Yorkshire & the Humber (42%, up 10 points), the North West (38%, up four points) and the East Midlands (33%, up eight points) reported higher confidence this month. Yorkshire & the Humber, and the North West were also among the four regions, together with London (44%) and the West Midlands (36%), where confidence levels are above the UK average. Other areas reported varying degrees of lower confidence, with the largest drops in the South West (21%, down 25 points), the South East (33%, down 14 points) and Northern Ireland (32%, down 12 points). However, on a quarterly basis, confidence in most UK regions and nations was up in the third quarter as a whole compared with Q2.



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Notes to editors

- The fieldwork for the Lloyds Bank Business Barometer was conducted during 1-15 September 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 eased from 18-month high

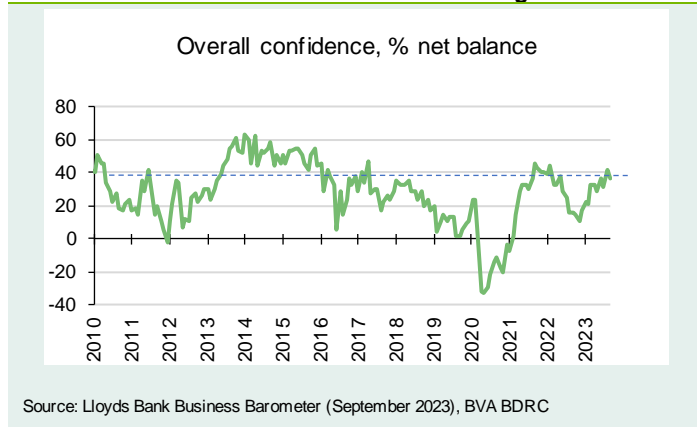


Chart 2: Trading prospects and economic optimism fluctuate

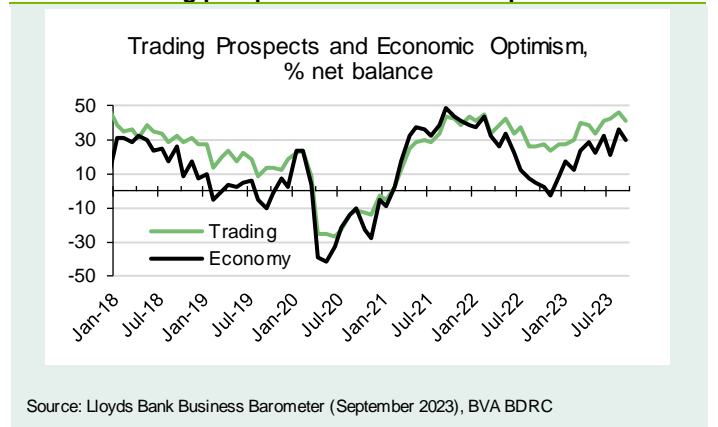


Chart 3: Staffing expectations pull back

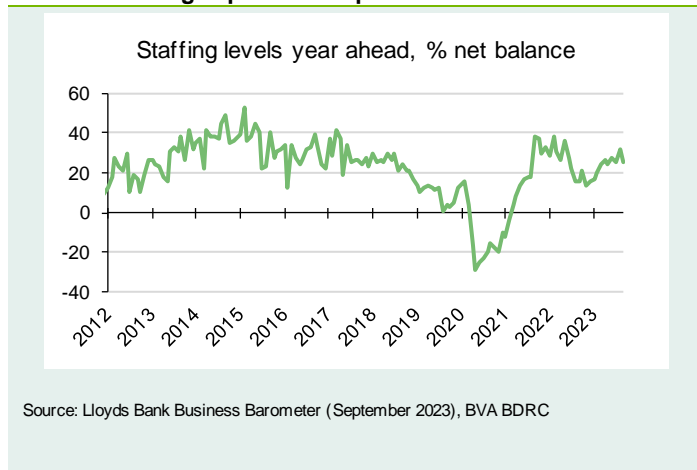
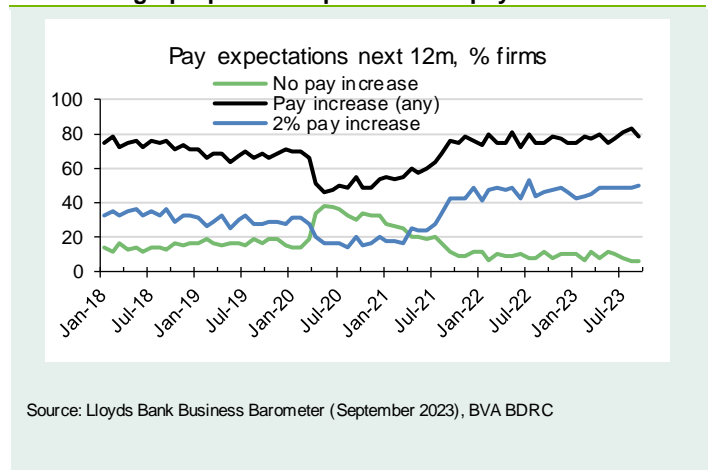


