

BUSINESS CONFIDENCE FALLS BACK OVER FEARS OF WEAKER UK DEMAND

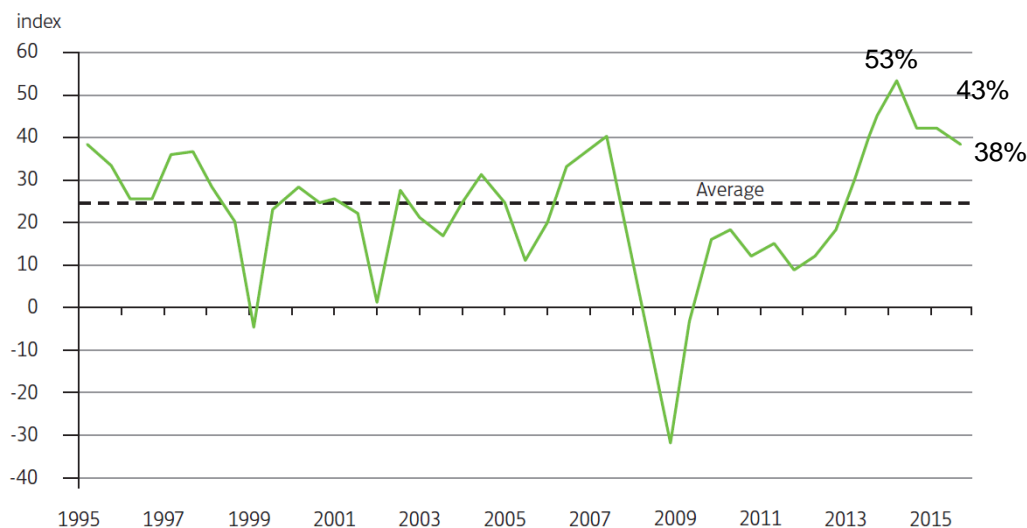
- Business confidence declines, but remains above its long term average
- Economic outlook is for continued, albeit muted, growth
- Businesses' expectations of interest rate rise in 2016 has increased
- Worries about UK and overseas demand are firms' biggest concern, restraining their investment despite rising capacity constraints

Businesses are less confident about prospects for the next six months, with UK and global demand seen as the biggest threats to their fortunes in 2016, according to the latest ***Business in Britain report from Lloyds Bank***.

The Business in Britain report, now in its 24th year, gathers the views of 1,500 UK companies, predominantly small to medium sized businesses, and tracks the overall "balance" of opinion on a range of important performance and confidence measures, weighing up the percentage of firms that are positive in outlook against those that are negative.

The report's confidence index - an average of respondents' expected sales, orders and profits over the next six months - has declined to 38 per cent, down from 43 per cent in July and January 2015. However the index remains close to its recent highs and above its long term average of 24 per cent.

Overall Business confidence



The measure of overall business confidence is an average of the net balances of firms expecting an increase in expected sales, orders and profits over the next six months.

UK demand greatest threat to business and fall in export optimism in Europe

Just under a third of firms (31 per cent) identified weaker UK demand as the main threat to their business over the next six months - a rise from 29 per cent in July. This was closely followed by a rise in the proportion of exporters who cited weaker overseas demand as the biggest threat to their business - a rise from 23 to 25 per cent.

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The net balance of exporters expecting an increase in total exports across the globe fell by 11 points to 35 per cent, reflected by relatively large decreases in firms' intentions to export to Europe and Asia Pacific.

Exporters stated that they were more concerned about the negative impact of the strength of the pound against the Euro than the US dollar. Over a third of firms (34 per cent) said that the value of the pound against the Euro was having a negative impact on their exports, while over a fifth (21 per cent) said the same for the value of the pound against the dollar.

	Net balance of firms expecting to increase exports to these regions			Change
	January 2015	July 2015	January 2016	
US/Canada	20%	21%	19%	↓ 2 points
Middle East	13%	16%	14%	↓ 2 points
Latin America	7%	6%	3%	↓ 3 points
Africa	8%	11%	6%	↓ 5 points
Asia Pacific	21%	21%	14%	↓ 7 points
Europe	22%	30%	19%	↓ 11 points

Tim Hinton, Managing Director, Mid Markets and SME Banking, Lloyds Banking Group said: "Business confidence has slipped back slightly as companies see slowing demand as a threat to their business in 2016, both at home and abroad.

"Global economic conditions are causing concern in the short term, with Sterling's strength against the Euro causing issues for exporters. However confidence levels remain close to recent highs, especially on the back of three years of economic growth."

"Businesses should continue to be prepared for interest rate rises and currency fluctuations, with the recent decision by the US Federal Reserve a reminder that this benign environment is not here to stay.

"Lloyds Banking Group is playing its part in helping Britain prosper globally by supporting businesses to start up, scale up, trade overseas and manage their risks. Businesses have good reasons to remain confident as the long-term health of the UK continues to improve."

