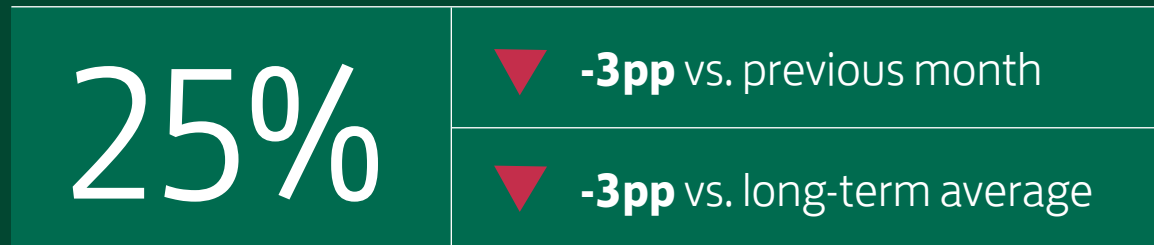


Business Barometer

July 2022



Overall business confidence



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Summary

Some resilience amid growing economic headwinds

Key highlights

- Largest firms in the survey report negative economic optimism for a second month
- Trading prospects remain relatively resilient despite a more challenging economic climate
- Businesses most concerned about inflation, followed by economic slowdown and labour market tightness
- Pay growth and pricing expectations remain elevated and have yet to show sustained falls
- Seven of the twelve UK countries or regions report lower confidence

Business confidence down for a second month

Overall business confidence fell by 3 points to 25% in July, led by a further deterioration in optimism about the economy, but firms' own trading prospects remained relatively resilient. Confidence is now below the long-term historical average of 28% for the first time since March 2021. The largest firms in the survey, with annual turnover of above £500 million, reported negative economic optimism for a second month in a row and are particularly worried about an economic slowdown. The wider business population, however, is most concerned about inflation and they maintain a net positive view on the economy. That positivity, however, has ebbed in recent months as economic uncertainties have increased.

Hiring intentions ease but pay growth remains elevated

Hiring intentions remain positive but continued to moderate, although twice as many firms expect to scale up rather than scale back their workforce in the year ahead. In the latest three months, employment expectations have been the most positive in

manufacturing and business services (including information & communication). There appeared little sign that wage and price pressures are trending lower. Indeed, the proportion of businesses anticipating average pay growth of 4% or more for their employees increased to an all-time high. The share of firms expecting to increase their prices, meanwhile, matched its record high.



Business confidence declined this month, suggesting that economic headwinds are becoming more forceful. Despite this, firms' assessment of their own trading prospects showed some resilience in the face of a challenging environment. Meanwhile, price pressures have shown no clear signs of a downward trend and there appears little sign yet that wage pressures are abating.

