

**\*\*\*EMBARGOED – Not for publication or broadcast before Tuesday 3 January 2017 00:01 GMT\*\*\***

## BUSINESS CONFIDENCE STABILISES BUT FIRMS SEE CHOPPY WATERS AHEAD

- Confidence stabilising from a four year low in September
- Businesses cite economic uncertainty as the biggest threat for 2017
- Export intentions to Middle East and Asia jump
- Results signal higher inflation and a slowdown in economic growth

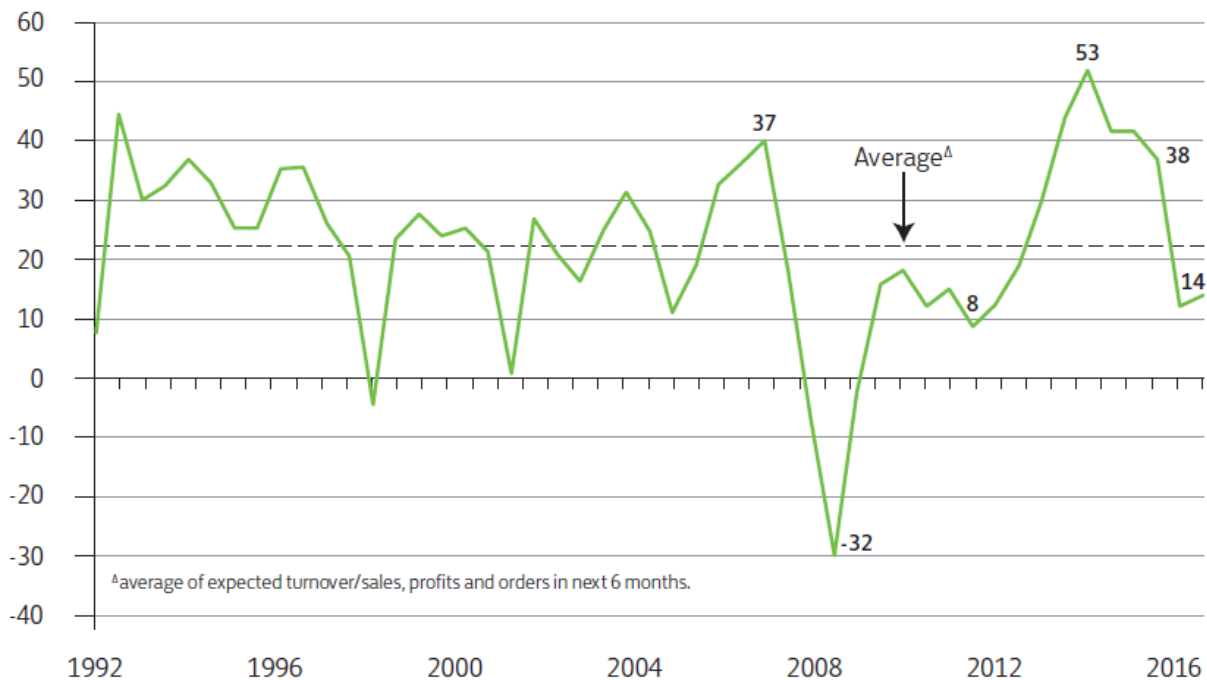
Business confidence has stabilised at the start of 2017, following a dip in the summer but economic uncertainty continues to be the biggest threat to businesses, according to the latest [Business in Britain report from Lloyds Bank](#).

The report's confidence index - an average of respondents' expected sales, orders and profits over the next six months – rose slightly to 14 per cent, up from 12 per cent, the survey's score in September 2016.

The most commonly identified threat cited by companies in the next six months was economic uncertainty (26 per cent), followed by weaker UK demand (17 per cent) as firms wait for further details of Britain leaving the EU.

The Business in Britain report, now in its 25<sup>th</sup> year, gathers the views of over 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.

### Overall Business confidence stabilises



**Tim Hinton, Managing Director, Mid Markets and SME Banking, Lloyds Banking Group said:** “Business confidence definitely dipped a bit following the EU referendum result but it has picked up

again in the last few months, though still below the long-term average.

“Putting this in context, confidence remains well above the lows of the financial crisis, driven by demand both in the UK and abroad. The banking sector also has a much stronger capital position to withstand any shocks than in 2008/09 which should give businesses more confidence that their growth ambitions can be supported in the year ahead.

