

COMMERCIAL BANKING

# Business Barometer

September 2021



46%

Overall business confidence

By the side of business



LLOYDS BANK



# Introduction

## Businesses in ebullient mood ahead of rising supply disruptions

- Business confidence in September increased by 10 points to 46%, the highest since 2017
- Sentiment improved in nine of the twelve UK regions and across the broad sectors, including manufacturing and services
- Employment prospects rose to a 4½-year high, while expectations of higher wage growth broadened
- Recruitment difficulties were most prevalent in services, affecting the ability of a third of firms in the sector to meet demand
- Supply chain disruptions were the biggest constraint on activity overall, especially in manufacturing

Optimism about the wider economy increased by 10 points to 48%, the highest since 2015, with 62% (up from 54%) more upbeat and 14% (down from 16%) less positive.

### Significant staffing and supply chain issues

Our special questions revealed businesses have recently experienced significant recruitment difficulties, with 39% reporting a lack of candidates with the right skills or experience and 30% citing a lack of applicants, while only 15% said it was becoming too expensive to hire or too difficult to compete on pay.

The skills issue appeared to be more widespread in manufacturing and some parts of services including health and financial & business services,

while a lack of applicants was more common in wholesale and in services more generally.

The biggest impediments for businesses in meeting demand were supply chain disruptions and shortages of raw materials (or goods), followed by staffing issues. Forty-six percent said they recently experienced constraints on output due to supply chain disruption, while 39% cited shortages of raw materials or goods, and 28% of firms mentioned staffing issues.

Supply chain disruptions were more widely reported in manufacturing, construction and retail, while staffing issues were more extensive in services, affecting a third of companies.

### Confidence rises further above the long-term average

Business confidence increased by 10 points to 46% in early September, ahead of the growing pressures on the UK's fuel pricing and supplies. Confidence moved further above the long-term average of 28% to reach the highest level since the spring of 2017. The rise was driven by both stronger trading prospects for the year ahead and greater optimism about the wider economy.

Employment intentions picked up strongly, rising to the highest level for four and a half years, while stronger wage growth expectations became more

prevalent. Despite this, output price expectations were steady, although they have risen since the start of the year. Overall, firms were in ebullient mood despite facing a number of challenges, including difficulties in recruitment and meeting demand (see special questions section below).

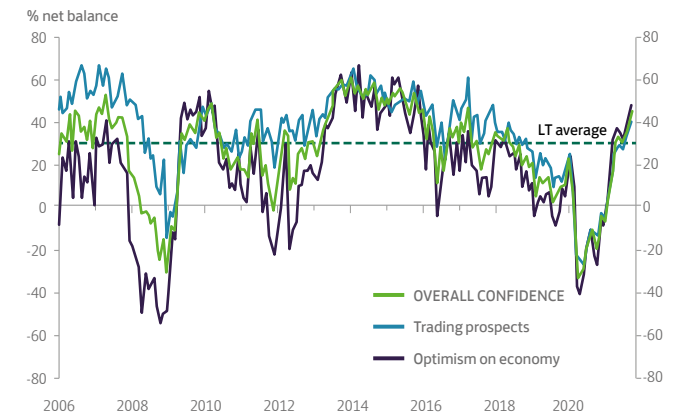
The detail for business confidence shows that the net balance for trading prospects climbed 9 points to 43%, reflecting more than half of firms (55%, up from 48%) expecting stronger business activity in the year ahead, while only 12% (down from 14%) anticipated weaker prospects.

9 out of 12

UK regions and nations recorded growth in business confidence during September



Chart 1. Business confidence at new pandemic high



Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC

Chart 2. Hiring intentions gains momentum



Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC



# Employment insights

## Employment and pay outlook strengthen

The net balance of firms expecting to increase staffing levels over the coming year jumped up by 20 points from 18% to 38%, the highest since early 2017. More than half (54%, up from 35%) of businesses said they expect to add to their workforce, while 16% (down from 17%) anticipated a lower headcount. As the government furlough scheme

winds down, the result points to a re-acceleration in hiring momentum across sectors and regions.

