

# Business Barometer

February 2022



Overall business confidence



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# Summary

## Confidence bounces back to a five-month high

### Key highlights

- Business confidence rose by 5 points to 44%, helped by a new pandemic high in trading prospects
- Expected staffing levels increased to their highest level since the end of the furlough scheme
- Firms say supply bottlenecks are expected to ease this year, but wage pressures to continue building
- Confidence improved in ten of the twelve UK regions or nations, led by the North East and Northern Ireland
- Manufacturing and construction sectors posted particularly strong upswings in confidence

### Trading prospects reach a new pandemic high

Business confidence bounced back in February, reflecting strong own trading prospects and optimism about the wider economy. Trading prospects for the year ahead climbed to their highest level since the start of the pandemic, while there was also a rise in economic optimism which reversed some of the modest falls seen in recent months.

Over the past month, Covid infection rates have continued to decline and restrictions were eased. This month's responses straddled the rise in Bank of England interest rates to 0.5%, which was widely anticipated<sup>1</sup>.

### Supply bottlenecks expected to ease, but pay pressures remain elevated

Hiring intentions picked up strongly to their highest level since the furlough scheme closed last September, while businesses reported that wage pressures are also

expected to build in the coming year. However, supply bottlenecks are mostly anticipated to ease.

Overall, 47% of firms expect supply bottlenecks to improve, although only 15% expect them to return to 'normal' by the end of this year, while 26% expect supply disruptions to worsen. Meanwhile, pricing expectations remained elevated, albeit marginally less so than last month.



**It's extremely encouraging to see such an improvement in business confidence reaching its highest level since September, fuelled by trading prospects reaching their highest level since the start of pandemic.**



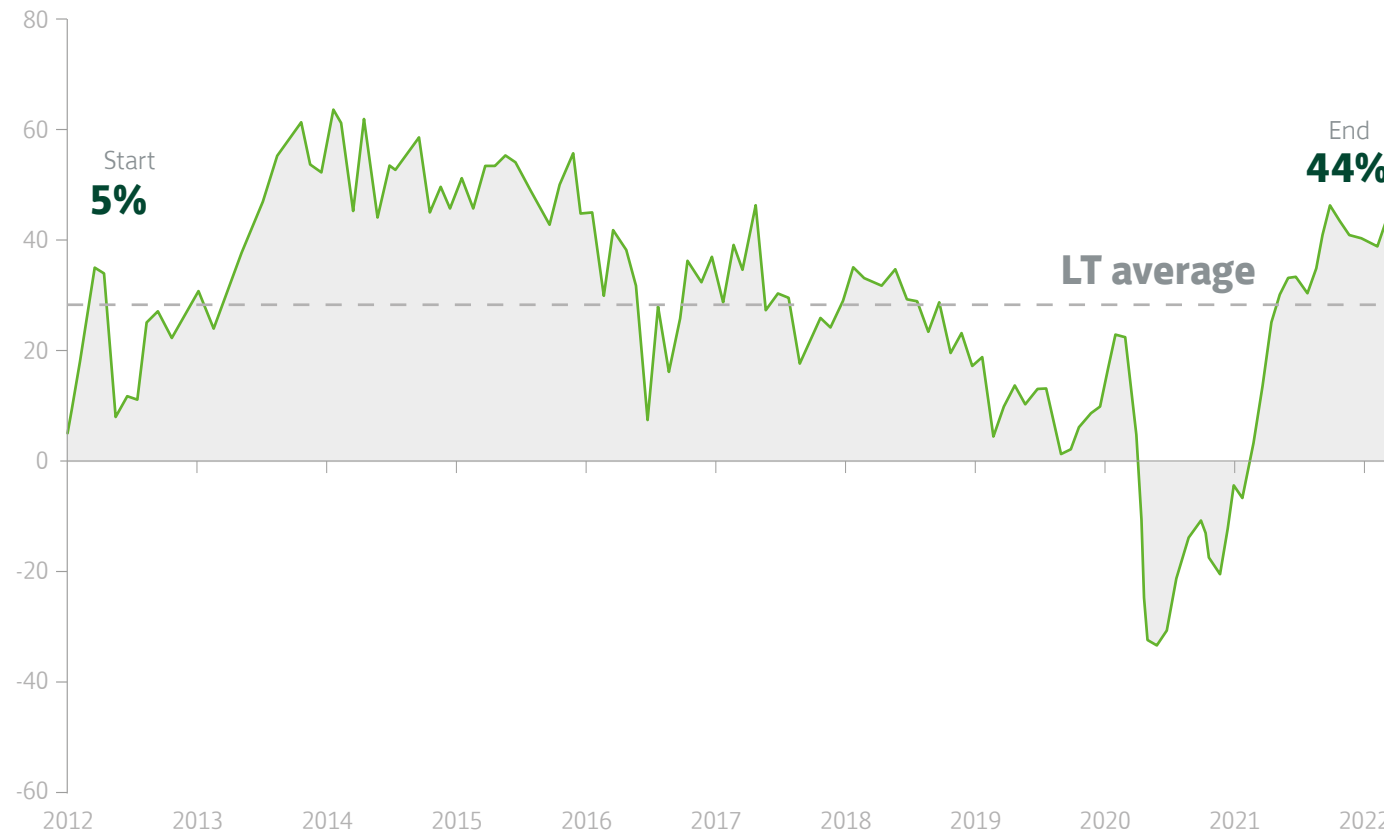
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Lloyds Bank Commercial Banking

