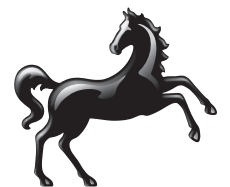


COMMERCIAL BANKING

# Business in Britain

A survey of opinions and trends  
January 2018

For your next step



LLOYDS BANK

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## CONTENTS

3	FOREWORD
4	EXECUTIVE SUMMARY
5	RECENT TRENDS IN THE SME MARKET
10	THE SECTOR OUTLOOK
12	THE REGIONAL PICTURE

# FOREWORD



**Gareth Oakley**

Managing Director, SME Banking  
Lloyds Bank Commercial Banking

Welcome to the 51st edition of the Lloyds Bank Business in Britain Survey, providing insight on the performance and expectations of UK businesses, in particular small and medium-sized enterprises (SMEs).

I think we would all agree that 2017 was a year of unprecedented change across the globe – political turbulence, ongoing Brexit negotiations, European elections and most recently a UK interest rate rise for the first time in a decade.

The responses which inform our January 2018 report were provided against this backdrop, and show that business confidence is stable and only fell slightly from our last report in July 2017. It remains below the period before the EU referendum but above the low immediately after the vote.

A positive sign is that business owners intend to invest more and hire more staff in the next six months, reaching an 18 month high in our survey.

The outlook for the external environment remains mixed, with Brexit negotiations underway and an uncertain economic landscape. Weaker demand, both domestic and overseas, remains the single greatest risk in the next six months according to businesses while concerns also rose on economic and political uncertainty.

I hope you find the report valuable. My team and I look forward to working with you in 2018.

## EXECUTIVE SUMMARY

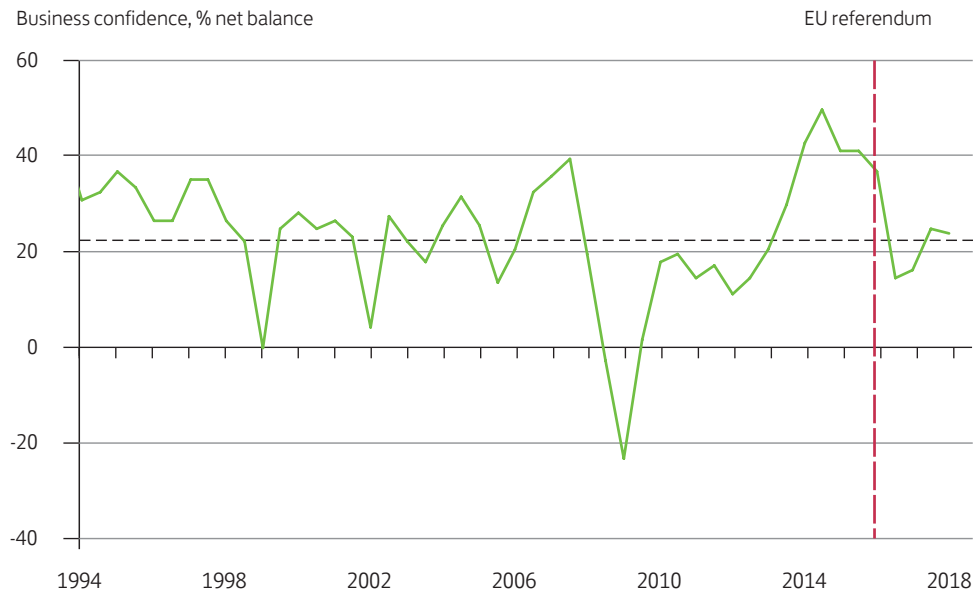
- Business confidence – based on the outlook for sales, orders and profits – was broadly steady at 23% compared with 24% in July. It remained above the low of 12% immediately after the EU referendum, but below levels in the period before the vote.
- Both capital spending and hiring intentions for the next six months improved to post-referendum highs. The net balance of firms expecting to increase their staff numbers rose slightly to 9% from 8% previously, while the net balance anticipating higher investment spending rose to 13% from 8%.
- The share of firms reporting difficulties in recruiting skilled labour fell to 46% from 52%, although it is still high relative to the recent historical average. The net balance of firms reporting expectations of higher average pay increased to 18% from 16%, but it remains below the average of 27% in the two years before the EU referendum.
- The net balance of firms expecting to raise their prices increased to a two-year high of 23% from 20%, although the share of firms operating at full capacity fell. In terms of external trade activity, the net balance anticipating stronger total exports remained positive, but eased to 24% from 29%.
- Two Brexit questions were asked in the survey. The share of firms that are confident about business interests being protected or promoted in Brexit negotiations fell to 48% from 60% previously, but it remains higher than the share expressing a lack of confidence, which increased to 29% from 18%.
- The second Brexit question, detailed in the sector and region sections of the report, asked firms about the impact of no trade agreement with the EU on their business. Overall, 18% said that ‘no deal’ would be positive and 39% said that it would be negative.
- Business confidence was highest in manufacturing, while sectors more dependent on domestic demand, such as hospitality and leisure and retail and wholesale, also recorded gains. Firms in the manufacturing and hospitality and leisure sectors were also more likely to regard a Brexit ‘no deal’ as negative for their business.
- Regionally, business confidence was highest in the North East and North West of England, but the lowest in Yorkshire and the Humber and Scotland. Recruitment difficulties are the highest in London and the North East. The greatest concern about a Brexit ‘no deal’ is in Northern Ireland, Wales and Scotland.



