



Wednesday 30 September 2020

## UK RECOVERY REMAINS ON TRACK

- September overall business confidence increased for a fourth straight month, to -11 from -14, supported by improvements in both trading prospects and optimism about the economy.
- Employment prospects also rose for a fourth month, although the net balance remained negative at -16 compared with -20 in August.
- Wage expectations for the year ahead remained subdued compared with the start of the year, but the share of firms anticipating pay freezes fell to 30% from 33% last month.
- Overall confidence was up in eight of the twelve UK regions, with the biggest gains in the East of England, Scotland and London; the highest confidence levels were in London, the East Midlands and Wales.
- The improvement in this month's overall confidence was led by Services, reflecting more optimism in hospitality and finance & business services; there was a marginal rise in Construction, no change in Retail and a fall in Manufacturing.
- Negative Covid-19 impacts on current demand were noted by 62% of firms, unchanged from last month, but there was a further decline to 18% from 22% reporting that demand had more than halved due to the pandemic.
- There was a rise in the proportion of companies to 62% from 53% declaring they were able to operate at full capacity with appropriate social distancing rules in place.

## OVERALL CONFIDENCE RISES FOR A FOURTH MONTH

September saw overall business confidence rise by three percentage points to -11 from -14, according to the Lloyds Bank Commercial Banking Business Barometer which surveyed just over 1,200 companies in the first half of the month. That was a fourth consecutive monthly increase, but was also the smallest rise since June. It brings overall confidence to a new high since the Covid-19 health crisis began, but sentiment still remains well below the historical long-term average (*chart 1*). Both trading prospects and optimism about the economy – the two components of overall confidence – improved this month, although the net balances remained negative. The net balance for trading prospects was up 2 points to -12, while economic optimism rose 4 points to -10.

Firms were still more likely to reduce than increase their headcount over the coming year, but the outlook was less negative than in recent months (*chart 2*). The net balance for expected staffing levels was up 4 points to -16, reflecting 21% (up from 19%) anticipating higher employment and 37% (down from 39%) predicting fewer workers. Consistent with that, the proportion indicating

Chart 1: Overall confidence rises for a fourth straight month

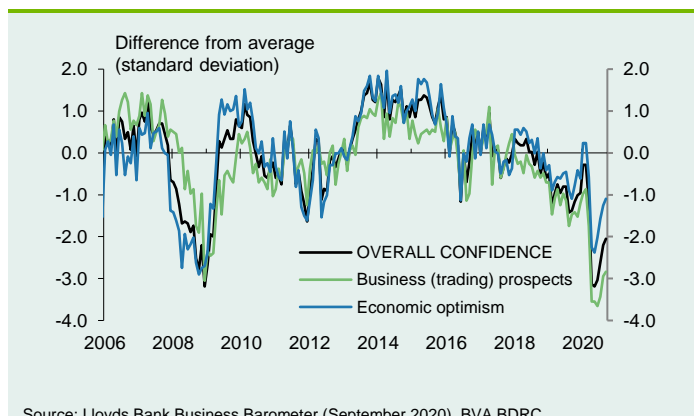
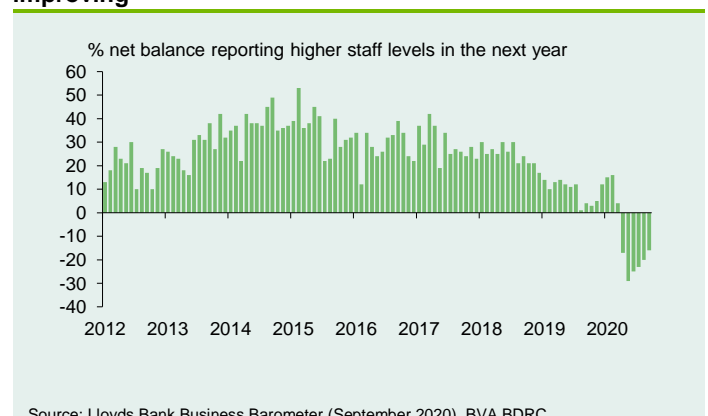


Chart 2: Employment outlook still negative, but gradually improving



a likely pay freeze in the next twelve months fell to 30% from 33%, although that remained above 14% at the start of the year. Meanwhile, the share of companies in our survey who reported having no furloughed employees increased to 38% from 33%.