<sup>1</sup> 38% of firms said they would be concerned about interest rates rising to 1%, increasing to 57% if interest rates were raised to 2%.

# Business confidence

## Chart 1: Business confidence rises to a five-month high

% net balance



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

## Outlook improves

Business confidence rose by 5 points to 44% in February, moving further above the long-term historical average of 28%. The increase reflects improvements for both own trading prospects and optimism about the wider economy.

Fifty-six percent (up from 52%) reported stronger trading prospects in the coming year, while 11% (unchanged) anticipated weaker activity. The resulting net balance for trading prospects increased by 4 points to 45%, the highest since the start of the pandemic. Optimism for the wider economy rose to 60% (up from 53%), while 17% (up from 16%) were less optimistic, resulting in its net balance rising to 43% from 37%.

# Employment insights

## Hiring intentions bounce back

Hiring intentions strongly rebounded this month to their highest level since the furlough scheme closed in September. Over half of firms (52%), up from 46%, said they expect to increase their staffing levels in the next twelve months, while 14% (down from 17%) anticipated a lower headcount.

38%

29%

The resulting net balance increased by 9 points to 38%, matching last September's level which was the highest since the start of the Covid-19 outbreak.



With hiring intentions also reaching their highest level since the end of the furlough scheme there is hope that the easing of supply bottlenecks will alleviate a number of challenges that businesses have been facing and help underpin the UK's growth in 2022.