Pay growth expectations continued to pick up, with indications that it is broadening across firms and sectors. The proportion anticipating an average wage increase of 2% or more in their business over the coming year increased to 43% from 34%, the highest since the question

began in 2018. With the latest CPI inflation reading at 3.2% in August and predicted to rise further in the coming months, the share expecting at least 3% pay growth increased to 25% from 17%. More specifically, 13% of firms envisaged increasing wages by 4% or more, exceeding the 11% expecting a pay freeze.

Despite indications of rising costs, the firms' goods and services net price balance for

the next twelve months was unchanged at 37%. It was nevertheless the joint highest since the end of 2019 and has risen since the start of the year. Forty-three percent (down from 44%) expect to raise their prices, offset by 6% (down from 7%) anticipating lower prices. Output price expectations were particularly elevated in manufacturing and parts of services including among hospitality firms.

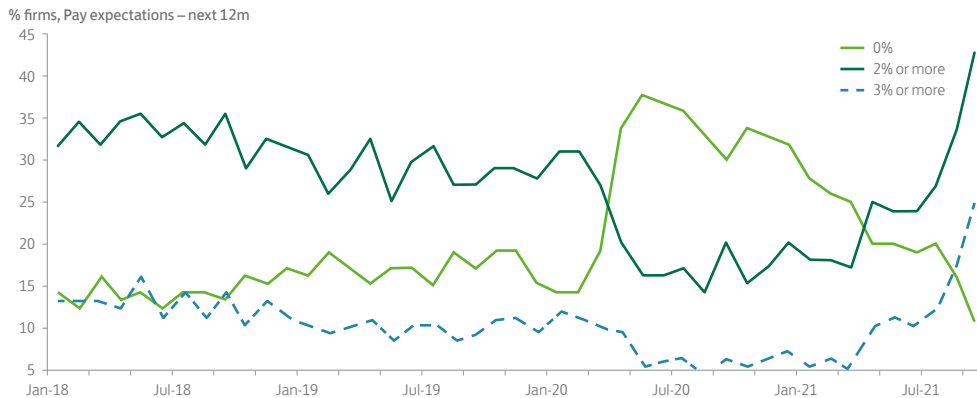


It remains encouraging to see a further improvement in business confidence reaching its highest level since April 2017. Employment expectations have risen significantly, with more than half of businesses expecting to recruit in the next 12 months. The hope is that the availability of labour will increase to alleviate current staff shortages for many firms, which will help to underpin UK economic growth over the medium term.



**Hann-Ju Ho,**  
Senior Economist  
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Chart 3. Strengthening wage growth expectations



Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC

Chart 4. Output price expectations steady for this month



Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC



# Region and sector insights

## Nine out of the twelve UK regions and nations registered an increase in business confidence this month.

London moved to the top spot with a 21-point jump to 62%, followed closely by the North East's 15-point gain to 61%. Yorkshire & the Humber leapt into third place with an increase of 22 points to 48%, while North West confidence remained strong in fourth

spot but pulled back to 47% from last month's very robust outturn.

Both the East Midlands and West Midlands increased by 19 points to 47% and 46%, respectively, to near the national average. Also at or near the UK average were the South West (up 10 points to 47%) and Wales (up strongly by 27 points to 46%), while Scotland gained

5 points to 39%. There were mixed performances in the remaining three UK regions, with the South East unchanged at 32% and the East of England down 9 points to 30%, while Northern Ireland rose 3 points to 21%

Confidence increased across the four broad sectors, notably in manufacturing and services. Manufacturing confidence rose by 9 points to a four-

month high of 49%, while services gained 11 points to 47%, the highest since early 2017, with particularly strong trading prospects in hospitality and financial & business services. Retail confidence improved by 8 points to a four-month high of 42%, while construction only edged up by 1 point to 41% which was nevertheless a three-year high.