Hiring and investment intentions decline but remain above average

The net balance of companies anticipating an increase in headcount over the next six months fell for the third consecutive survey by 6 points to 13 per cent while the net balance planning to increase their capital expenditure also declined, falling from 18 to 14 per cent.

However both indicators remain well above their long-term averages of 9 per cent and 4 per cent respectively, consistent with further employment gains and an ongoing pickup in investment spending for the first half of 2016.

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Spare capacity narrows and expectation of interest rate rise increases

The share of businesses indicating that they are operating at full capacity – producing all that they can with existing resources – rose to an all-time high of 52 per cent, up from 47 per cent in July and up from less than one-in-three, five years ago. This suggests that spare capacity in the economy continues to narrow and could cause the rate of inflation to rise.

The net balance of firms expecting an increase in interest rates over the coming six months increased from 30 per cent 40 per cent. However the net balance of companies that said that they were very concerned about a rise in interest rates dropped slightly from 16 to 14 per cent.

Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking, said: “The fact that over half of businesses are operating at full capacity is unprecedented in the survey’s history. While this is not matched by investment intentions it could put upward pressure on inflation through 2016 as the extent of overall slack in the economy continues to diminish.

“While expectations of higher interest rates have increased, firms seem relatively relaxed by the prospect, having had further time to prepare for the first rate rise. While the Fed has already increased their interest rates, the MPC will want to be confident that the UK economy is ready for a gradual rise in rates sometime this year.”

SECTOR PICTURE

Retail & wholesale activity has strengthened

Business confidence for the next six months fell in every sector with the exception of retail & wholesale. The biggest decline was in the manufacturing sector where confidence dropped 14 points to 37 per cent - its lowest level since mid-2013, reflecting the expected difficulties for exporters.

Sector	Confidence balance			
	January 2015	July 2015	January 2016	Change
Retail/Wholesale	43%	43%	47%	↑ 4 points
Hospitality and Leisure	40%	44%	43%	↓ 1 point
Business and other services	45%	40%	38%	↓ 2 points
Transport and Communication	47%	38%	32%	↓ 6 points
Construction	42%	50%	44%	↓ 6 points
Manufacturing	44%	51%	37%	↓ 14 points

REGIONAL PICTURE

Overall confidence is lowest in the North East, Wales & Scotland

Overall business confidence declined in nine regions but rose in the North West and in Gloucestershire, Oxfordshire & the South Midlands. The largest decline in confidence was in the South East (down 17 points to 34 per cent), and Scotland (down 14 points to 31 per cent).

Overall business confidence is lowest in Wales, the North East and Scotland, while it is highest in Yorkshire & the Humber, and Gloucestershire, Oxfordshire & the South Midlands.

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Region	Confidence Index			
	January 2015	July 2015	January 2016	Change
North West	42%	37%	40%	↑ 3 points
Gloucester, Oxford , South	40%	43%	45%	↑ 2 points
Yorkshire & the Humber	48%	46%	46%	No Change
West Midlands	43%	42%	39%	↓ 3 points
London	42%	40%	37%	↓ 3 points
North East	26%	30%	27%	↓ 3 points
East Midlands & East	40%	46%	40%	↓ 6 points
Wales	46%	32%	26%	↓ 6 points
South West	43%	49%	40%	↓ 9 points
Scotland	51%	45%	31%	↓ 14 points
South East	46%	52%	34%	↓ 18 points

-Ends-

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Notes to editors

- From Monday 4 January you can download the full report from Lloydsbank.com/businessinbritain
- Search on Twitter for #Bizinbritain
- The Business in Britain report, now in its 24th year, gathers the views of 1,500 UK companies, predominantly small to medium sized businesses, and tracks the overall “balance” of opinion on a range of important performance and confidence measures, weighing up the percentage of firms that are positive in outlook against those that are negative.
- Responses from 1500 firms were collated in November 2015 by BDRG Continental.
 - 55 per cent of the responses came from businesses with an annual turnover below £10 million
 - 8 per cent of the responses came from businesses with an annual turnover between £10m and under £15million
 - 37 per cent of the responses came from businesses with an annual turnover of over £15 million
- Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start-ups and small businesses to mid-sized businesses and multinational corporations.
- Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support to its clients.

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- Lloyds Banking Group wants to help people in Britain tackle some of the issues they're facing – such as getting on the housing ladder, finding a job or growing a business. That is why we have launched the [Helping Britain Prosper Plan](#) which demonstrates our commitment to our communities. For business that means helping UK business to start-up, scale-up and trade internationally to support the long-term strength of the economy.

Historical confidence balances

Survey date	Confidence balance	Change
Jan -12	8%	-
Jul-12	12%	+4 points
Jan -13	19%	+ 7 points
Jul - 13	30%	+ 11 points
Jan - 14	45%	+ 15 points
Jul – 14	53%	+ 8 points
Jan-15	43%	- 10 points
Jul - 15	43%	No change
Jan- 16	38%	- 5 points