# RECENT TRENDS IN THE SME MARKET

## BUSINESS CONFIDENCE

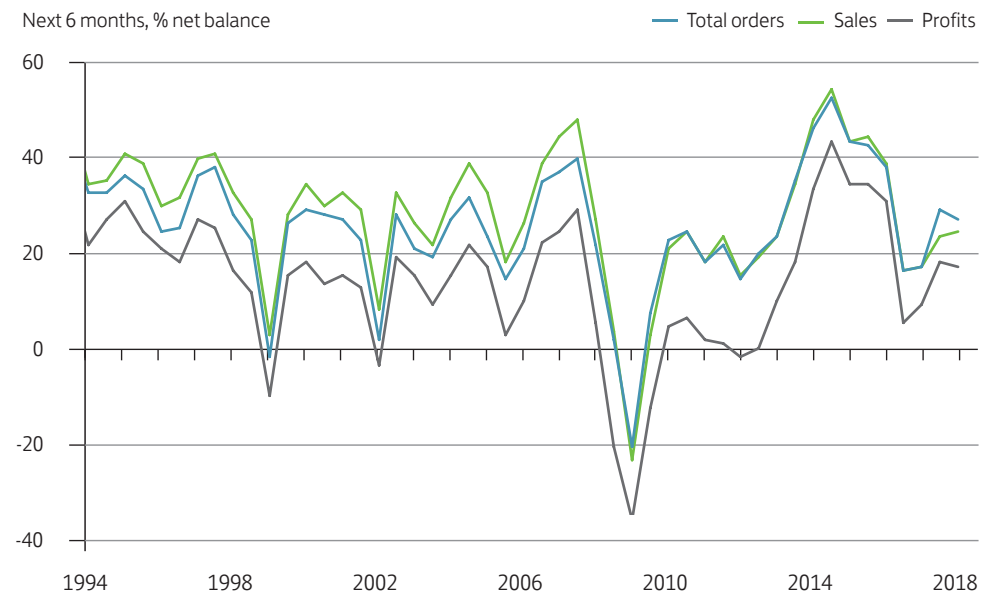
### SENTIMENT STABILISES AROUND THE LONG-TERM AVERAGE



➔ **Business confidence\*** was broadly steady at 23%, compared with 24% in the previous survey. It has stabilised above the low of 12% immediately after the EU referendum and is at the long-term historical average level. Confidence, however, remains below levels in the period before the vote.

## SALES, PROFITS AND TOTAL ORDERS

### PROSPECTS REMAIN ABOVE POST-REFERENDUM LOWS

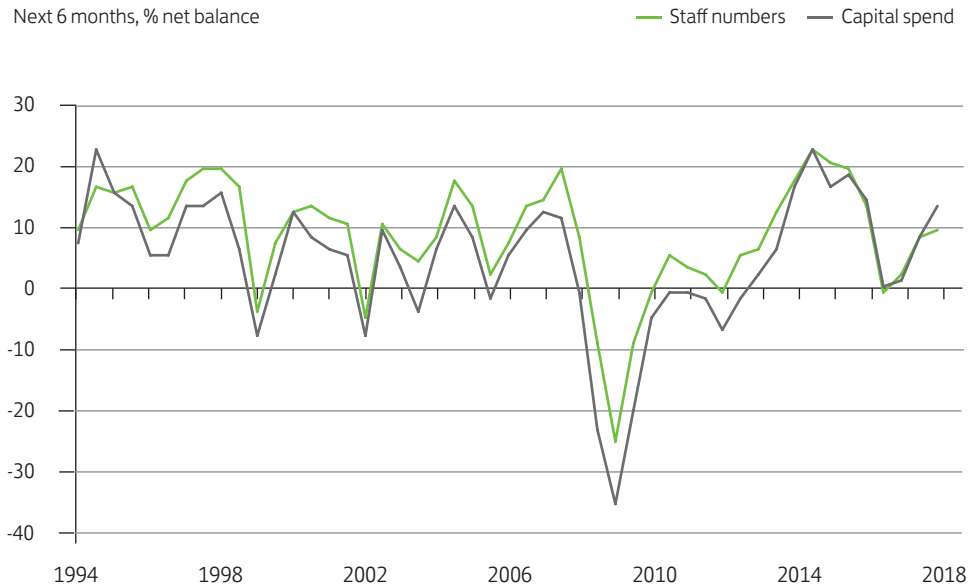



➔ The net balance of firms reporting expectations of higher **sales** in the next six months increased to 25% from 24%. The net balances for **profits** and **total orders**, however, edged slightly lower to 17% from 18% and 28% from 30%, respectively.

\*Business confidence in this report is measured as an average of the net balances of firms anticipating stronger sales, orders and profits in the next six months. The 'net balance' throughout this report is calculated as the percentage of positive responses minus the percentage of negative responses.