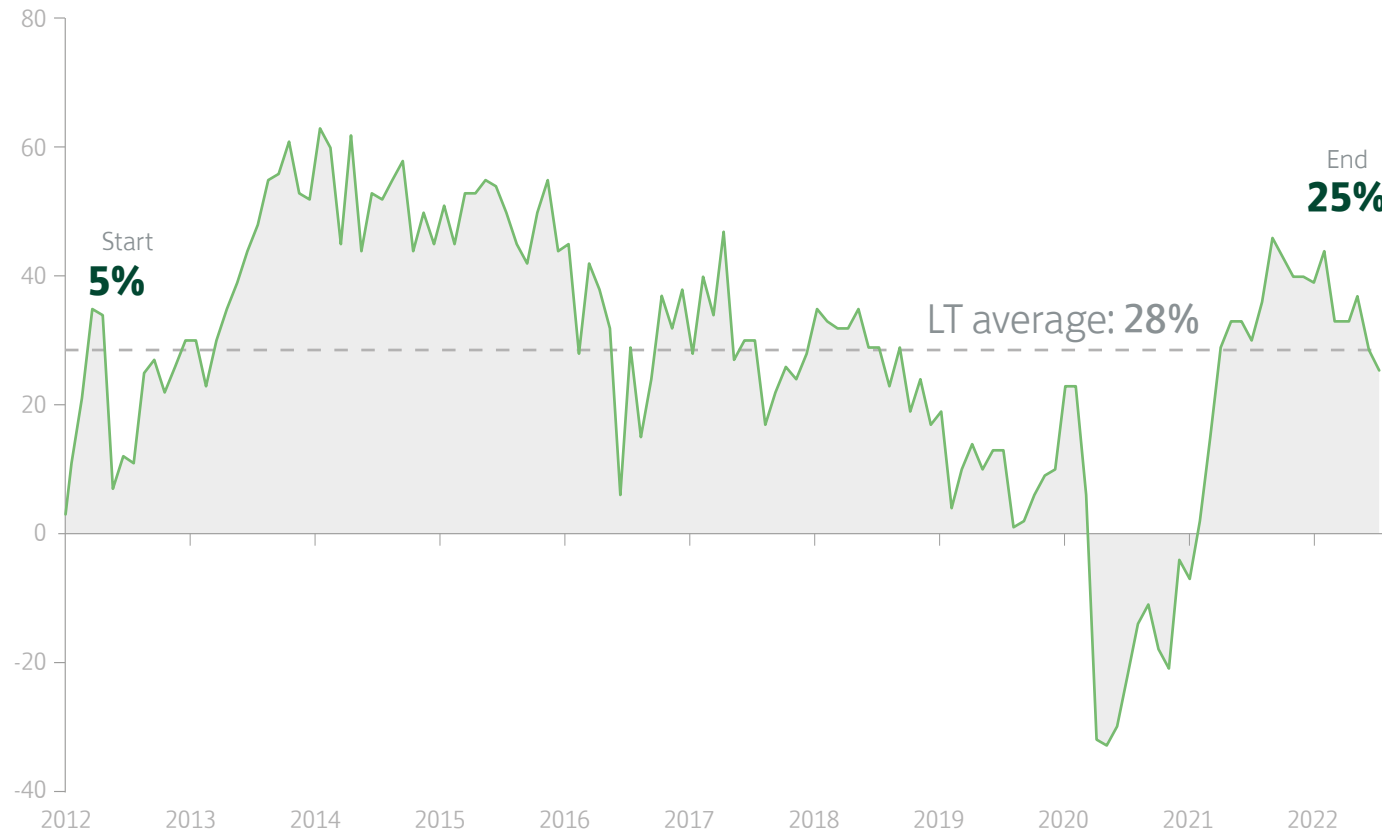


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Business confidence

Chart 1: Confidence drifting lower

% net balance



Source: Lloyds Bank Business Barometer (July 2022), BVA BDRC

Lower confidence led by assessment of the economy

Business confidence decreased by 3 points to 25% in July, falling below the long-term historical average of 28% for the first time since March 2021. The decline was driven by a further deterioration in firms' assessment of the wider economy. The net balance for economic optimism remained positive but dropped by 10 points to 12%. That decline reflected 46% (down 3 points) more optimistic about the economy and 34% (up 7%) less optimistic. The largest firms in the survey, with annual turnover more than £500 million, reported negative economic optimism for a second month.

Despite the more challenging outlook, businesses' assessment of their own trading prospects has remained relatively resilient in recent months, although weaker than at the start of the year before Russia's invasion of Ukraine. The net balance for trading prospects this month edged up 3 points to 37%, with 53% (up 4 points) more positive and 16% (up 1 point) less positive.

Employment insights

Hiring intentions ease for a second month

Companies continued to report positive net hiring intentions for the next twelve months.

The pace of expected headcount additions, however, eased for a second straight month to the lowest since the end of the furlough scheme last year. The net balance for staffing levels fell by 6 points to 22%, reflecting 45% (down 2 points) planning to scale up their workforce and 23% (up 4 points) expecting to downsize.

Over the past three months, employment expectations have been the strongest in manufacturing and parts of services including business services and information & communication, but less buoyant in the retail and wholesale sectors. And reflecting business confidence, the largest firms in the survey with turnover above £500 million reported a negative balance for net hiring intentions in contrast with the rest of the business population.

