

COMMERCIAL BANKING

BUSINESS IN BRITAIN

A survey of business opinions and trends

44th Edition July 2014



LLOYDS BANK

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INTRODUCTION



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The latest results from our bi-annual Business in Britain survey suggest that the strong momentum seen in the second half of 2013 has continued into H1 2014.

In particular, the survey indicates that business optimism about sales, incoming orders, exports and profits has continued to rise over the last six months with some indicators climbing to record highs. These gains, which have been broad-based, chime with a broader pickup in economic activity.

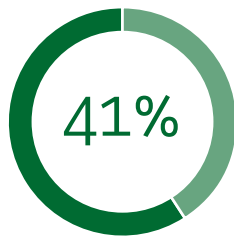
These recent improvements also help explain an accompanying rise in confidence about the outlook for the second half of 2014. In particular, businesses anticipate further strong gains in demand and profits, which underpin their plans to boost headcounts.

Although the accompanying rise in the net balance of firms reporting difficulties in recruiting skilled workers continues to rise, the index remains well below its pre-crisis levels. Firms also envisage an increase in their capital spending, especially in construction which has seen a sharp pickup in activity and profits over the last six months. In turn, these spending rises are expected to feed into a more balanced and sustainable pattern of economic activity.

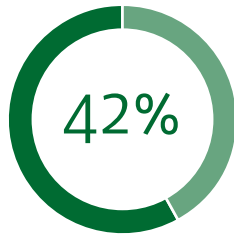
We are grateful to 1,500 companies that took the time to contribute to this assessment of recent trends and future developments in the UK economy. I wish you every success in the remainder of 2014 and beyond.

RECENT TRENDS IN THE SME MARKET

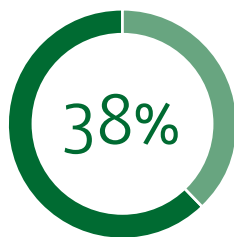
SALES, INCOMING ORDERS AND EXPORTS CONTINUE TO CLIMB



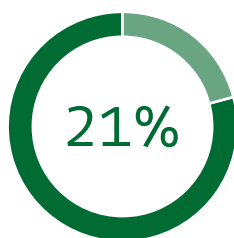
The net balance of overall sales in the past six months increased eight points to **41%**.



The net balance of incoming orders over the past six months also rose by eight points to a record high of **42%**.

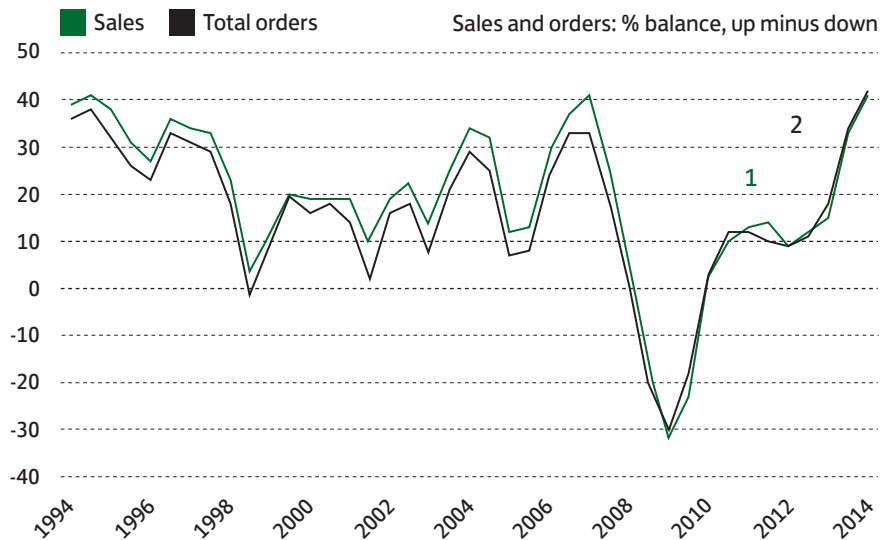


The net balance of total exports in the past six months increased from 33% in the previous survey to a new high of **38%**.



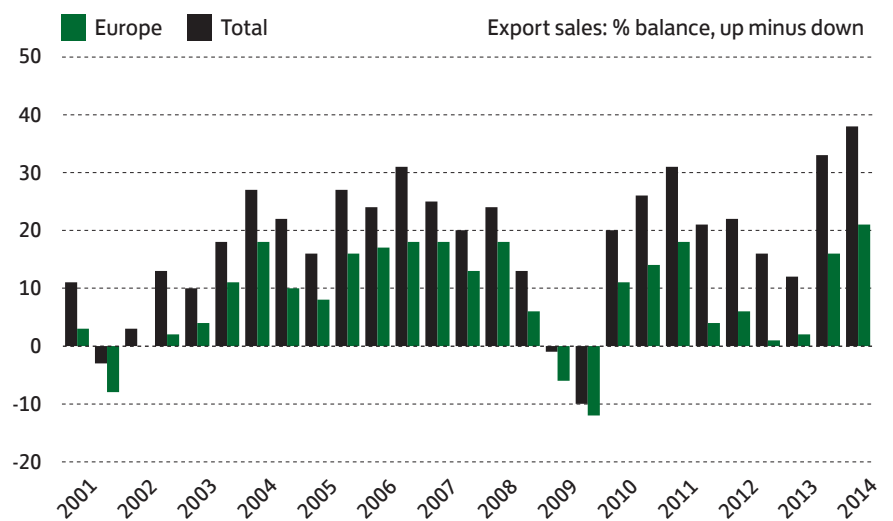
The net balance of shipments to Europe over the past six months also rose by five points to **21%**.

SALES, ORDERS AND EXPORT SALES BALANCES OVER THE LAST SIX MONTHS



1. The net balance of overall sales in the past six months increased eight points to **41%**, equalling the all-time high seen in mid-2007. This is consistent with the firm pace of economic growth in the first half of 2014.

2. The net balance of incoming orders over the past six months also rose by eight points to a record high of **42%**, with 52% of respondents reporting an increase in new business and 10% citing a decline. This suggests that the current growth momentum is set to continue.



1. The net balance of total exports in the past six months increased from 33% in the previous survey to a new high of **38%**.

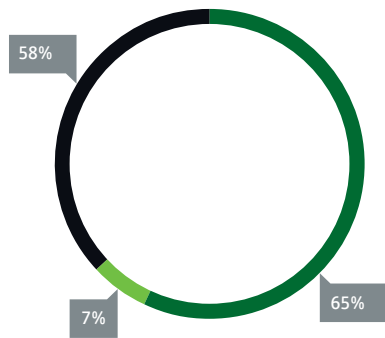
2. The net balance of shipments to Europe over the past six months also rose by five points to **21%** – another fresh peak. This pickup in European exports chimes with an upswing in euro area activity since Q2 2013.