## STAFFING LEVELS AND CAPITAL SPENDING

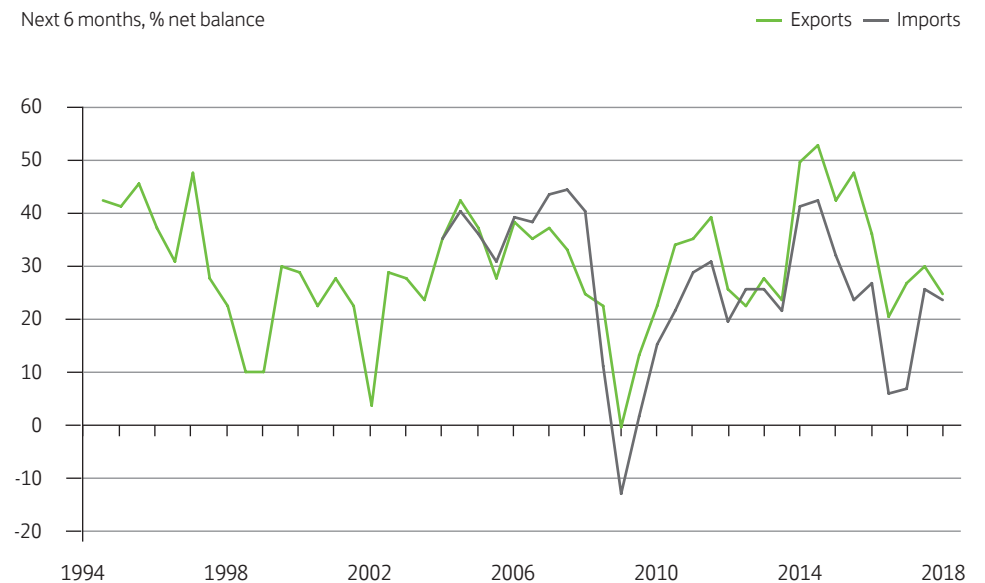
### HIRING AND INVESTMENT OUTLOOK IMPROVES




 The net balances of firms expecting to raise their **staffing levels** and **capital spending** in the next six months increased to the highest level since the EU referendum. A net 9% of companies, up slightly from 8%, expect to increase their headcount, while a net 13%, up from 8%, anticipate an increase in investment.

## EXPORTS AND IMPORTS

### EXTERNAL TRADE EXPECTATIONS EDGE LOWER

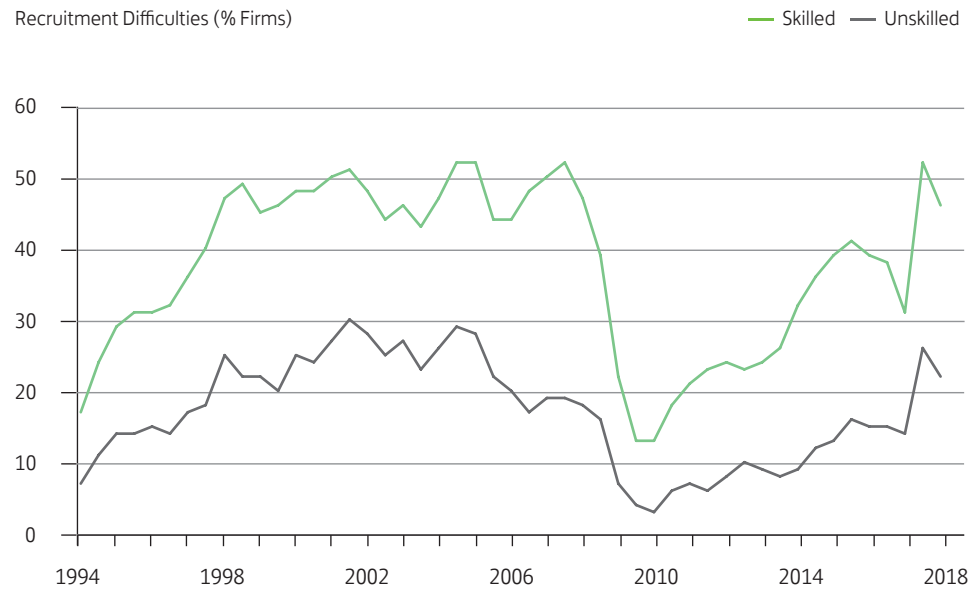


 Expectations for external trade activity have eased slightly, but remain positive. The net balance anticipating stronger **total exports** fell to 24% from 29%, while the equivalent net balance for **total imports** edged down to 23% from 25%.

Export expectations to non-European destinations appear to be stronger than that for Europe. A net 18% and 11% of firms reported stronger expectations for exports to North America and Asia-Pacific, respectively, compared with a net 7% for Europe.