Chart 4: High proportion expect to offer pay increases



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Chart 5: Price expectations stay elevated

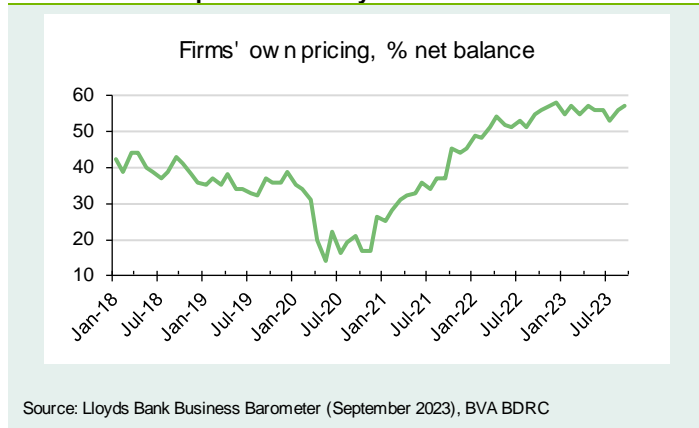


Chart 6: London and Yorkshire top the poll

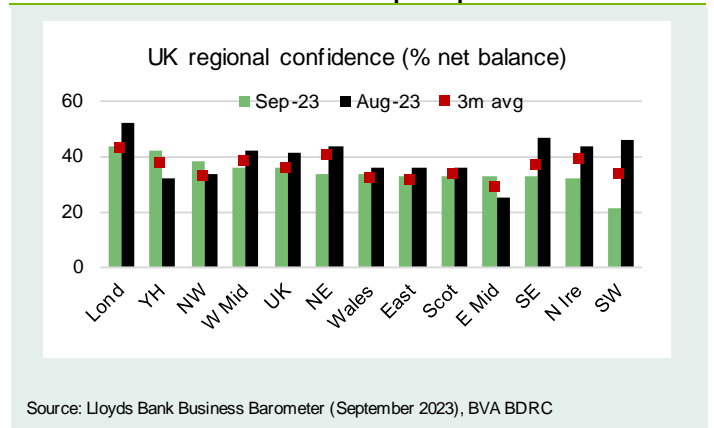
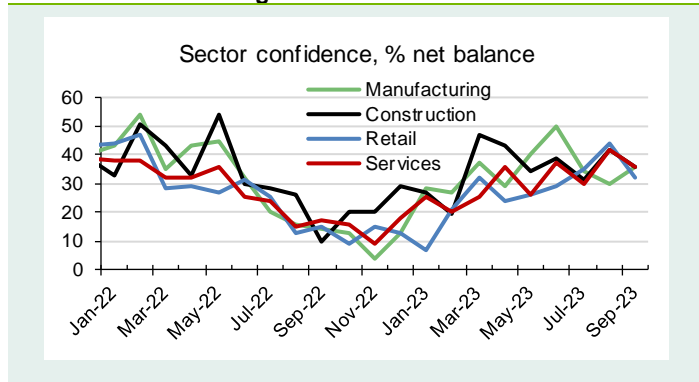


Chart 7: Manufacturing bucks the trend this month



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