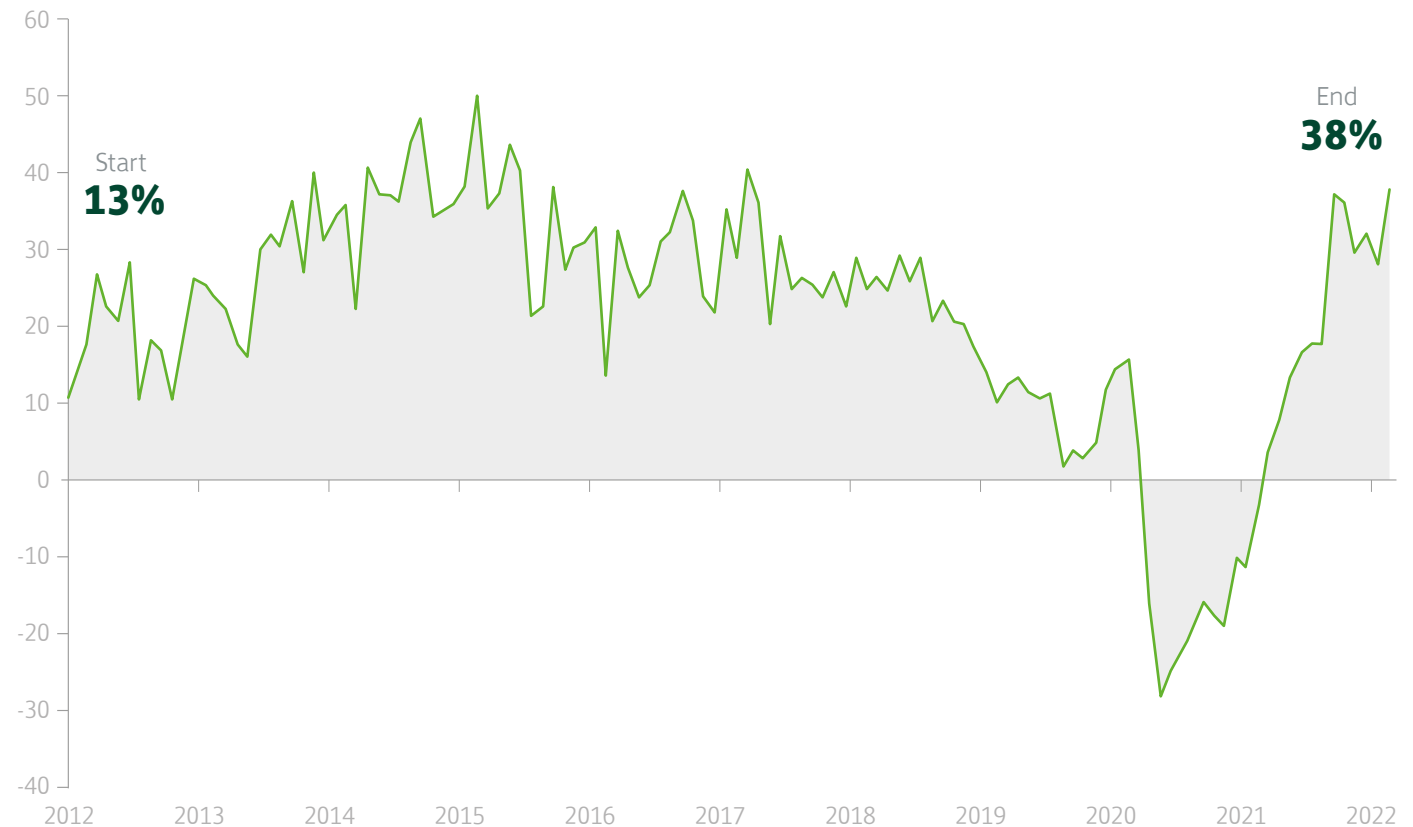


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## Chart 2: Majority of firms expect to hire