## RECRUITMENT DIFFICULTIES

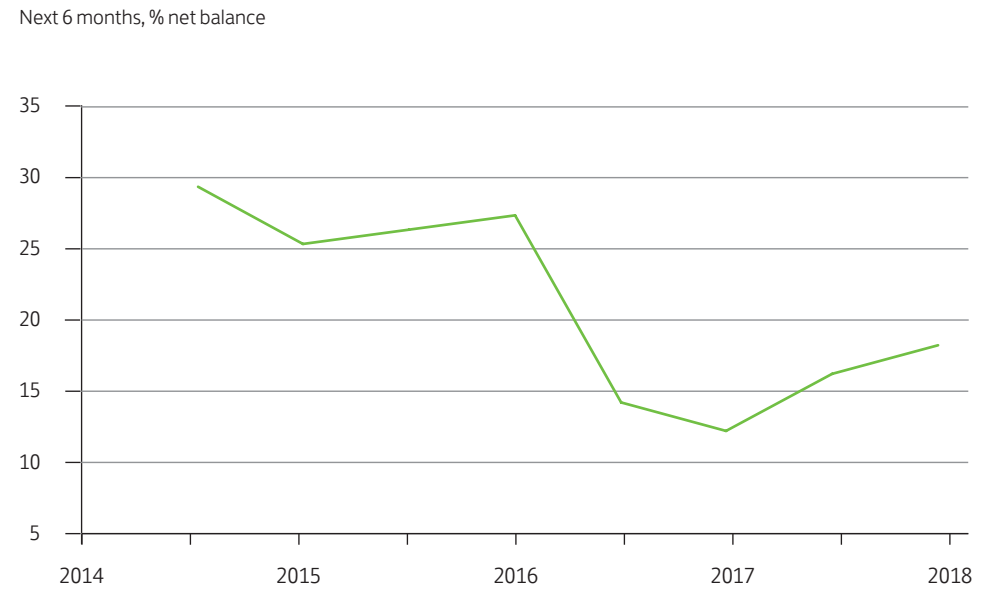
### HIRING FRICTIONS FALL, BUT REMAIN HIGH COMPARED WITH THE RECENT PAST



↓ **Recruitment difficulties** edged lower, but remain high relative to the recent historical average. The share of firms reporting difficulties in recruiting **skilled** labour fell to 46% from 52%, while that for **unskilled** labour decreased to 22% from 26%.

## STAFF AVERAGE PAY

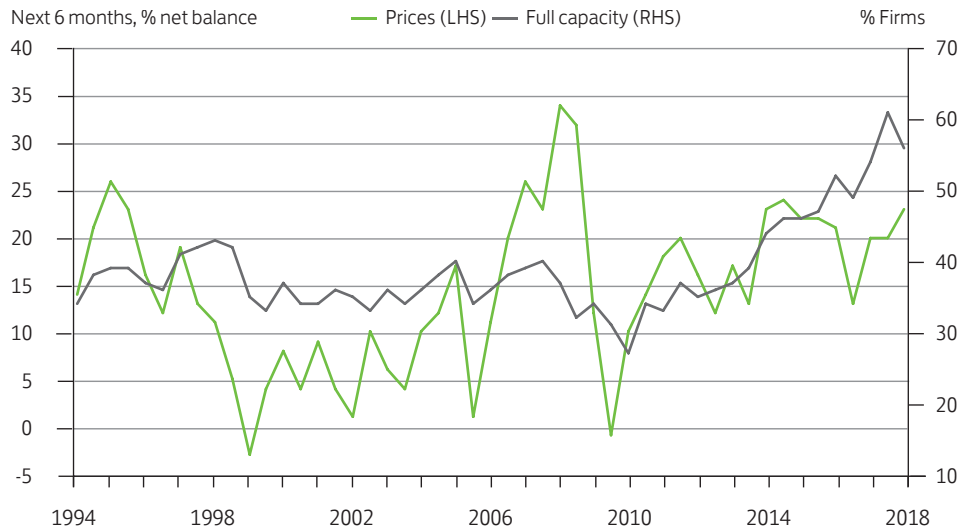
### EXPECTATIONS EDGE HIGHER, BUT ARE STILL SUBDUED



↑ The net balance of firms reporting expectations of higher **average pay** in the next six months increased to 18% from 16%, a post-referendum high, but it remains below the average of 27% in the two years before the vote.

## PRICING INTENTIONS

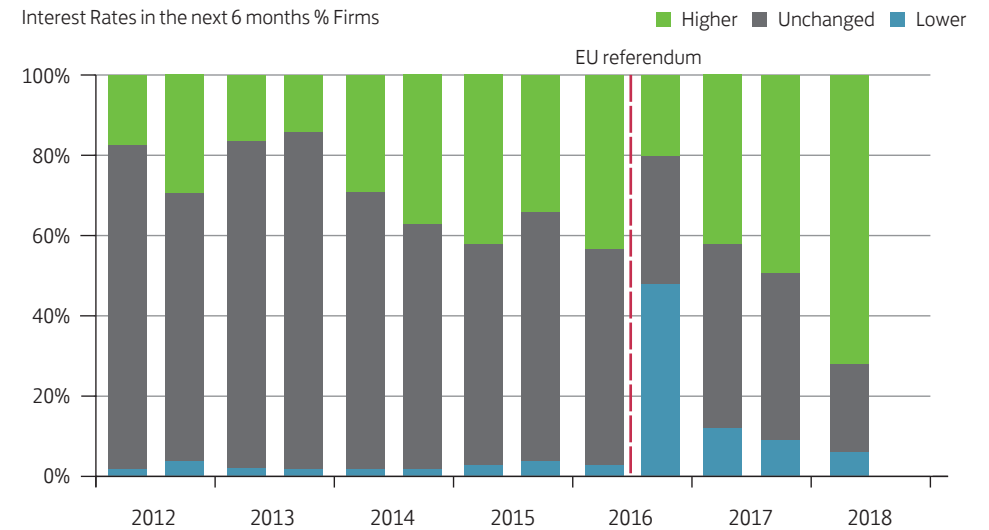
### PRICE EXPECTATIONS INCREASE, AS CAPACITY CONSTRAINTS STAY HIGH



The net balance of firms expecting to increase their **prices** in the next six months rose to a three-year high of 23% from 20%. The share of firms indicating that they are operating at **full capacity** fell to 56% from 61%, but it remains high relative to the historical average.