### CONFIDENCE TRENDING HIGHER ACROSS REGIONS AND SECTORS

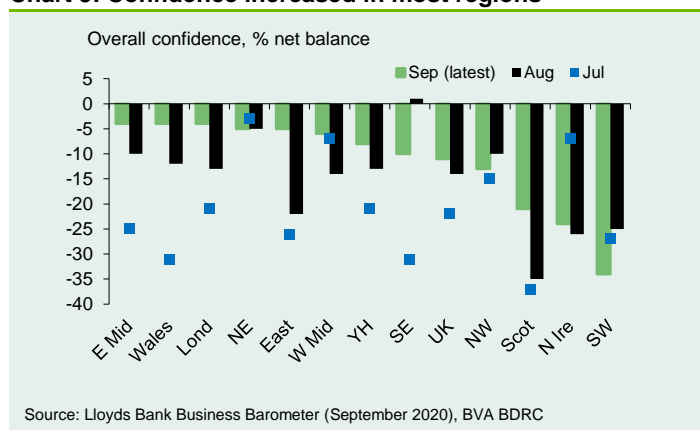
Overall confidence increased in eight out of the twelve UK regions this month (*chart 3*). The largest rises were in the East of England (up 17 points to -5), Scotland (up 14 points to -21) and London (up 9 points to -4). London shares the highest confidence with the East Midlands and Wales (both also at -4), with the North East and the East of England both close behind at -5. The South West recorded the lowest confidence and it was one of three regions where it fell (down 9 points to -34%). Overall confidence also declined in the South East (down 11 points to -10%) and the North West (down 3 points to -13%). The underlying picture shows that average confidence has improved for all regions in the past three months compared with Q2.

By industry sector (*chart 4*), the rise in overall confidence in September was led by Services which increased by 8 points to -10 from -18, driven in particular by hospitality and finance & business services. Construction recorded a marginal rise to -10 from -11, while Retail was unchanged at -8. Confidence in Manufacturing, however, fell 11 points to -18 from -7 in August, although it was still higher than in July. More positively, the net balances for employment prospects rose in all the four broad sectors.

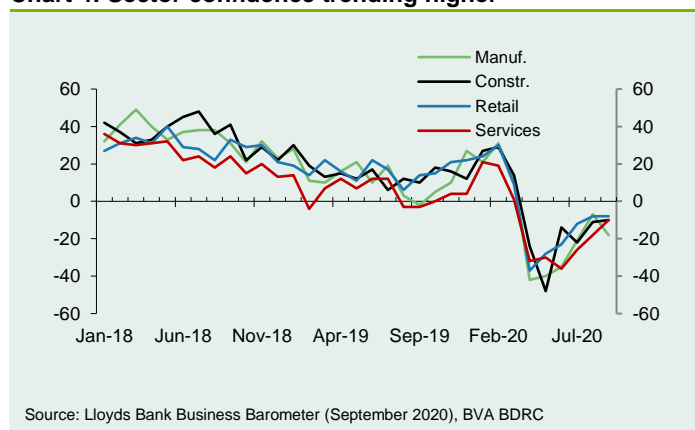
### SEVERE NEGATIVE COVID-19 DEMAND IMPACT LESSENING

More than six out of ten (62%) of companies in our survey said current demand was negatively affected by the coronavirus. Although that was unchanged from last month, it was down from 66% in July. Moreover, the share that reported a more severe negative impact, where demand had fallen by more than half, continued to decline to 18% compared with 22% in August and 25% in July. In addition, 62% of firms also indicated they felt able to operate at full capacity, up from 53% in August, with notable rises in finance & business and in education, health & public administration.

**Chart 3: Confidence increased in most regions**



**Chart 4: Sector confidence trending higher**



**TABLE 1: Overall business confidence**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
SEP-20	28	33	39	-11	+3
AUG-20	26	34	40	-14	+8
JUL-20	23	32	45	-22	+8
JUN-20	20	30	50	-30	+3
MAY-20	20	27	53	-33	-1
APR-20	21	26	53	-32	-38

**TABLE 2: Economic optimism compared with three months ago**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
SEP-20	32	26	42	-10	+4
AUG-20	29	28	43	-14	+8
JUL-20	26	26	48	-22	+11
JUN-20	22	23	55	-33	+9
MAY-20	19	20	61	-42	-3
APR-20	21	19	60	-39	-42

**TABLE 3: Trading prospects in the next year**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
SEP-20	24	40	36	-12	+2
AUG-20	23	40	37	-14	+9
JUL-20	19	39	42	-23	+4
JUN-20	17	39	44	-27	-2
MAY-20	20	35	45	-25	0
APR-20	20	35	45	-25	-33

**TABLE 4: Staff levels in the next year**

	HIGHER	SAME	LOWER	NET BALANCE (%)	MONTHLY CHANGE
SEP-20	21	42	37	-16	+4
AUG-20	19	42	39	-20	+3
JUL-20	17	43	40	-23	+2
JUN-20	16	43	41	-25	+4
MAY-20	15	41	44	-29	-12
APR-20	20	43	37	-17	-21

## METHODOLOGICAL NOTE

The fieldwork for the Lloyds Bank Business Barometer was conducted during **1-15 September 2020** 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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