% net balance reporting higher staffing levels, next 12m

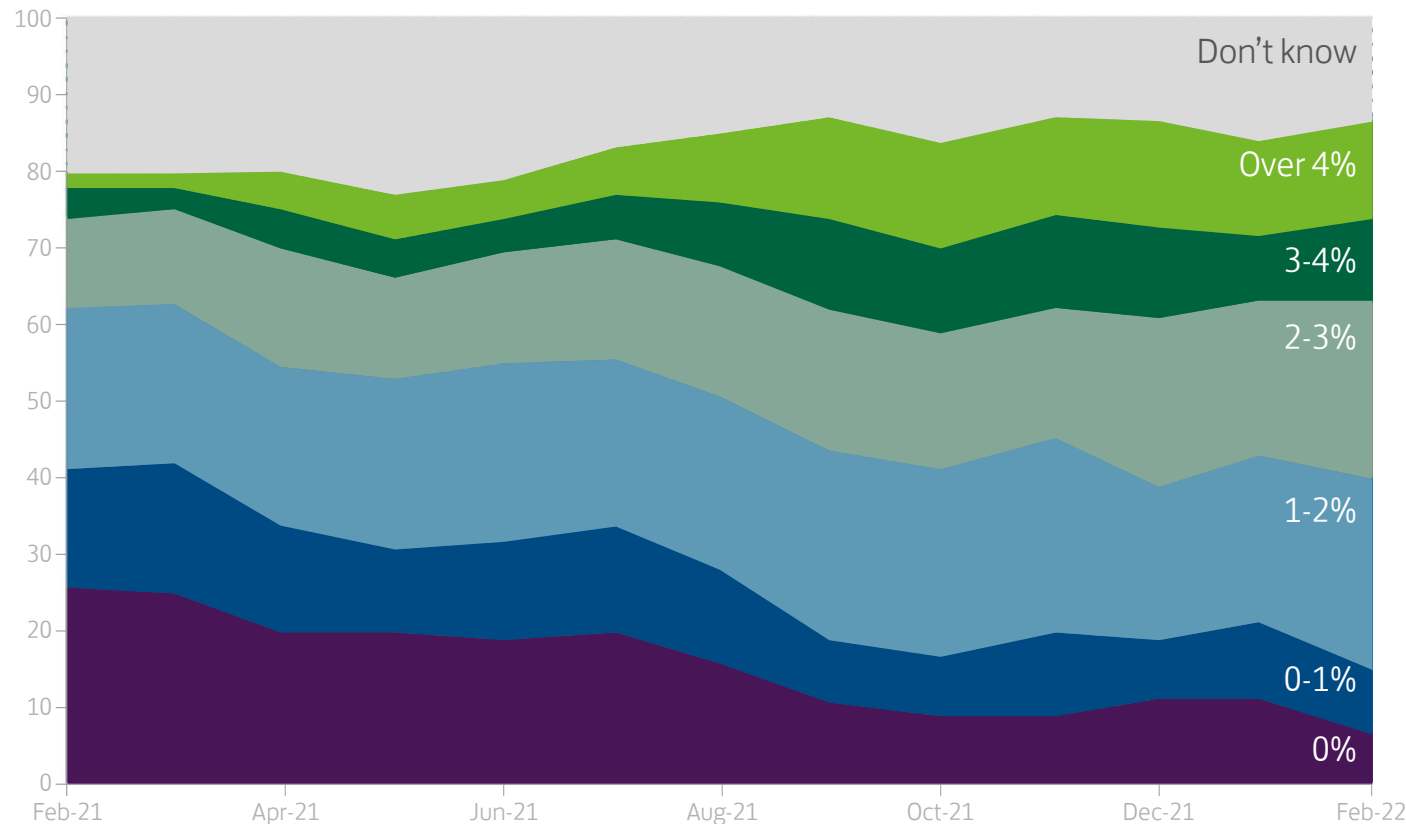


Source: Lloyds Bank Business Barometer (February 2022), BVA BDRC

# Employment insights

## Chart 3: Pay pressures pick up

Pay expectations, next 12m % firms



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

## Wage pressures continue to build

Pay pressures increased this month, with the proportion of businesses anticipating pay growth of between 1-2% for their staff in the next twelve months rising to 25% (from 22%) and the share expecting 2-3% increasing to 23% (from 20%), while expectations for wage rises above 3% were reported by 24% (up from 21%).

In contrast, only 7% (down from 11%) anticipated a pay freeze, while 8% (down from 10%) expected an average pay rise of between 0-1%<sup>2</sup>.

<sup>2</sup> The remainder were unsure about their company's average pay in the next twelve months.