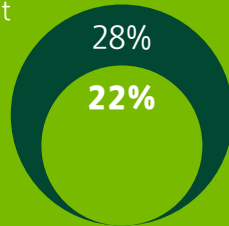
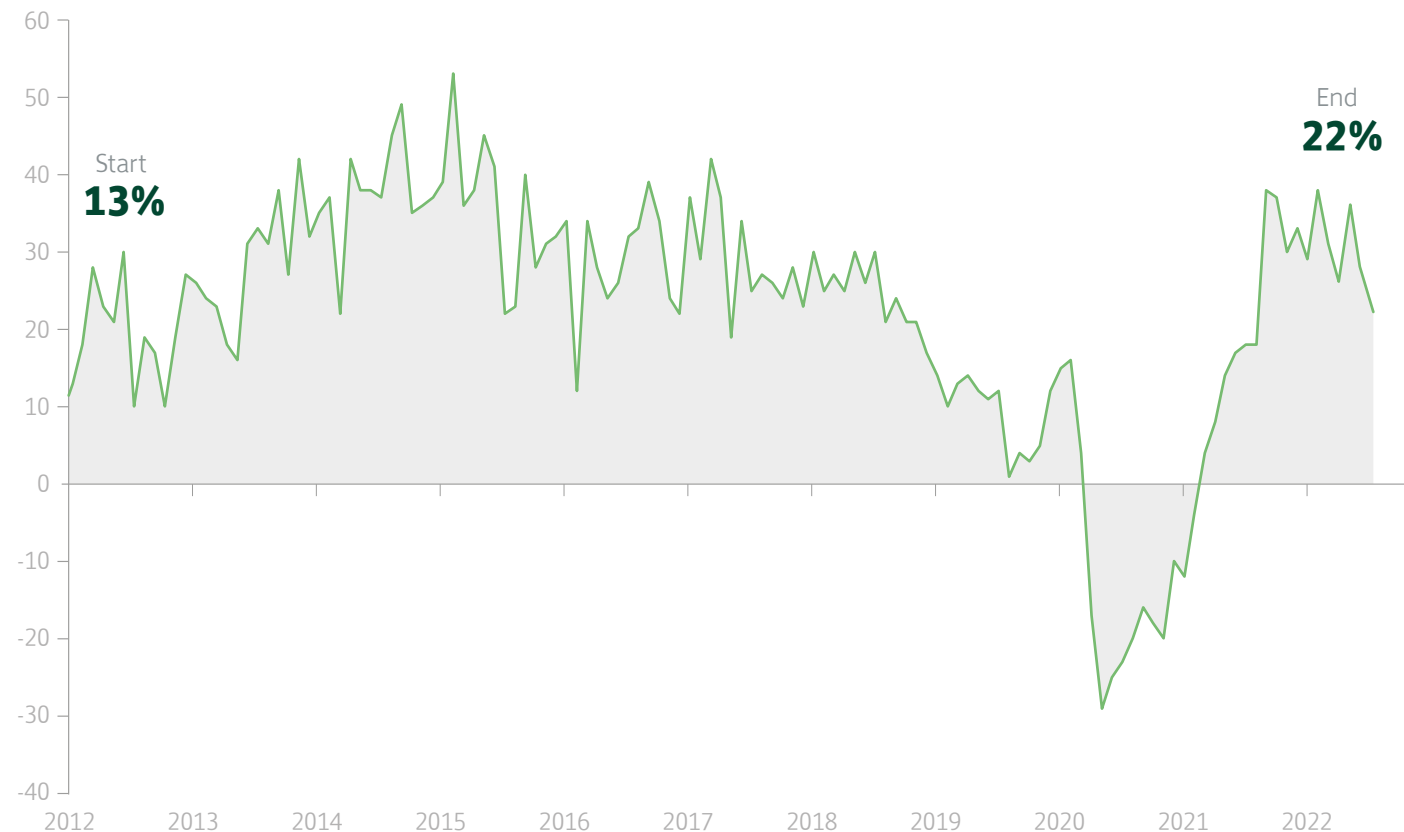