SALES AND ORDERS EXPECTED TO CLIMB OVER THE NEXT SIX MONTHS

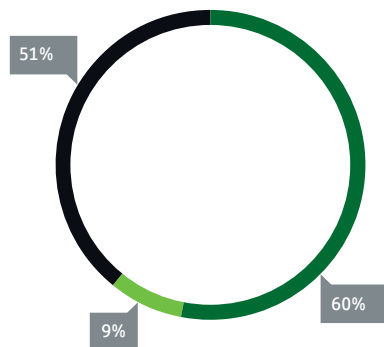
Both the net balances of total sales and total orders over the next six months rose by seven points to **58%** and **56%**, respectively.

These levels constitute all-time highs since the survey began in 1992 and point to a further strengthening of economic growth in the second half of the year.

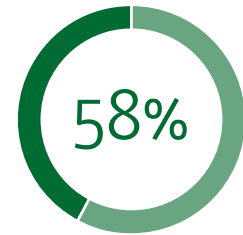
2014 H2



2014 H1

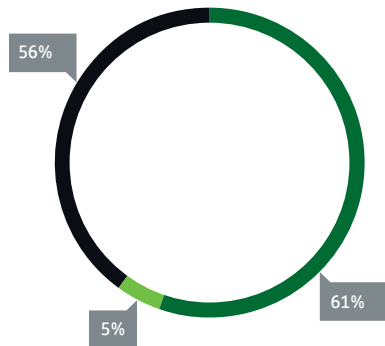


Expected sales: up Expected sales: down Balance

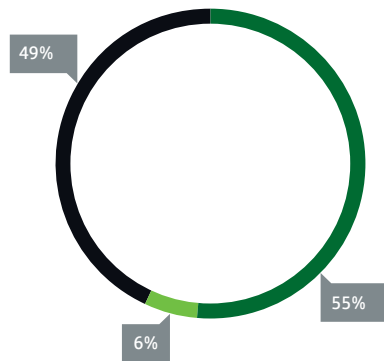


The net balance of expected total sales over the next six months rose by seven points to **58%**.

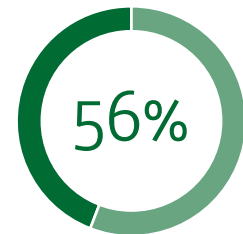
2014 H2



2014 H1



Expected orders: up Expected orders: down Balance

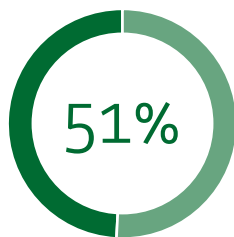


The net balance of business orders over the next six months is expected to rise to an all time peak of **56%**.

SALES AND ORDERS EXPECTED TO CLIMB OVER THE NEXT SIX MONTHS (CONTINUED)

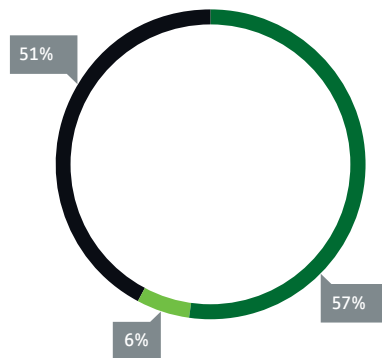
Despite the recent rises in sterling against the currencies of our main trading partners, sentiment about export prospects over the next six months has also increased. The net balance of overall anticipated foreign shipments rose by three points to a fresh high of **51%**, while the balance of firms planning to increase exports to Europe rose from 31% to **37%**.

UK companies are most confident about expected sales to Europe (37%), followed by US and Canada (26%), Asia (22%), Middle East (16%), Africa (12%) and Latin America (11%).

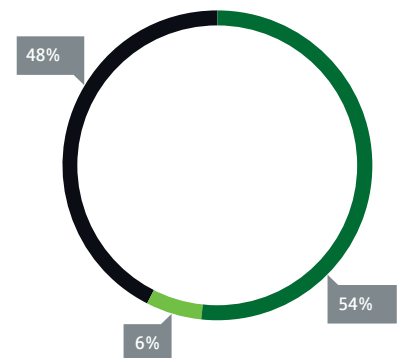


The net balance of overall anticipated foreign shipments rose by three points to a fresh high of **51%**

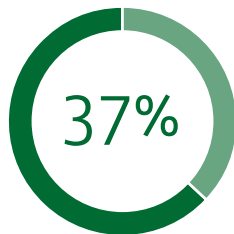
2014 H2



2014 H1

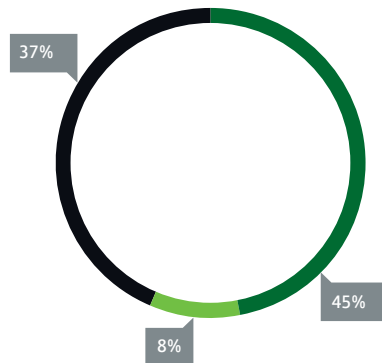


Expected total exports: up Expected total exports: down Balance

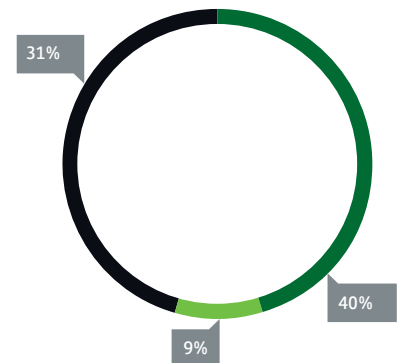


The balance of firms planning to increase exports to Europe rose from 31% to **37%**

2014 H2



2014 H1



Expected exports to Europe: up Expected exports to Europe: down Balance

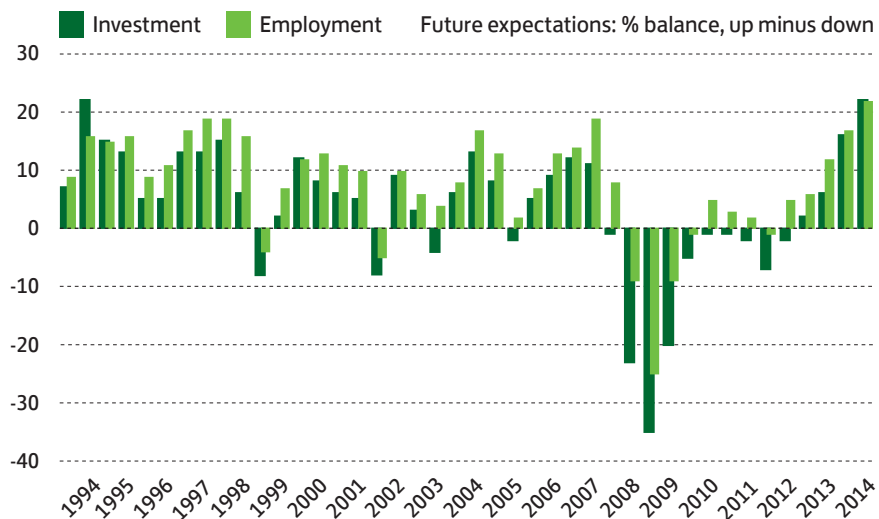
STRONG MOMENTUM IN BUSINESS ACTIVITY SET TO CONTINUE

The sizeable improvements in overall sales and orders net balances over the last six months lines up with the sharp rebound in UK economic activity since 2013 Q1.