# Pricing insights

## Pricing expectations edge lower this month

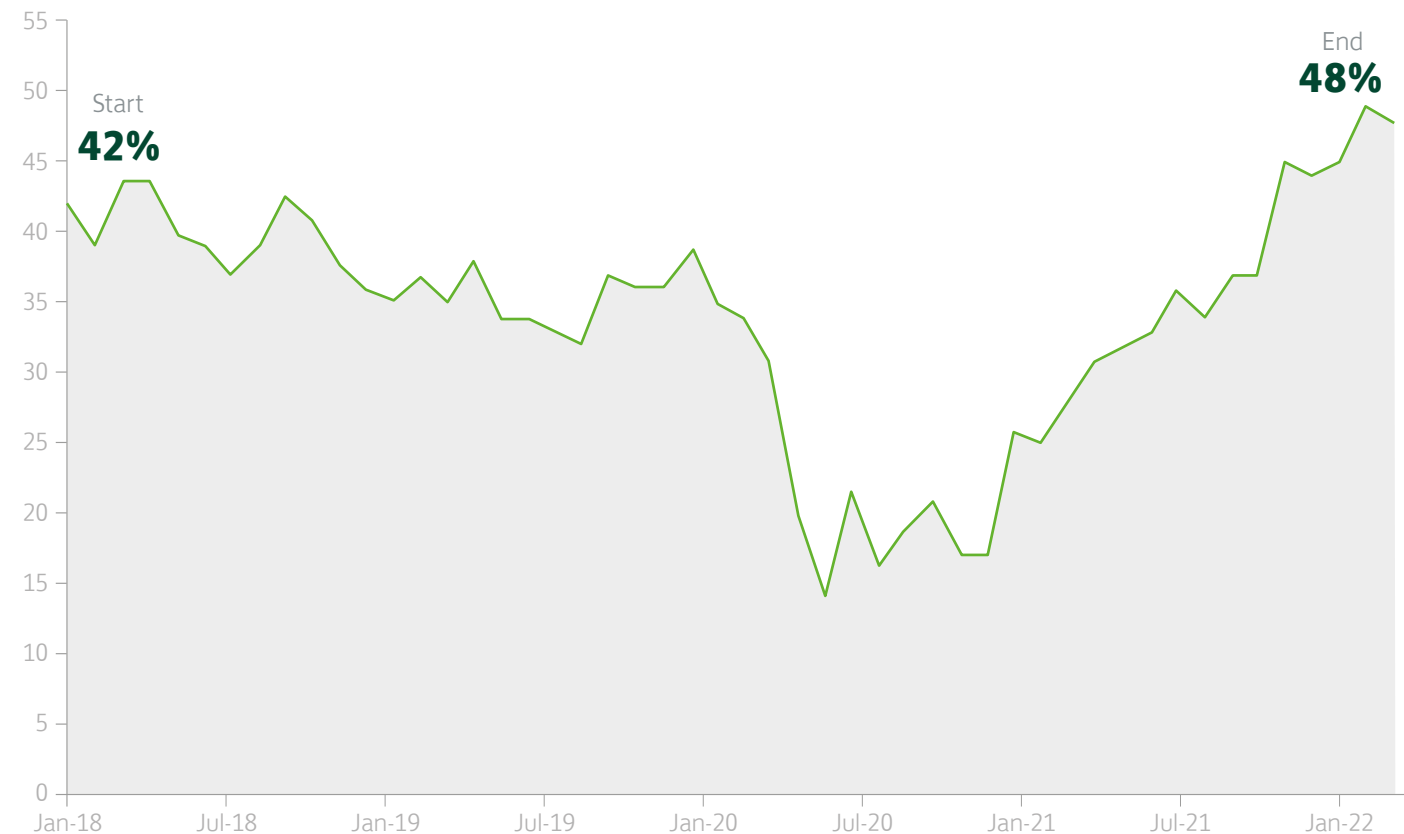
Pricing expectations edged lower but remained elevated, as businesses face pressures to pass on higher costs.