## INTEREST RATES

### FIRMS ANTICIPATED THE RISE IN INTEREST RATES



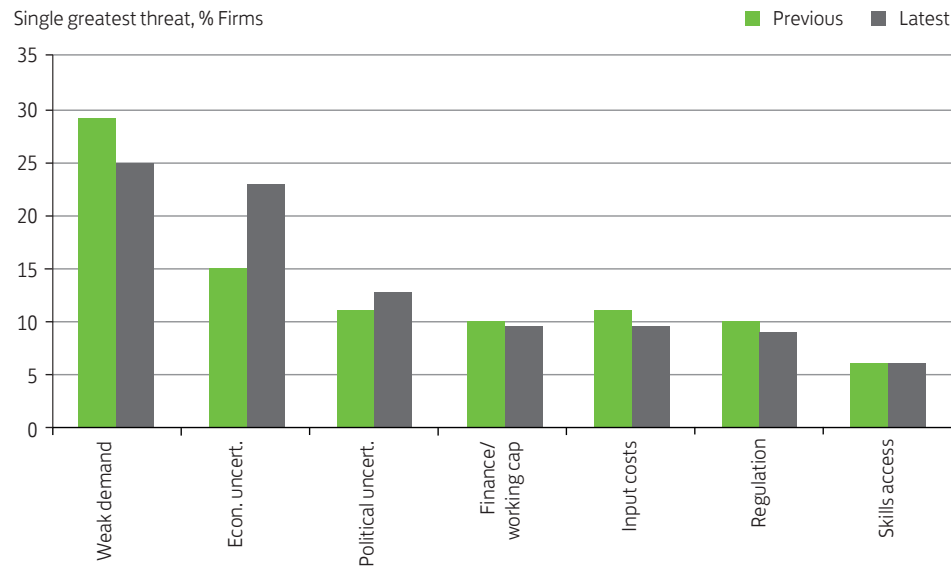
The majority of respondents answered this question before the interest rate rise was announced by the Bank of England.

A majority of companies anticipated higher **interest rates** in the next six months. The share increased to 72%, compared with 49% previously. Only 6% of firms expected interest rates to fall, down from 9% previously.



## SINGLE GREATEST BUSINESS THREAT

### ECONOMIC AND POLITICAL UNCERTAINTIES RISE



**Weaker demand**, both domestic and overseas, remained the single greatest risk in the next six months. It was cited by 25% of firms, although that was lower than 29% previously.

The proportion of firms reporting **economic uncertainty** and **political uncertainty** as their greatest risk increased to 22% from 15% and 13% from 11%, respectively.

## CONFIDENCE IN BREXIT NEGOTIATIONS

### CONCERNS HAVE RISEN SINCE THE LAST SURVEY

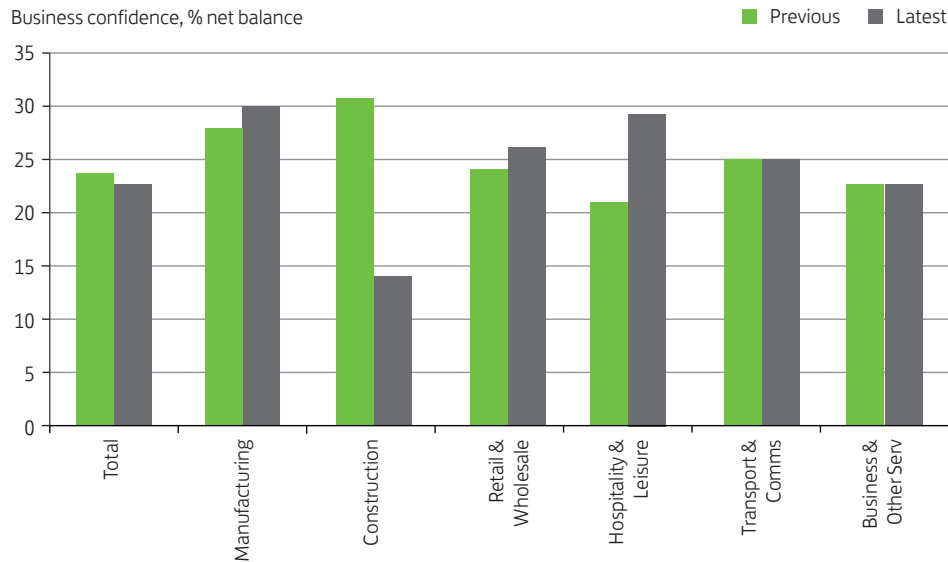


Confidence that business interests will be protected or promoted during the Brexit negotiations has fallen back. The share of firms that are either **very or relatively confident** about Brexit negotiations fell to 48% from 60% previously, but this is still higher than the proportion of companies that are **not very or not at all confident**, which increased to 29% from 18%.