Their forward-looking counterparts have also climbed to record highs suggesting that this momentum is set to continue into 2014 H2. Despite a recent pickup in the sterling trade-weighted exchange rate, export optimism has also risen with sentiment highest for Europe and North America.

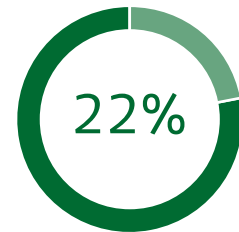
HIRING AND INVESTMENT INTENTIONS CONTINUE TO RISE

INVESTMENT, EMPLOYMENT AND CAPACITY TRENDS

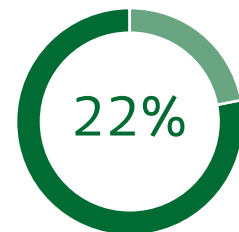


1. The net balance of businesses who plan to increase staff levels in the next six months increased for the fifth consecutive survey. The five-point rise took the net balance to a new peak of **22%**, with 31% of respondents anticipating a rise in headcounts and 9% expecting some shrinkage. This increase in the net balance points to further employment gains as the recovery matures.

2. The upswing in planned capital expenditure has also continued for the fifth survey in a row. The net balance jumped from 16% to **22%**, which equals its all-time high. The balance has been in positive territory for four consecutive surveys for the first time since 2006–7.

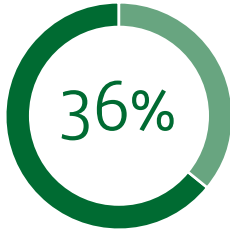


The five-point rise took the net balance to a new peak of **22%**.

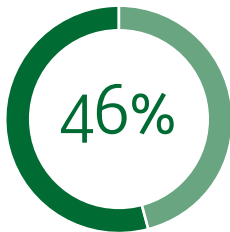


The net balance jumped from 16% to **22%**, which equals its all-time high.

HIRING AND INVESTMENT INTENTIONS CONTINUE TO RISE (CONTINUED)

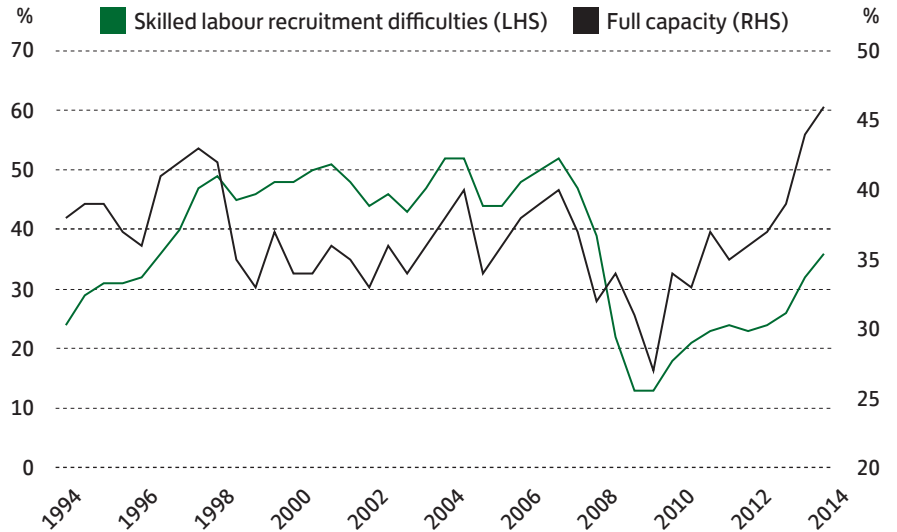


The percentage of businesses reporting difficulties in recruiting workers in the past six months increased by four points to **36%**.



The share of businesses reporting that they are operating at full capacity increased two points to **46%**.

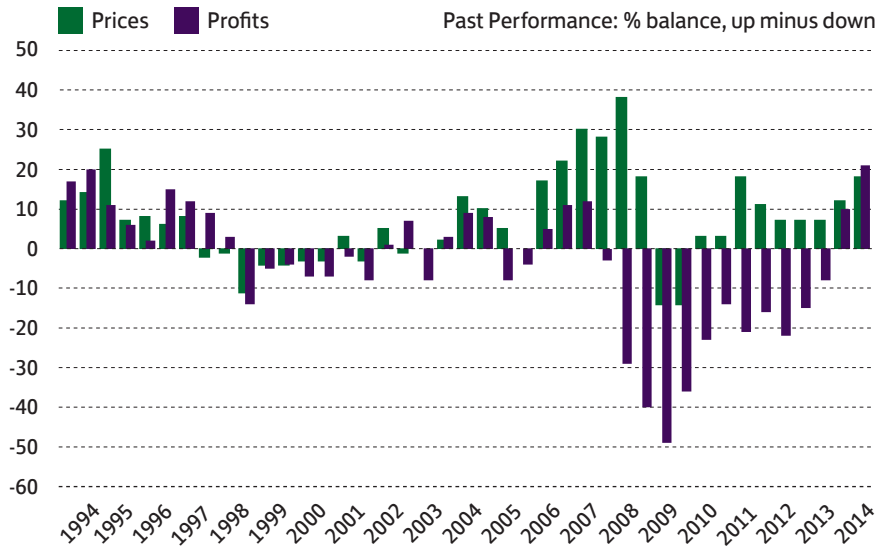
INVESTMENT, EMPLOYMENT AND CAPACITY TRENDS



1. The percentage of businesses reporting difficulties in recruiting workers in the past six months increased by four points to **36%**. This was the fourth consecutive rise and points to a tightening labour market, which could exert upward pressure on pay growth. However, it is worth noting that the index remains well below its 1997–2007 readings.
2. The share of businesses reporting that they are operating at full capacity increased two points to **46%**, which is the highest score since the survey began in 1992. This proportion has increased for five consecutive waves and may lie behind the corresponding pickup in expected capital spend.