Chart 2: Employment expectations moderate further

% net balance reporting higher staffing levels, next 12m

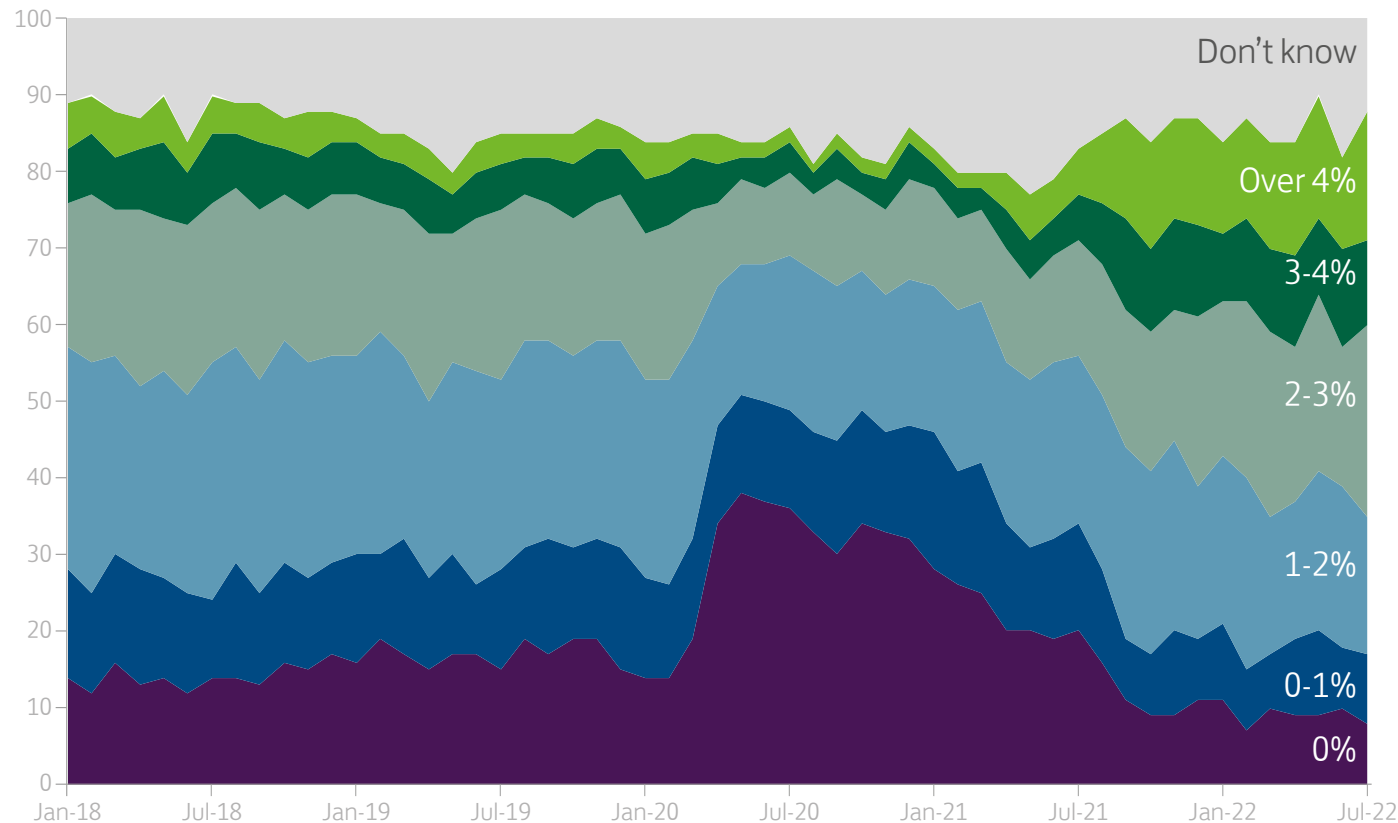


Source: Lloyds Bank Business Barometer (July 2022), BVA BDRC

Employment insights

Chart 3: Wage expectations pick up again

Pay growth expectations, next 12m % firms



Source: Lloyds Bank Business Barometer (July 2022), BVA BDRC

Wage pressures remain significantly higher than a year ago

Businesses reported a pickup in their expectations for wage growth in the year ahead following tentative signs of moderation last month. The proportion of firms expecting average pay growth of 4% or more for their employees reached an all-time high in the survey since the question began in 2018. In contrast, the share anticipating pay growth below 2%, including pay freezes, fell to a four-month low.