# THE SECTOR OUTLOOK

## BUSINESS CONFIDENCE

### SENTIMENT UP OR STABLE IN MOST SECTORS

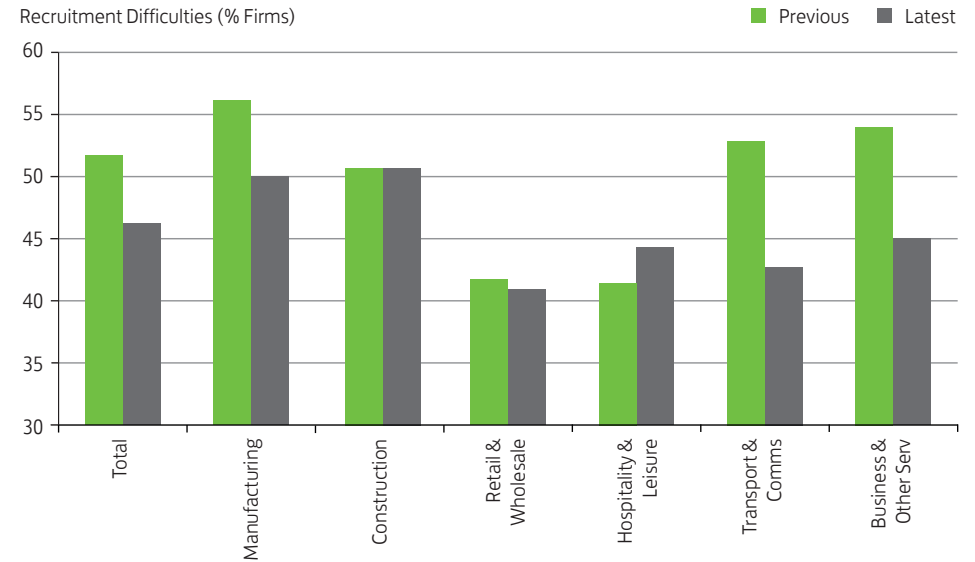


The latest report shows an improvement in confidence since July in three sectors, while two more show no change. Confidence is now highest in **manufacturing**, which may have benefited from competitiveness gains due to sterling's past depreciation. However, some sectors that are more dependent on domestic demand have also experienced a lift.

In manufacturing, the net balance rose to 30% from 27%. **Hospitality and leisure, and retail and wholesale** also recorded gains, while **transport and communications** and **business and other services** showed little change from the previous survey. The only sector that reported a significant fall was **construction**, from 31% to 14%.

## RECRUITMENT DIFFICULTIES

### HIRING FRICTIONS PERSIST



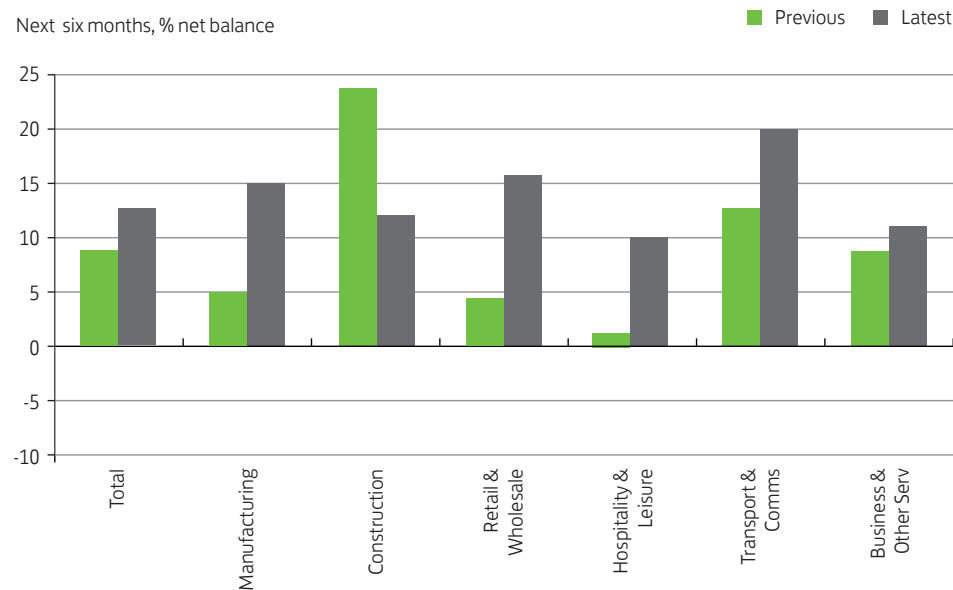
Most sectors continued to report high levels of recruitment difficulties, although the reading for the economy as a whole has declined modestly since the last survey. Only one sector reported an increase in the share companies facing difficulties in recruiting skilled workers, while one showed no change and four reported declines.

**Hospitality and leisure** was the only sector to experience a rise since July, moving up to 44% from 42%. **Construction** showed an unchanged reading at a high level of 51%.

**Retail and wholesale** has the lowest balance at 41%, although that is still a high level by historic standards. **Transport and communications** is the next lowest at 43%, down significantly from its previous level of 53%.