Although more firms expect supply bottlenecks to improve rather than worsen this year, many still reported that they expect cost pressures from wage increases that are likely to be needed to attract the right staff.

Fifty-two percent (down from 54%) of firms expect to raise their prices in the coming year, while 4% (down from 5%) expect to lower them. The resulting net balance edged down to 48% from 49%.

## Chart 4: Prices remain near all-time highs

% net balance reporting higher prices charged in the next year



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

# Region insights

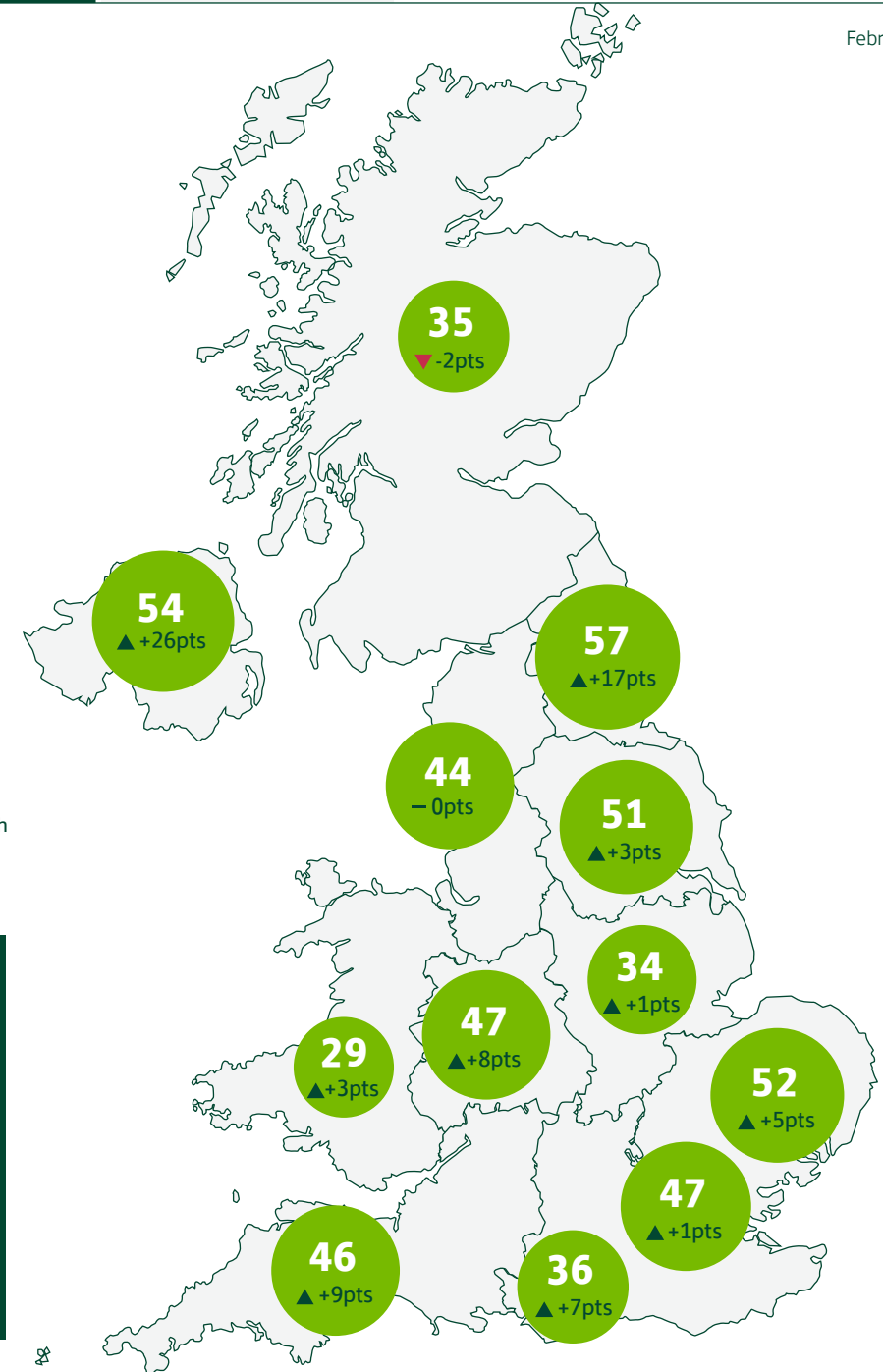
## Confidence rises in most regions

Confidence remained positive across the UK's regions and nations, and increased particularly strongly this month in the North East (57%/+17pts) and Northern Ireland<sup>3</sup> (54%/+26pts). The East of England (52%/+5pts) and Yorkshire & the Humber (51%/+3pts) were also notably strong.

There were smaller monthly rises elsewhere, while the North West (44%) was unchanged and Scotland fell slightly (35%/-2pts).

## Chart 5: The North East regains first place

# UK



<sup>3</sup> Monthly results should be interpreted with caution due to the small sample size