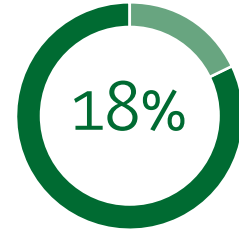
PROFITS AND PRICES EXPECTED TO INCREASE

PRICES AND PROFITS: PAST PERFORMANCE AND FUTURE EXPECTATIONS

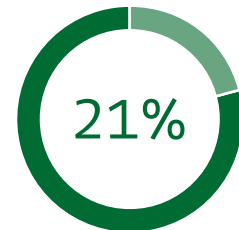


1. The net balance of prices charged in the past six months rose by six points to **18%**. This is lower than the 23% outturn expected at the time of the last survey and suggests that firms have been surprised by the recent weakening of price inflation.

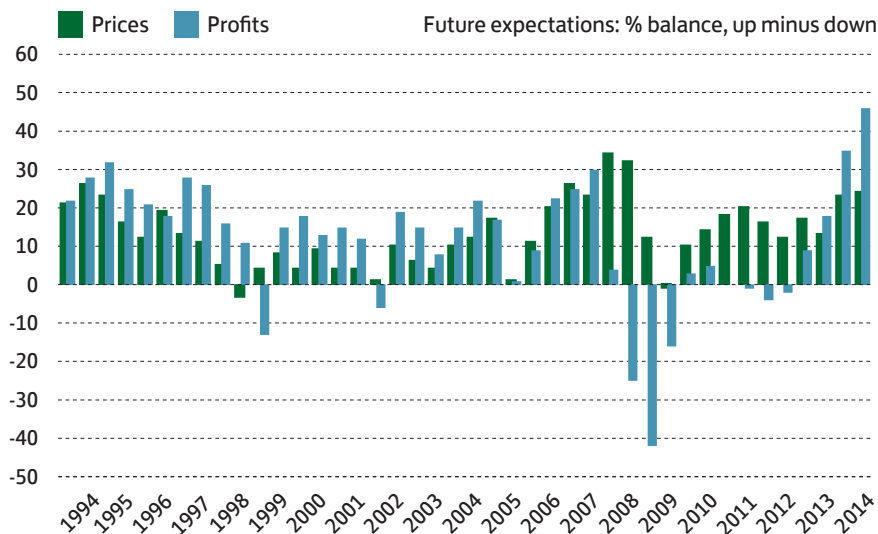
2. The net balance for business profits in the past six months continued its post-crisis recovery with an eleven-point rise to **21%**, which is a record high. Once again, this is somewhat short of the 35% outturn anticipated at the December survey. This might reflect a sharper than expected rise in production costs over the period.



The net balance of prices charged in the past six months rose by six points to **18%**.

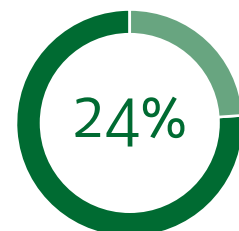


The net balance for business profits in the past six months continued its post-crisis recovery with an eleven-point rise to **21%**.

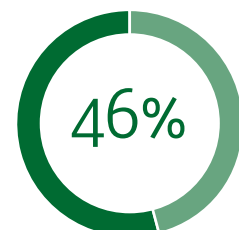


1. The net balance of firms who anticipate raising their prices over the next six months edged up by one point to **24%**, which is its highest reading since 2008, when it averaged 33%.

2. This rise in the price balance may underlie a sharp rise in corporate expectations of stronger profits over the next six months. This index has risen for the fifth consecutive survey to a new all-time peak of **46%**.

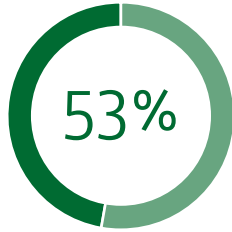


The net balance of firms who anticipate raising their prices over the next six months edged up by one point to **24%**.



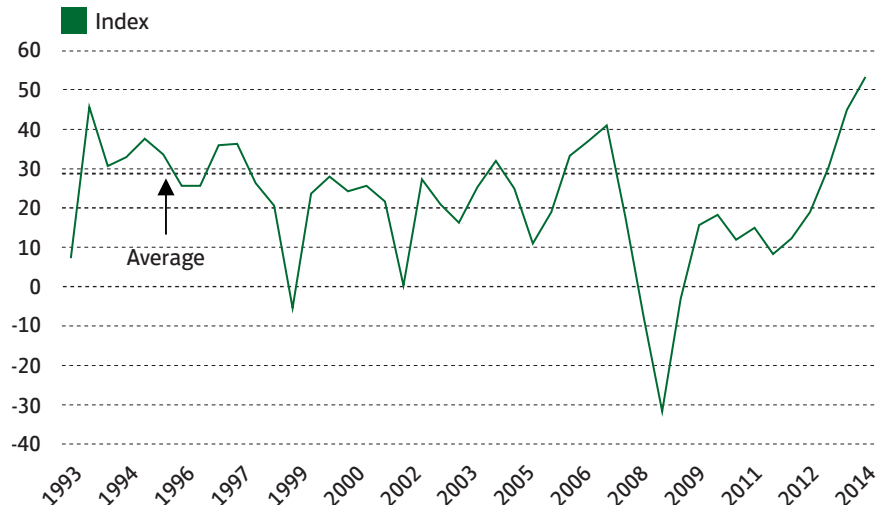
This index has risen for the fifth consecutive survey to a new all-time peak of **46%**.

OVERALL BUSINESS CONFIDENCE JUMPS TO NEW HIGH



The average of the net balances of sales, orders and profits rose by eight points to a new high of **53%**

BUSINESS CONFIDENCE



1. Our business confidence measure, which is based on the average of the net balances of expected sales, orders and profits over the next six months, has jumped by eight points to a new high of **53%**.

This is the fifth consecutive increase in the net balance and was driven by increases in all the underlying components, especially profits.