## CAPITAL SPENDING

### INVESTMENT INTENTIONS IMPROVE



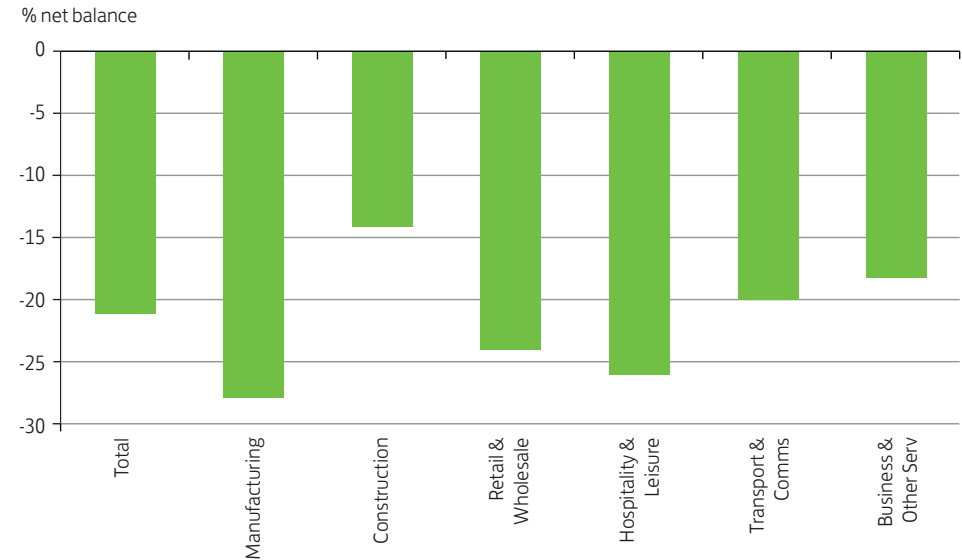
The investment outlook has improved since midyear, although for most sectors net balance levels are still relatively low by historic standards. All but one sector reported an improvement in investment plans for the next six months.

**Transport and communications** has the highest balance at 20% up from 13% in July. Manufacturing (up to 15% from 5%), **retail and wholesale** (16% from 4%), and **hospitality and leisure** (10% from 1%), also all posted large increases.

**Construction** (down to 12% from 23%) was the only sector to record a lower balance for investment intentions compared to the last survey. This is consistent with the declines in its balances for orders, sales and profitability in the sector.

## IMPACT OF BREXIT

### MANUFACTURING MOST CONCERNED ABOUT A 'NO DEAL'



For the first time, the question was asked “What would be the impact on your business if, following Brexit, no trade agreement was reached with the EU?” For the whole economy, the result was a negative net balance of -21%, reflecting 18% positive and 39% negative responses.

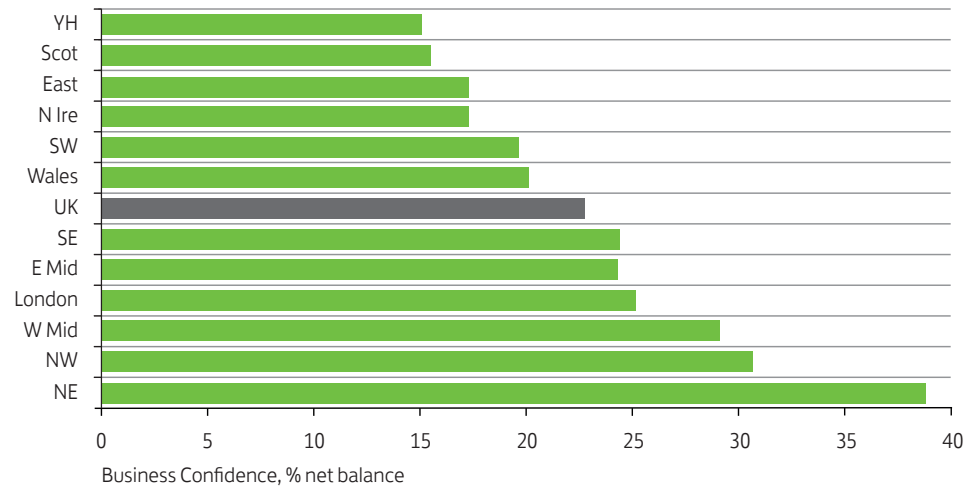
All the individual sectors reported substantial net balances, ranging from -28% for **manufacturing** and -26% in **hospital & leisure** to -14 for **construction**.

The perceived impact on manufacturing may be particularly large because of its high exposure to international trade, while the less downbeat result for the construction sector may be because its activity is domestically driven.

# THE REGIONAL PICTURE

## BUSINESS CONFIDENCE

### CONFIDENCE HIGHEST IN NORTHERN ENGLAND

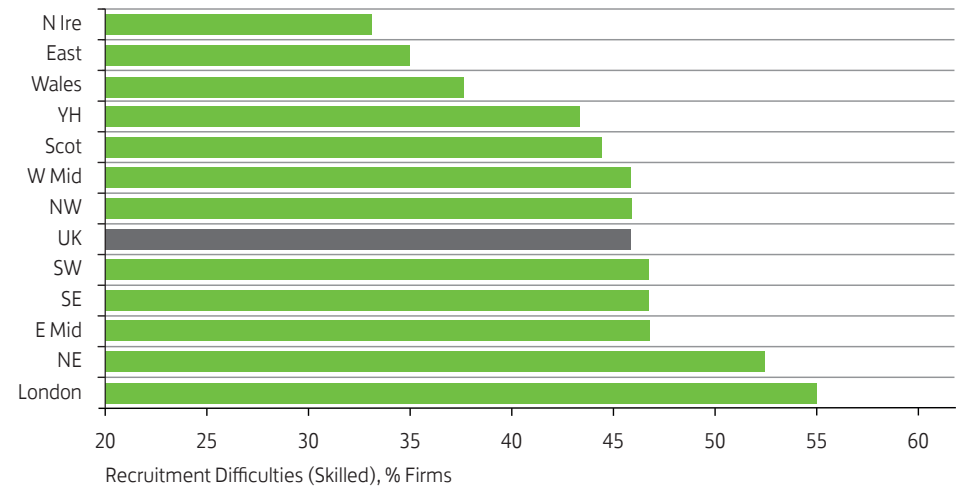


Business confidence is now highest in the **North East** (38%), followed by the **North West** (31%) and the **West Midlands** (28%). Confidence in London, the East Midlands and the South East are also above the national average.