The UK's expected future growth is in positive territory following February's rise in business confidence, trading prospects and economic optimism. Ten out of the 12 regions reported a growth in confidence, with a particularly pleasing rise in the North East which reversed its decline in January, indicating that businesses are looking forward with renewed optimism.



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



# Sector insights

## Chart 6: Manufacturing leads this month's rise

% net balance



Source: Lloyds Bank Business Barometer (February 2022), BVA BDR

## Key sectors reach new pandemic highs

Confidence increased strongly in manufacturing and construction to their highest levels since the start of the pandemic. Retail confidence also reached a health crisis high, while overall services confidence was steady.

Manufacturing confidence gained 11 points to 54%, while construction jumped up by 18 points to 51%. Retail confidence rose by 3 points to 47%, while services confidence was unchanged at 38%. Confidence among firms in transport services and hospitality improved.



**The UK's construction and manufacturing sectors have seen the biggest benefit as Covid restrictions and supply challenges ease, while the retail sector has also seen a boost in confidence.**



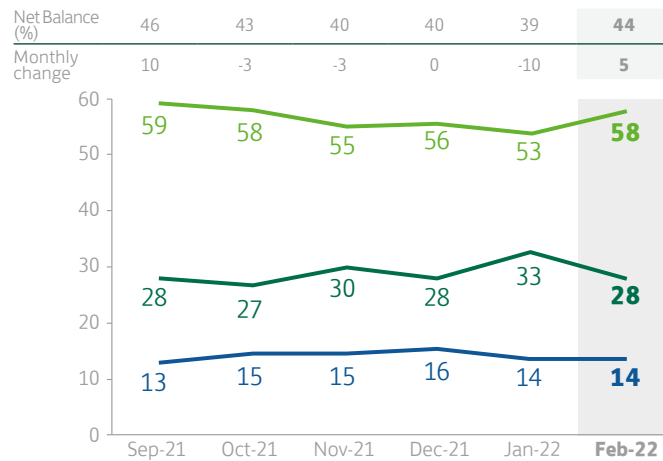
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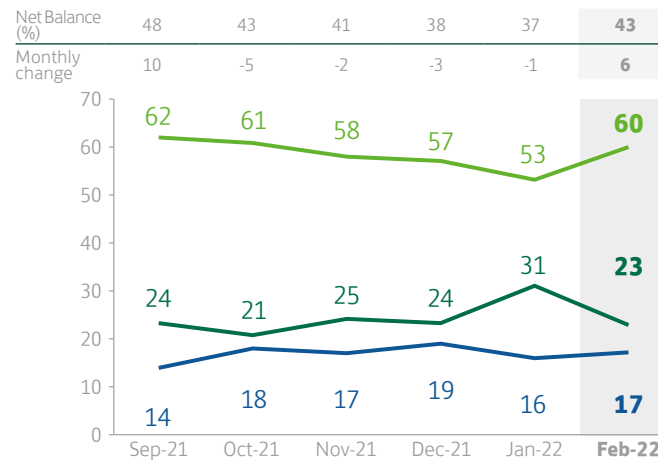
# Month-on-month trends