THE ECONOMIC RECOVERY MOVES FROM STRENGTH TO STRENGTH

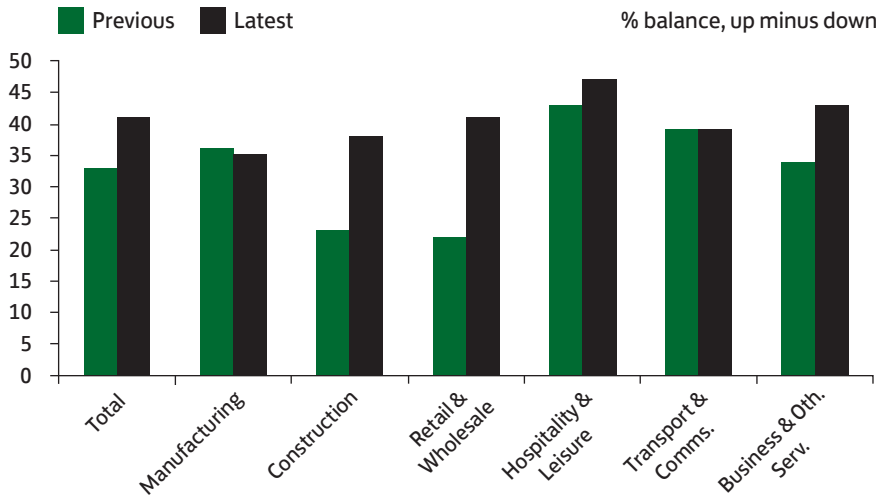
According to the companies in our survey, the last six months have seen notable improvements in the broad economic climate as well as their own business environment with sales, incoming orders, exports and profits rising close to, or at, all-time highs.

These improvements have spurred expectations of further gains, along with rises in capital expenditures and, despite firms finding it harder to recruit skilled workers, staff levels.

THE SECTORAL PICTURE

CONSTRUCTION SECTOR IS SHOWING ROBUST LEVELS OF ACTIVITY

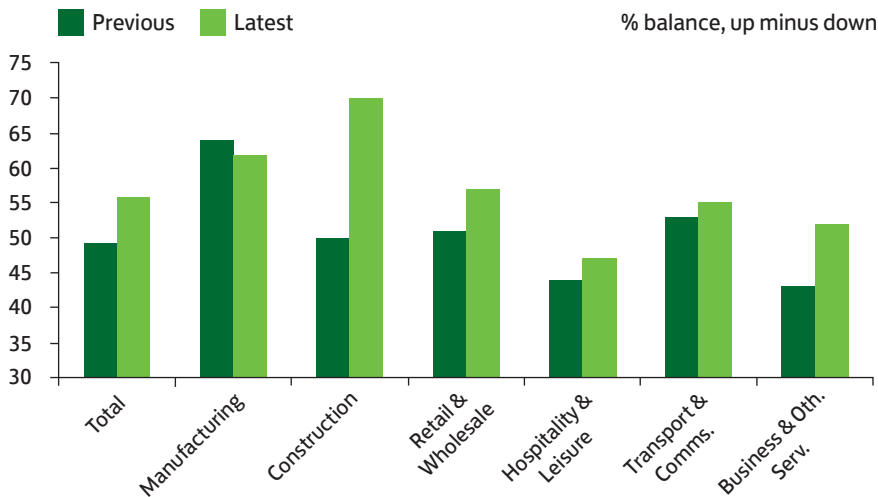
SALES OVER THE LAST SIX MONTHS



The net balance of sales over the past six months improved the most in the retail & wholesale and construction sectors, rising 19 and 15 points to 41% and 38%, respectively. Although only rising four points, the hospitality & leisure sector remains the sector with the strongest sales balance.

This is followed by the business & other services sector, which moved up to second place with the net balance rising nine points to 43%. The net balance was little changed in the manufacturing and transport & communications sectors. In all sectors, the net balances are significantly higher than a year ago.

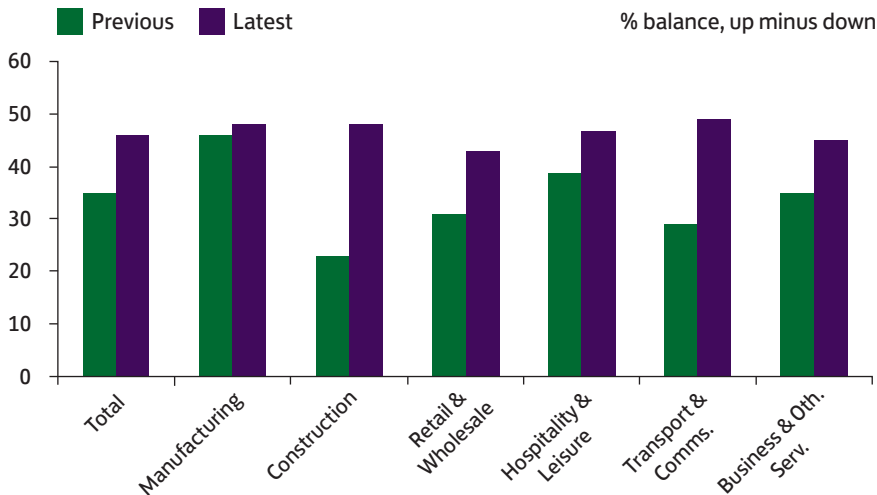
ORDERS IN THE NEXT SIX MONTHS



The construction sector saw a sharp increase in the net balance of expected total orders in the next six months, rising 20 points to 70%. Manufacturing moved down to second place and was the only sector where the net balance fell, albeit marginally, by two points to 62%. There was a notable nine-point rise to 52% for business & other services. The lowest balance was in the hospitality & leisure sector, at 47%, despite the strong sales performance in the past six months.

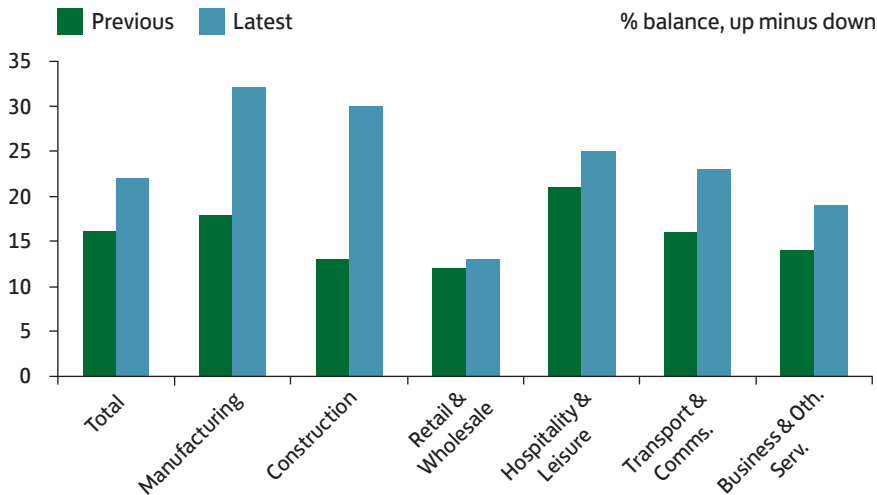
CAPITAL SPENDING INTENTIONS RISE STRONGLY IN CONSTRUCTION AND MANUFACTURING

PROFITS IN THE NEXT SIX MONTHS



The net balance of firms who plan to increase their profits in the next six months increased strongly in the construction and transport & communications sectors, by 25 and 20 points to 48% and 49%, respectively. Manufacturing moved down to joint second place, with a small rise of two points to 48%. There were also notable increases of 12 and 10 points to 43% and 45% in the retail & wholesale and business & other services sectors respectively, while hospitality & leisure registered an eight-point rise to 47%.