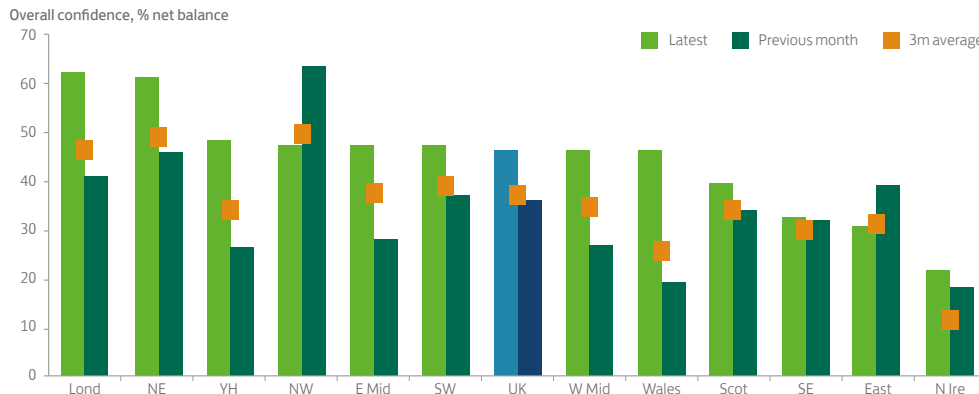
The economic growth outlook strengthened in the first part of September following rises in business confidence across nine of the 12 regions and nations.

There are obvious challenges ahead in terms of labour availability, and the impact this has on the post pandemic recovery. It also remains to be seen how the recent events in the fuel market might impact businesses' outlook. However we can seek comfort in recent progress across the sectors and of the levels of confidence recorded in manufacturing, hospitality and financial & business services.



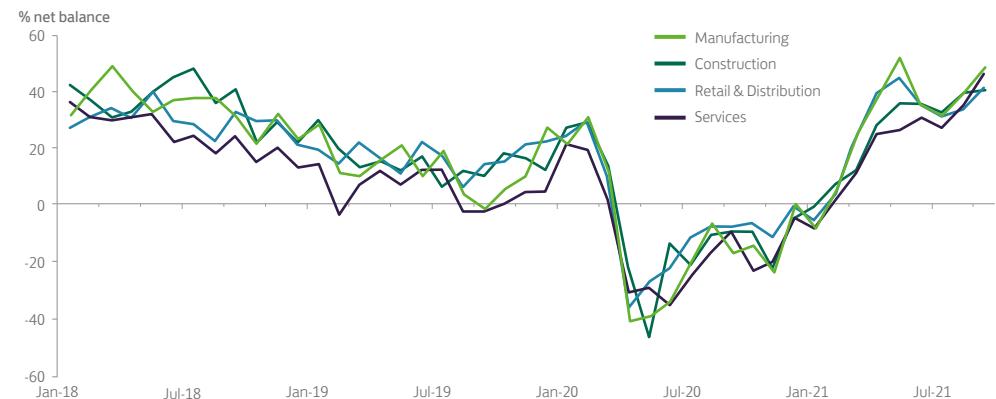
**Paul Gordan,**  
Managing Director for SME and Mid Corporates  
Lloyds Bank Commercial Banking

Chart 5. London and Northern England in top spots



Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC

Chart 6. Stronger confidence across sectors



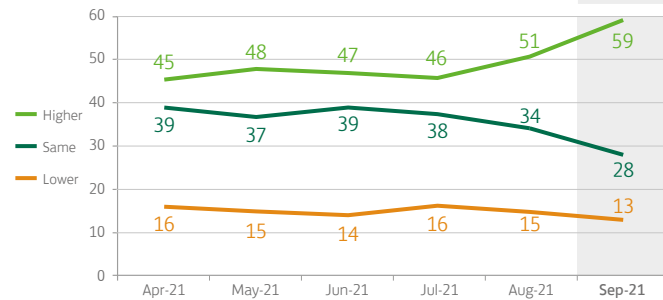
Source: Lloyds Bank Business Barometer (September 2021), BVA BDRC