■ Higher ■ Same ■ Lower

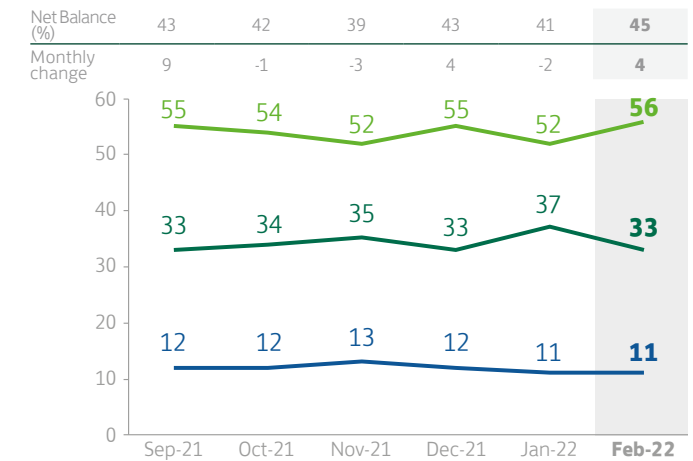
## Overall business confidence



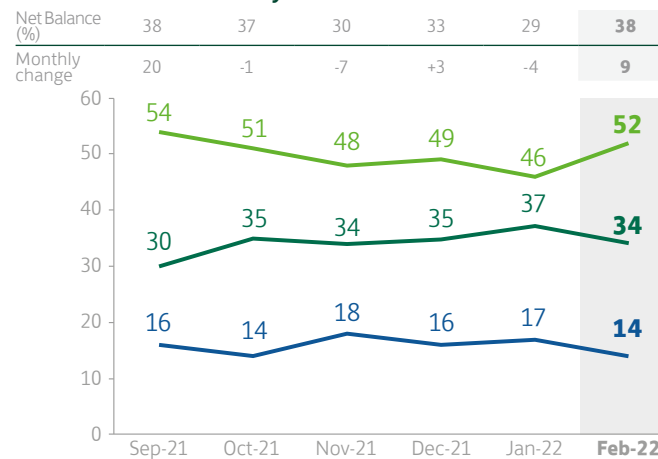
## Economic optimism compared with three months ago



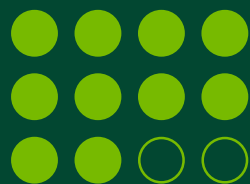
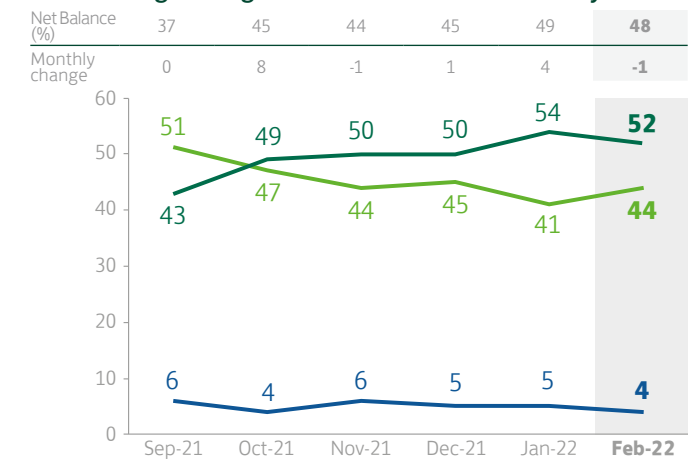
## Trading prospects in the next year



## Staff levels in the next year



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



**10 out of 12**

of the UK's regions saw a month-on-month increase in confidence in February

# Methodology

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