Overall, there appears little sign yet that expected wage pressures are easing on a sustained basis. Instead, they remain elevated compared with a year ago and before the Covid pandemic.

Pricing insights

Firms say inflation is their biggest concern

The proportion of firms expecting to increase their prices in the coming year increased to match the record high of 58% (up 2 points on last month), while an unchanged 5% planned to lower their prices. The resulting net balance rose by 2 points to 53%, just below April's all-time high. Price pressures in recent months appear to have reached a peak, but there are no concrete signs of a downward trend. The net balance remains sharply higher compared with a year ago (34%) and before the Covid pandemic (averaging 35% in 2019).

In this month's special questions, an overwhelming majority of firms said inflation is negatively affecting their business, suggesting that they have been able to pass on some, but not all, of their rising costs to their customers. Two-thirds (66%) said inflation is having a negative impact on their business compared with only 9% indicating it is positive. Moreover, inflation topped the list of companies' biggest concerns in the next six months, with 54% indicating that it is one of their top 3 biggest concerns.

Chart 4: Price pressures remain near highs

% net balance reporting higher prices charged in the next year



Source: Lloyds Bank Business Barometer (July 2022), BVA BDRC

Region insights

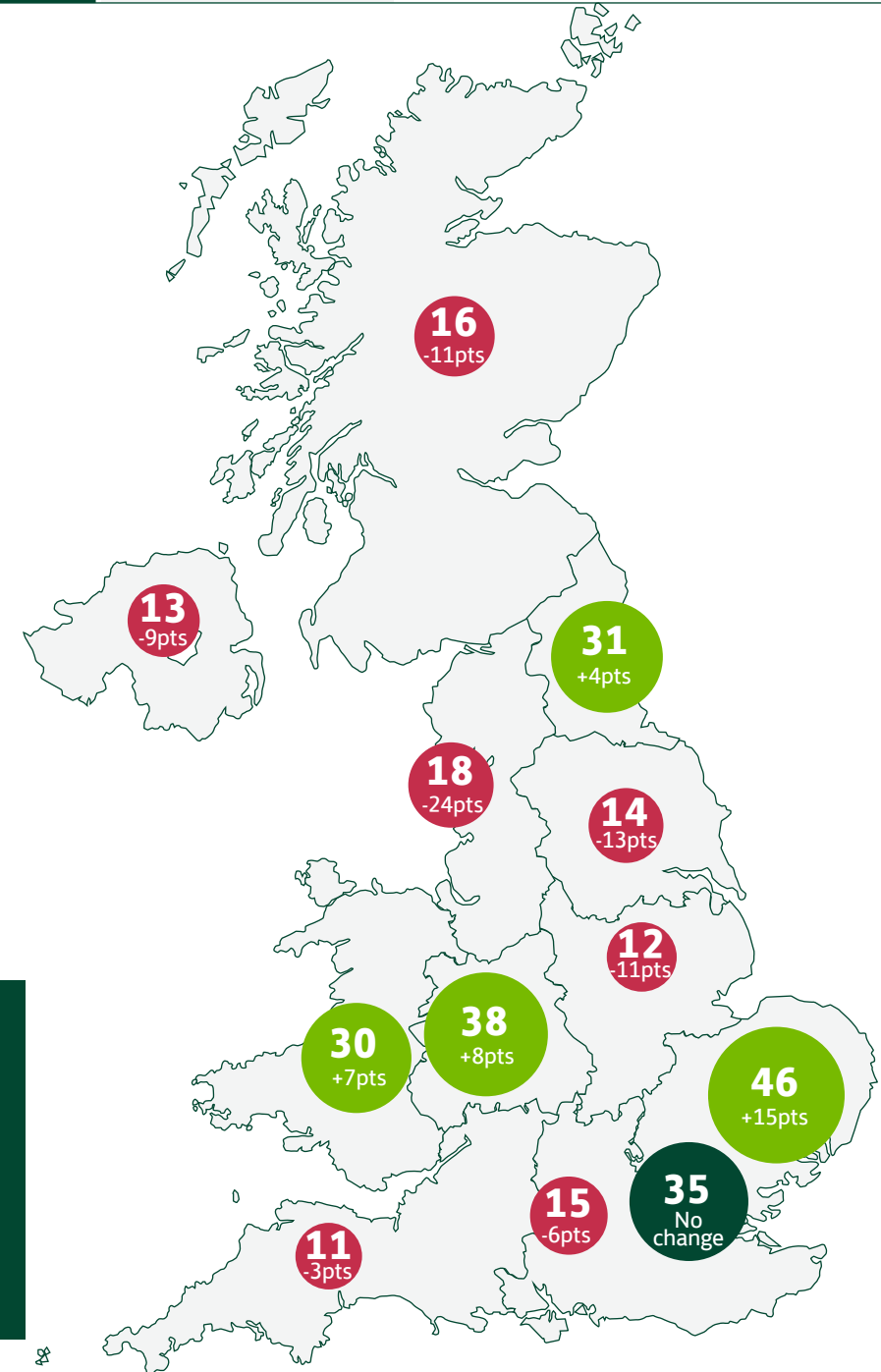
Most parts of the UK see lower confidence trend