“We should expect more twists and turns in 2017 but in the meantime business owners are resilient and continuing to do what they do best – getting on with growing their businesses while keeping an eye on the external risks.”

### Jump in export intentions to Asia

The net balance of firms anticipating stronger export sales in the next six months rose in all regions and overall increased by six points to 26 per cent from the last survey.

This upturn was led by a big increase in the number of firms anticipating stronger exports to Asia Pacific and the Middle East which increased by 11 and 7 points respectively.

	Net balance of firms expecting to increase exports to these regions			September to January change
	January 2016	September 2016	January 2017	
US/Canada	19%	17%	18%	↑ 1 point
Middle East	14%	6%	13%	↑ 7 points
Latin America	3%	3%	6%	↑ 3 points
Africa	6%	4%	5%	↑ 1 point
Asia Pacific	14%	7%	18%	↑ 11 points
Europe	19%	11%	14%	↑ 3 points
Total Exports	35%	20%	26%	↑ 6 points

Businesses indicated that the exchange rate is the most favourable for their export sales since the last big depreciation in 2009 during the global financial crisis.

The weaker pound has also contributed to a rise in firms’ pricing intentions. The net balance of firms expecting to raise their prices in the coming six months increased to 20 per cent from 13 per cent. This is particularly high among importing firms whose intentions increased from 20 per cent to 28 per cent, the highest level since 2013.

### Businesses remain cautious in their hiring and capital spending prospects.

The net balances of firms expecting to raise their investment and staffing levels in the next six months remained near zero at 1 and 2 per cent respectively.

The share of firms saying they are experiencing difficulties in recruiting skilled labour fell to 31 per cent from 38 per cent. This is the third consecutive decline and takes the reading to its lowest level since 2013, relating to a fall in firms’ recruitment intentions.

**Hann-Ju Ho, Senior Economist, Lloyds Bank Commercial Banking, said:** “The weaker pound has given a huge boost to exporters as they look beyond their traditional export markets of the US and Europe.

“However this has also led to a jump in the number of firms intending to raise the price of their goods and services in response to higher costs. As a result we would expect inflationary pressures to rise this year.

“The relatively low levels of investment and recruitment intentions also suggest that economic growth is likely to slow in the next six months.”

### **Manufacturing and hospitality sectors benefit from weaker sterling**

When split by the industry sectors, manufacturing saw a big rise in business confidence since the last survey, rising strongly from 14 per cent to 28 per cent, reflecting the boost to competitiveness from the weaker exchange rate.

Confidence in the hospitality and leisure industries has also seen a strong gain from 16 per cent to 28 per cent, possibly due to expectations of a rise in foreign tourists helped by the fall in sterling.

For all other sectors, confidence has fallen, but the declines were generally small. The lowest confidence levels were for transport and communications and business and other services.

### **Confidence rises in most regions**

Business confidence was the highest in the North East (up 1 point to 22 per cent), Scotland ( up 15 points to 21 per cent) and the East of England (up 1 point to 20 per cent), all reflecting improvements compared with the last survey. The South West also showed a large rise in confidence (up 13 points to 17 per cent), though from a relatively low level previously.

Confidence fell sharply in Wales (down 10 points to 15 per cent) and Yorkshire and the Humber (down 15 points to 17 per cent), but these were from relatively high levels and remain above the national average.

The weakest levels of confidence were in the West Midlands which dropped 16 points to 1 per cent, London (up 5 points to 9 per cent) and the East Midlands (down 2 points to 12 per cent).

**-Ends-**

### **Notes to editors**

For more information please and for a copy of the full report please contact Ed Smith 0207 661 4936 / 07917 520 464 [ed.smith1@lloydsbanking.com](mailto:ed.smith1@lloydsbanking.com)

- From Monday 3 January you can download the full report from [here](#) and can search on Twitter for #Bizinbritain
- The Business in Britain report, now in its 25th 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 1501 firms were collated in October and November 2016 by BDRC Continental.
  - 65 per cent of the responses came from businesses with an annual turnover below £5 million
  - 12 per cent of the responses came from businesses with an annual turnover between £5m and under £15million
  - 23 per cent of the responses came from businesses with an annual turnover of over £15 million
- 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.