# Month-on-month trends

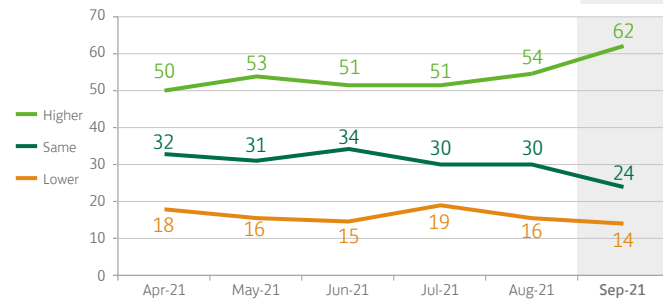
## Overall business confidence

Net Balance (%)	29	33	33	30	36	<b>46</b>
Monthly change	14	4	0	-4	6	<b>10</b>



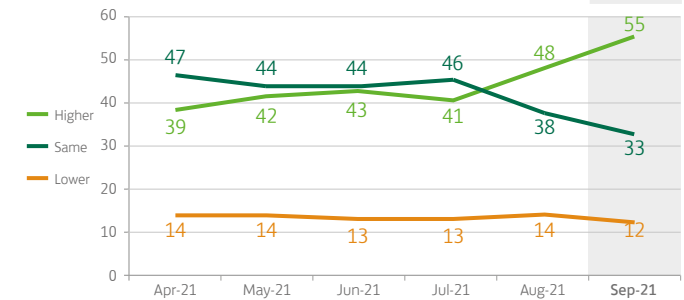
## Economic optimism compared with three months ago

Net Balance (%)	32	37	36	32	38	<b>48</b>
Monthly change	15	5	-1	-4	6	<b>10</b>



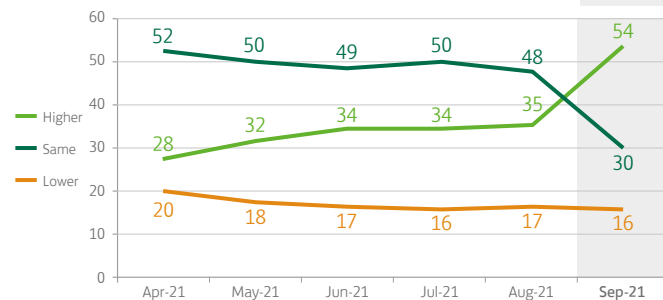
## Trading prospects in the next year

Net Balance (%)	25	28	30	28	34	<b>43</b>
Monthly change	13	3	2	-2	6	<b>9</b>



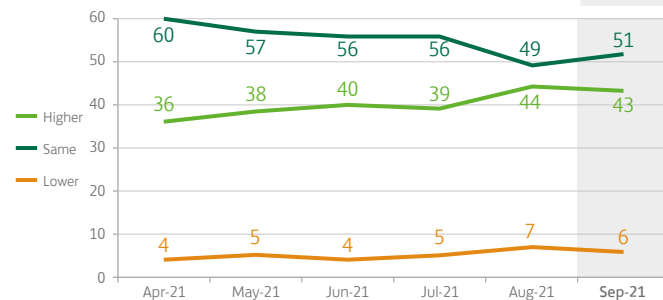
## Staff levels in the next year

Net Balance (%)	8	14	17	18	18	<b>38</b>
Monthly change	4	6	3	1	0	<b>20</b>



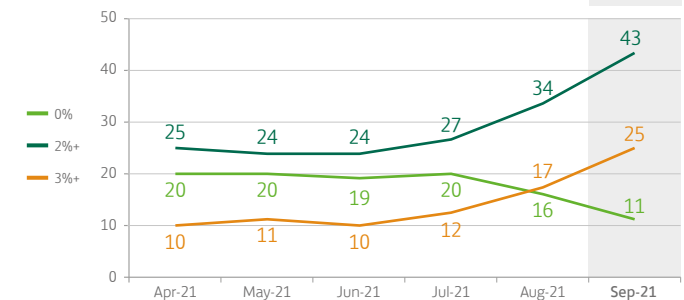
## Prices charged for goods and services in the next year

Net Balance (%)	32	33	36	34	37	<b>37</b>
Monthly change	1	1	3	-2	3	<b>0</b>



## Pay growth in the next year (% firms)

0% change	-5	0	-1	1	-4	<b>-5</b>
2%+ change	8	-1	0	3	7	<b>9</b>
3%+ change	5	1	-1	2	5	<b>8</b>





# Methodology

The fieldwork for the Lloyds Bank Business Barometer was conducted during **1-15 September 2021** 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.

## The editor



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