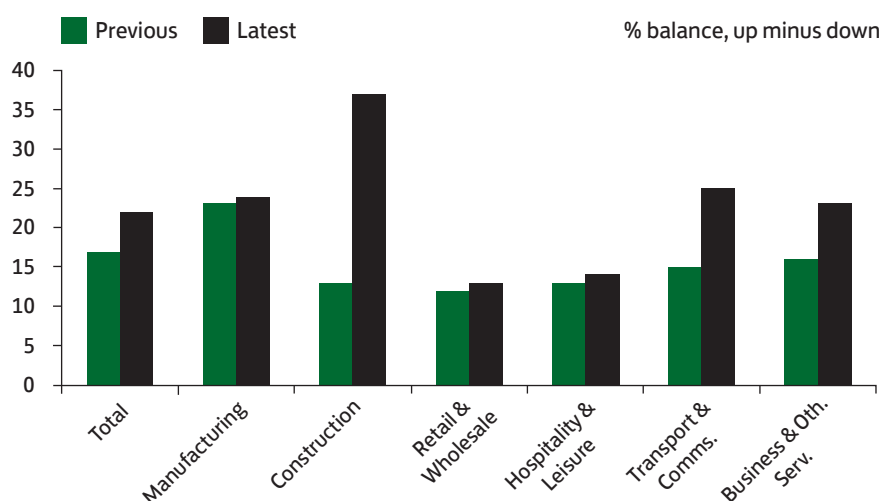
CAPITAL SPENDING



The net balance of businesses who are set to increase capital spending in the next six months increased significantly in the construction and manufacturing sectors by 17 and 14 points to 30% and 32%, respectively. There were smaller increases in the remaining sectors, with the lowest balance of 13% in the retail & wholesale sector.

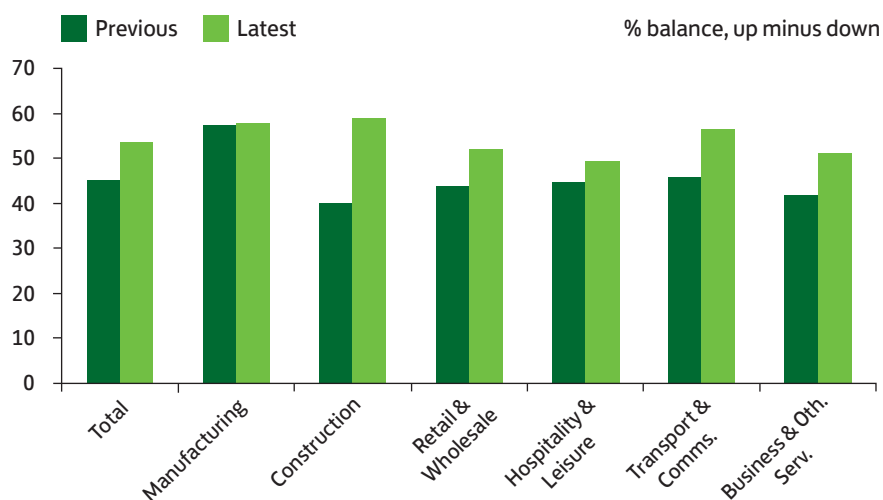
BUSINESS CONFIDENCE LEVELS ARE ROBUST ACROSS ALL SECTORS

EMPLOYMENT IN THE NEXT SIX MONTHS



The net balance of survey participants who are seeking to increase their staff headcounts over the next six months surged in the construction sector by 24 points to 37%, mirroring the sharp increase in expected orders. There were rises also in the transport & communications and business & other services sectors, by 10 and seven points to 25% and 23%, respectively. The remaining sectors – manufacturing, retail & wholesale and hospitality & leisure – saw smaller improvements in expected employment.

BUSINESS CONFIDENCE

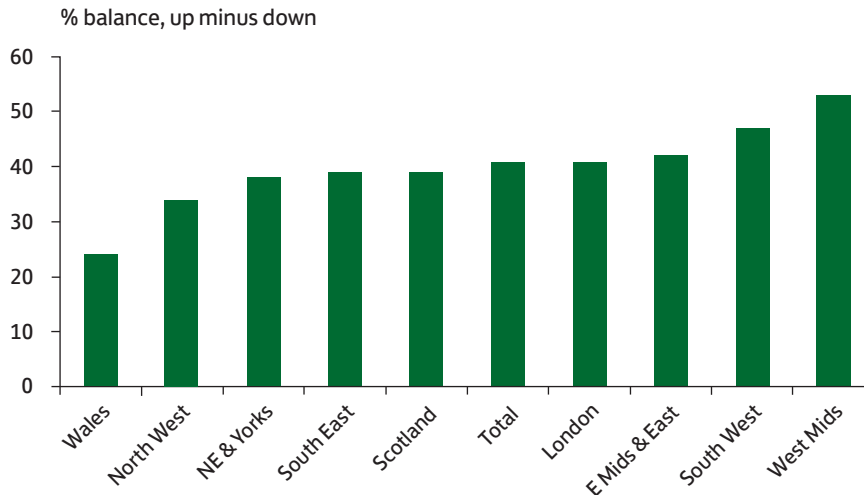


Business confidence is at the highest levels since the survey began across all sectors. The strongest reading is in the construction sector, with a 19-point increase to 59%, closely followed by manufacturing at 58%, despite a rise of only one point. There was a notable rise of 11 points in the transport & communications sector, to 56%. The hospitality & leisure sector has the lowest net balance, though at 49% it is still an indication of strong activity in the coming six months.