Confidence increased in four of the UK's twelve regions or nations this month but fell in seven and was unchanged in one. The areas where sentiment improved are the East of England, the West Midlands, Wales and the North East. They were all above the UK average and in the top five of the most confident regions, along with London where confidence was unchanged at 35%.

The remaining seven registered lower confidence, with the biggest decline in the North West which seems out of step with its recent trend. There were smaller falls elsewhere. In summary, confidence remains in positive territory across all parts of the UK, but most areas have seen confidence trend lower in recent months.

Chart 5: Confidence lower in seven UK regions

UK



With economic pressures gaining momentum, this is undoubtedly a challenging time for businesses. Naturally, concerns around an economic slowdown continue to bear down and it is important that firms keep a tight rein on input costs where they can and a close watch on profit margins in what are already tough conditions.



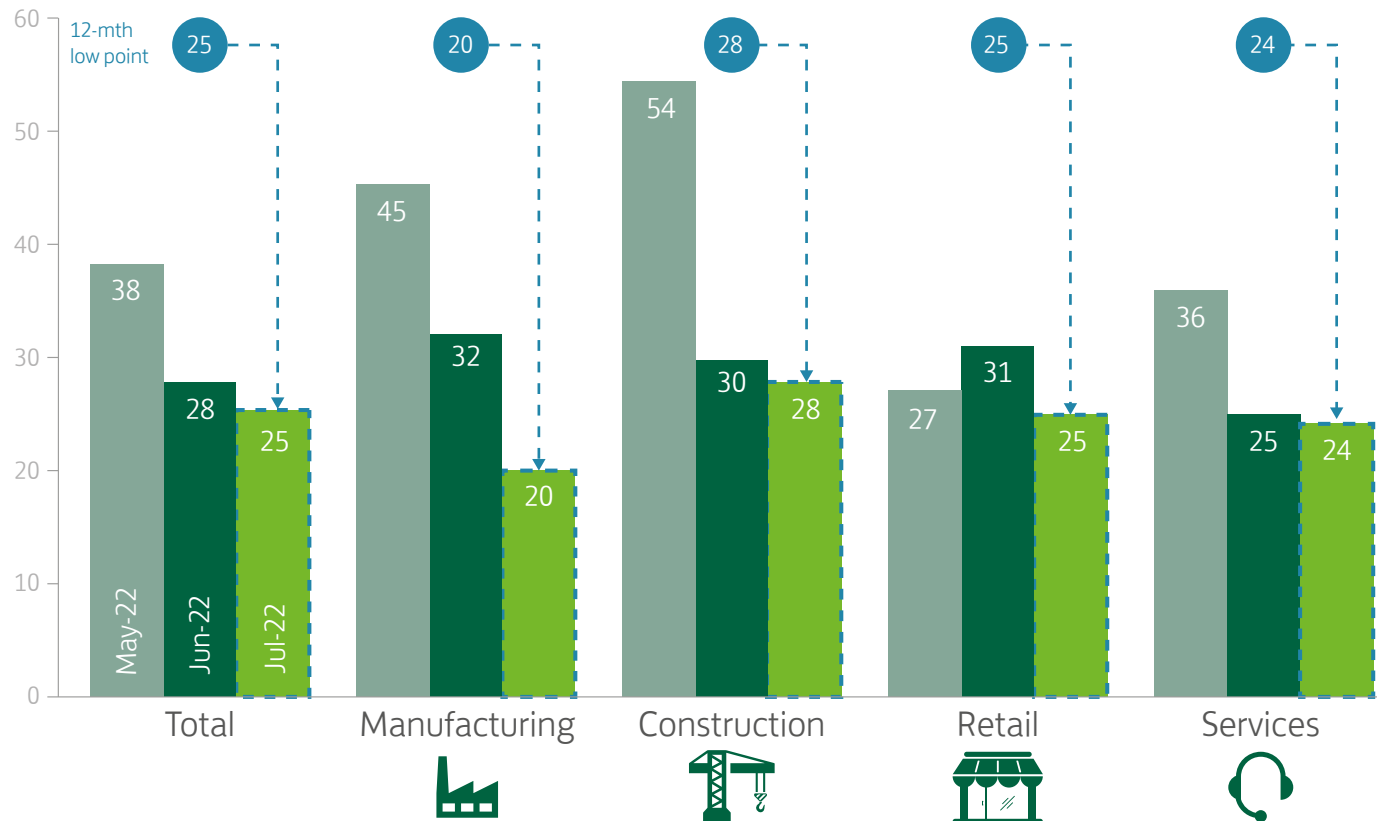
Paul Gordon

MD for SME and Mid Corporates
Lloyds Bank Business & Commercial Banking

Sector insights

Chart 6: Confidence declined across the sectors

% net balance



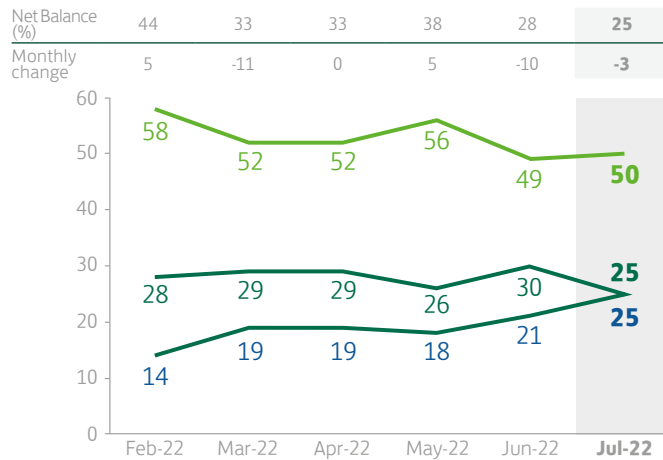
Bright spots in parts of services

Business confidence declined across the four broad industry sectors in the survey, reflecting lower optimism about the economy and mixed signals regarding trading prospects. Confidence within manufacturing declined the most this month, with firms citing moderating trading prospects and a notable drop in economic optimism. Concerns about inflation and supply bottlenecks are particularly high in manufacturing. There were small falls in confidence for construction, retail and services. Weakening demand is a particular concern in retail, while within services, trading prospects remained strong in business services and information & communication.