The lowest level of confidence is in **Yorkshire and the Humber** (15%), followed by **Scotland** (17%) and the **East of England** (18%). Confidence in Northern Ireland, the South West and Wales are also below national average.

## RECRUITMENT DIFFICULTIES

### LONDON FACES THE BIGGEST RECRUITMENT ISSUES

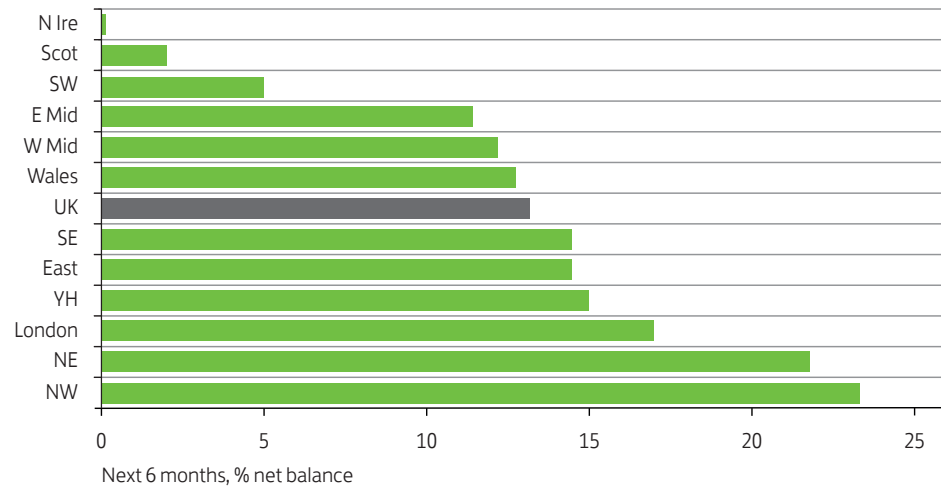


Most regions face historically high levels of recruitment difficulties. The area facing the biggest problem is **London**, where 55% of respondents reported difficulties in recruiting skilled labour. This is followed by the **North East** (52%), the **East Midlands**, the **South East** and the **South West** (all 47%).

The areas facing the lowest levels of recruitment difficulties are **Northern Ireland** (33%), the **East of England** (35%) and **Wales** (37%).

## CAPITAL SPENDING

### SPENDING INTENTIONS LOWER OUTSIDE ENGLAND

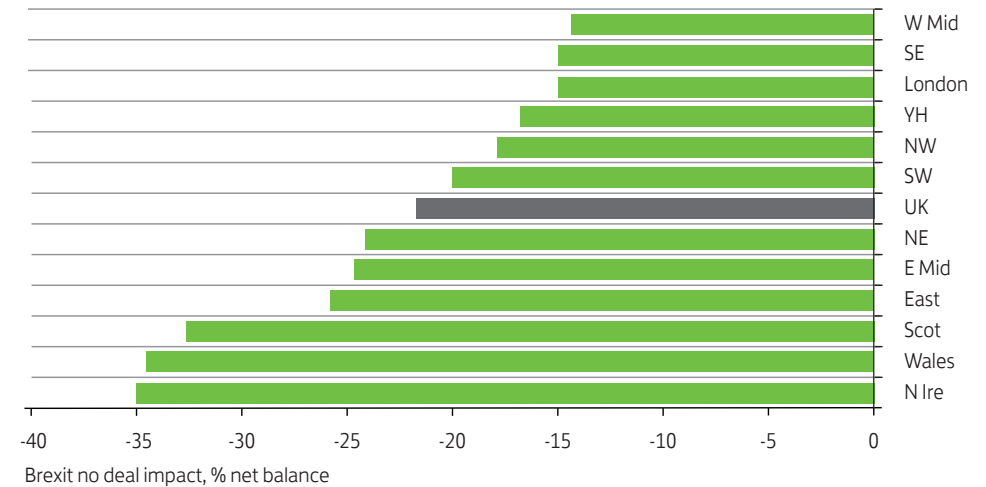


Capital spending intentions for the next six months have increased in most regions compared to the position at midyear. Intentions are highest in the **North West** (23%), the **North East** (21%) and **London** (16%).

Six areas have capital spending balances that are below the national average. The three regions that reported the lowest balances are **Northern Ireland** (0%), **Scotland** (2%) and the **South West** (5%).

## BUSINESS IMPACT OF BREXIT 'NO DEAL'

### MORE CONCERN ABOUT NO TRADE DEAL OUTSIDE ENGLAND



The level of concern about no trade deal with the EU varies significantly. The majority of respondents across all regions think that the lack of a trade deal would have a negative impact on their business. However, concern is highest outside England, with the three largest net balances reported in **Northern Ireland** (-35%), **Wales** (-34%) and **Scotland** (-32%).

In contrast, the areas with the lowest negative balances are the **West Midlands** (-15%), **London** and the **South East** (both -16%). The relatively high level of concern in **Wales**, in contrast to London, suggests that a region's vote for Brexit is not a particularly good predictor of businesses' response to the question.

## Find out more

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