THE REGIONAL PICTURE

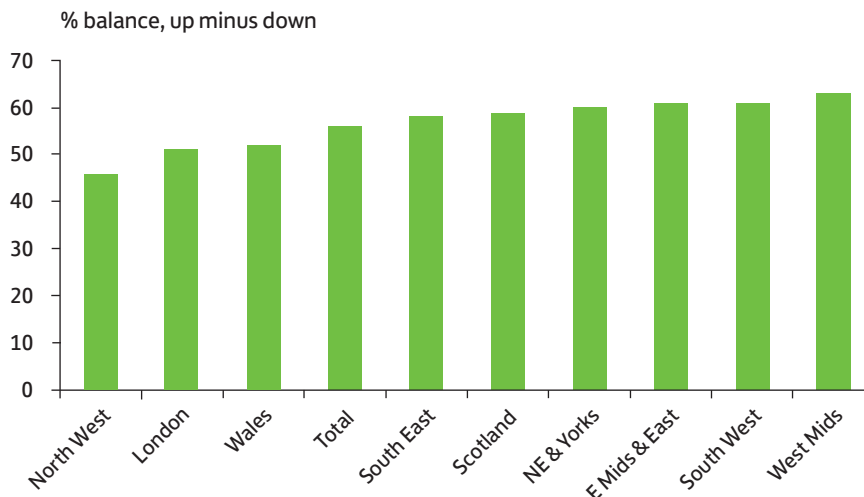
RECENT SALES WERE PARTICULARLY STRONG IN THE WEST MIDLANDS

SALES OVER THE LAST SIX MONTHS



The net balance of sales in the past six months was particularly strong in the West Midlands and the South West, at 53% and 47%, respectively. The lowest balances were in Wales and the North West, at 24% and 34%, respectively, though they are still consistent with quite strong levels of activity. Other regions – East Midlands & East, London, Scotland, the South East and North East & Yorkshire – were close to the national average of 41%.

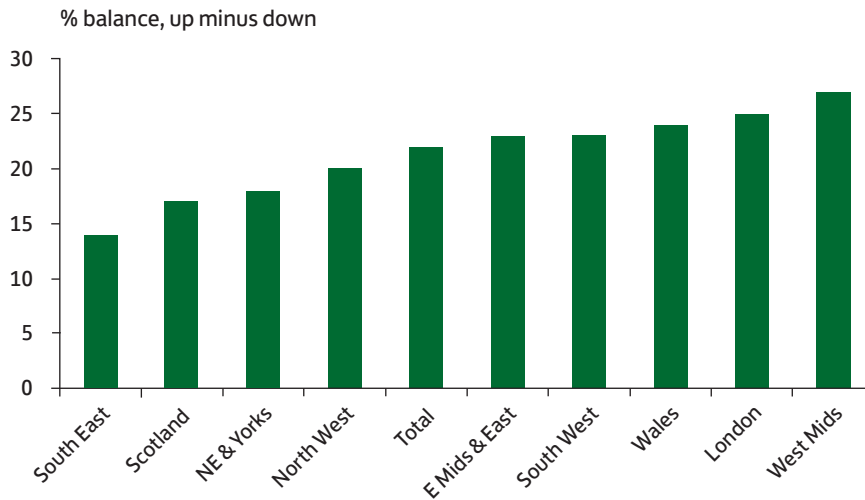
ORDERS IN THE NEXT SIX MONTHS



Looking ahead to the next six months, the highest net balances for expected total orders were in the West Midlands and the South West at 63% and 61%, respectively. The lowest ranking regions for expected orders were the North West and London, at 46% and 51% respectively, though these are still robust levels of anticipated demand.

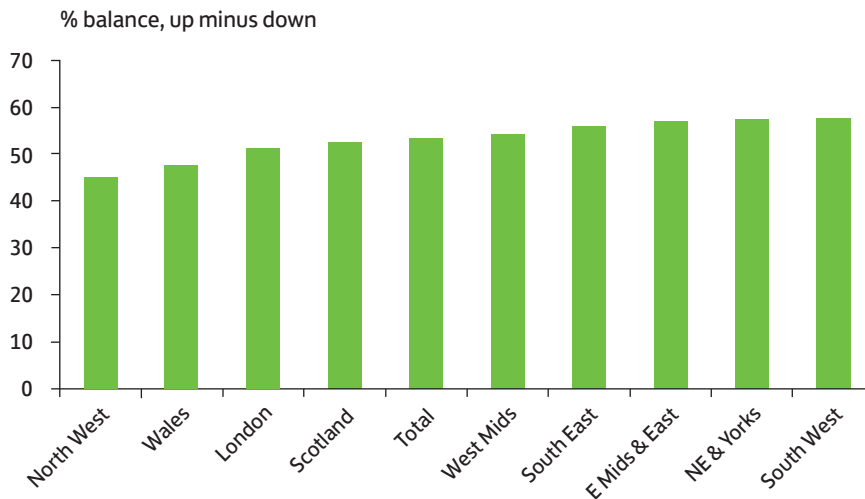
EMPLOYMENT BALANCES ARE POSITIVE IN ALL THE REGIONS

EMPLOYMENT IN THE NEXT SIX MONTHS



The net balance of businesses who anticipate an increase in employees over the next six months was the strongest in the West Midlands and London, at 27% and 25%, respectively. The balances were also above the national average in Wales, the South West and the East Midlands & East. It was the lowest, but still positive, in the South East and Scotland, at 14% and 17%, respectively.

BUSINESS CONFIDENCE

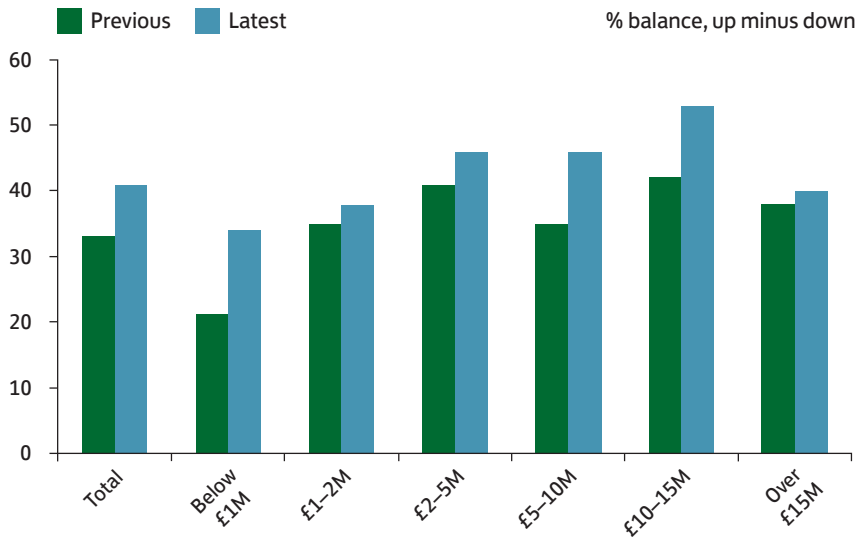


Business confidence was strongest in the South West at 58%, followed by the North East & Yorkshire and the East Midlands & East, both at 57%. It was the weakest in the North West and Wales, at 45% and 48%, respectively. Overall confidence was also below the national average in London, at 51%. Despite differences, the levels of confidence are consistent with robust levels of economic activity across all regions.