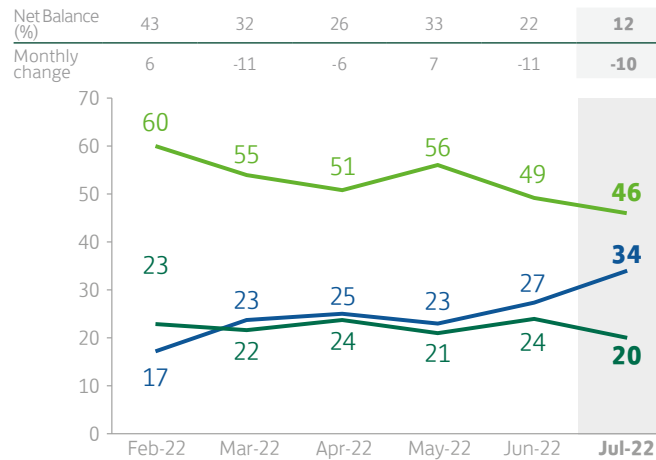
Month-on-month trends

Higher Same Lower

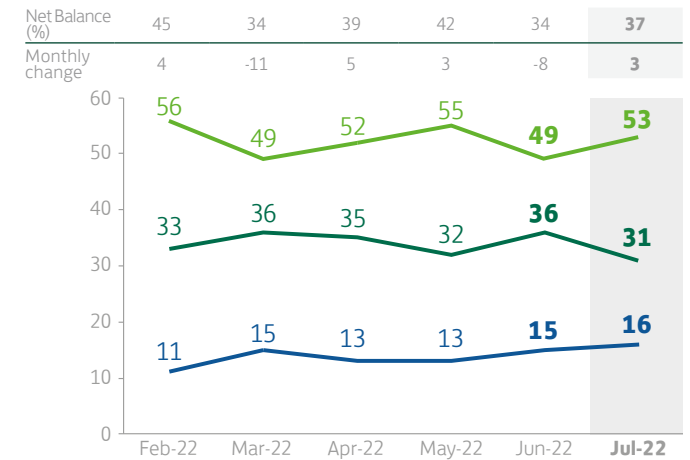
Overall business confidence



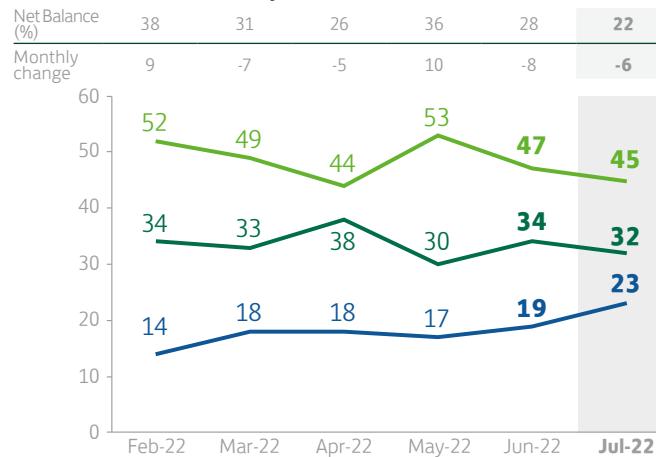
Economic optimism compared with three months ago



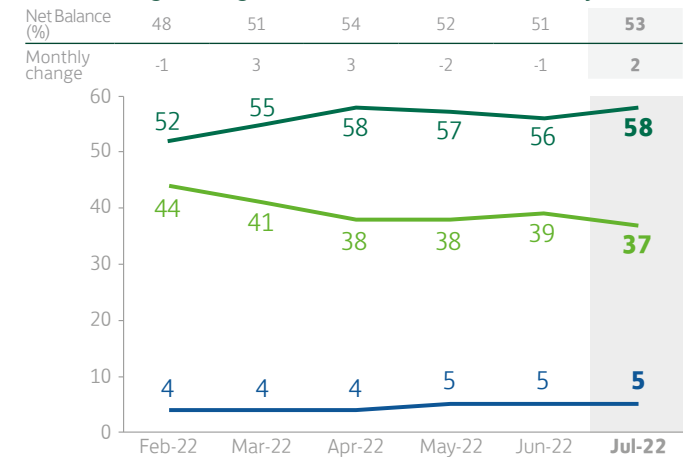
Trading prospects in the next year



Staff levels in the next year



Prices charged for goods and services in the next year



4 out of 12
of the UK's regions saw a month-on-month increase in confidence in July.

Methodology

The fieldwork for the Lloyds Bank Business Barometer was conducted during **1 – 16 July 2022** by BVA BDRC. The sample size was expanded in January 2018 and now covers the online responses of a sample of 1,200 UK companies each month from all industry sectors, regions and firm sizes, including those with annual turnover below £1 million.

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.

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