ANALYSIS BY SIZE OF FIRM

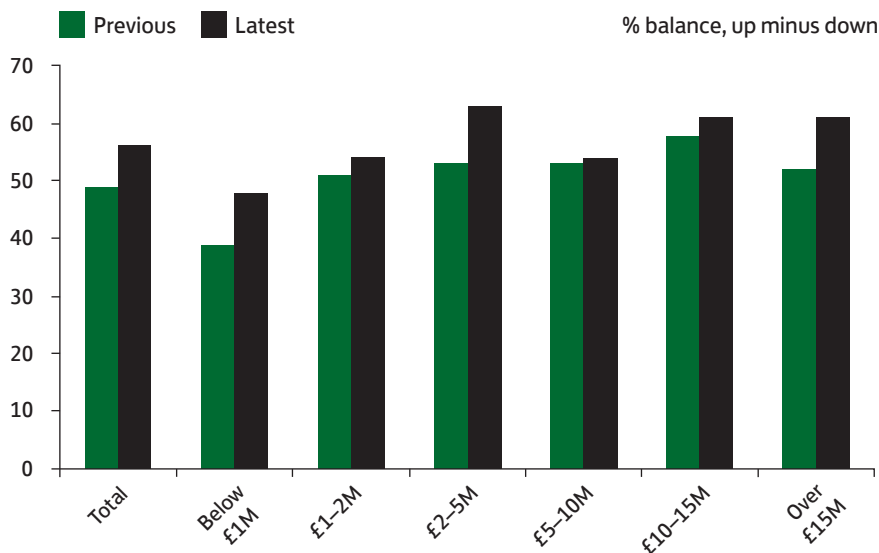
EXPECTED TOTAL ORDERS ARE STRONGEST FOR FIRMS WITH £2–5M ANNUAL TURNOVER

SALES OVER THE LAST SIX MONTHS



The net balance of sales in the past six months increased among all business sizes, particularly among those with annual turnover of less than £1m, where it rose 13 points to 34%. The balances increase with turnover, up to the £10–15m bracket, where it is the highest at 53%. However, it falls back for turnover above £15m, which increased two points to 40%.

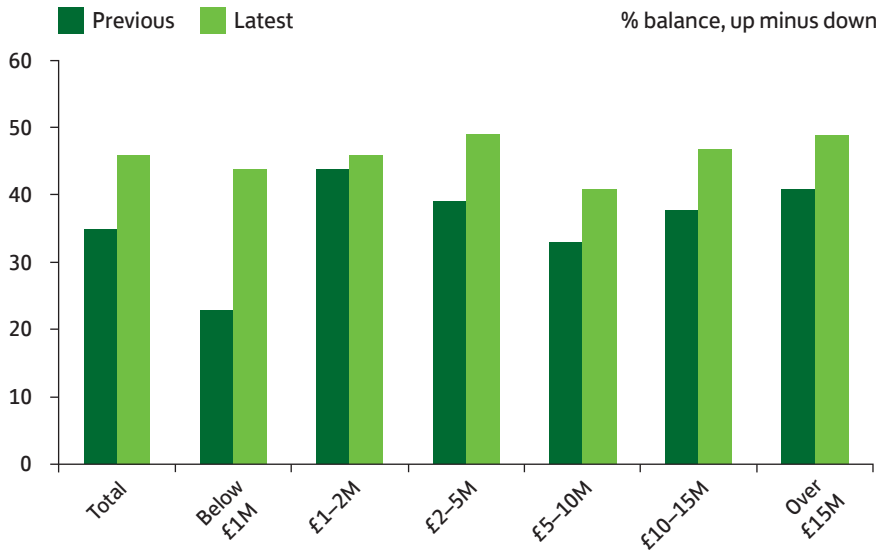
ORDERS IN THE NEXT SIX MONTHS



The net balance of expected total orders over the next six months increased the most among companies with £2–5m turnover, where it rose 10 points to 63%, pushing the £15m-plus turnover category down to joint second place with the £10–15m bracket, at 61%. There was a notable nine-point rise to 48% for firms with turnover of less than £1m.

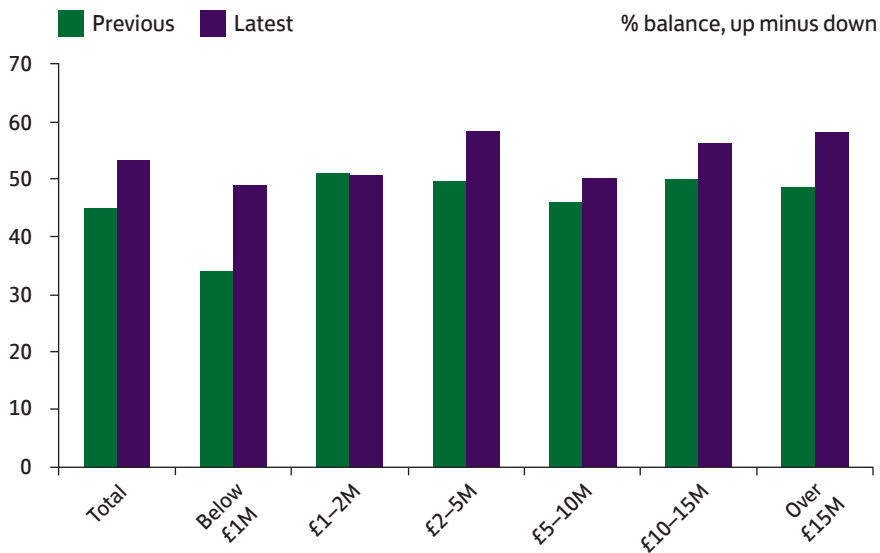
BUSINESS CONFIDENCE INCREASED THE MOST FOR TURNOVER BELOW £1M

PROFITS IN THE NEXT SIX MONTHS



There was a large 21-point rise to 44% in the net balance of expected profits in the next six months for businesses with turnover of below £1m. The highest balance of 49% was for the £2-5m and above £15m turnover brackets.

BUSINESS CONFIDENCE



Business confidence improved the most among businesses with annual turnover of below £1m, where it increased 15 points to 49%. However, it was unchanged at 51% for £1-2m turnover, pushing it down from top position in the last survey. The strongest levels of confidence were for firms in the £2-5m and above £15m turnover brackets, both at 58%.



FDs' Excellence Awards in association with ICAEW and supported by the CBI & Real Business. Business Bank of the Year was won in 2014 by Lloyds Bank plc. In 2011, 2012 & 2013 the award was won by Lloyds Banking Group plc which included the operating subsidiaries: Lloyds TSB Bank plc, Lloyds TSB Scotland plc and Bank of Scotland plc. From 2005–2010 this award was won by Lloyds TSB Bank plc and Lloyds TSB Scotland plc. From 23 September 2013 Lloyds TSB Bank plc now trades as Lloyds Bank plc and Lloyds TSB Scotland plc trades as TSB Bank plc.

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