November 2024

Barclays Business Prosperity Index Report Q3 2024

BARCLAYS

Unlocking UK growth

About this report

The Barclays Business Prosperity Index (the "Index") is designed to provide a holistic measurement of UK business performance and prosperity. The Index is not intended to be a tracker of GDP, or any other official metric, but to provide an overview of the experiences of UK businesses. This report reflects a combination of Barclays' own proprietary data and survey responses, and as such contains insights that inherently include a degree of subjectivity.

The Index combines proprietary data from the UK Corporate Banking and Barclaycard Business UK businesses in Barclays Bank PLC and the Business Banking business in Barclays Bank UK PLC, with external survey data collated by Opinium. The economic modelling of these sources is conducted by the Centre for Economics and Business Research (Cebr), to create a trackable indicator for business performance and future growth. The final outputs do not reflect the financial performance of Barclays or changes in its customer base. The transformation of financial data includes deflation at the 2022 levels. Data has been weighted to reflect GVA by region, sector and business size.

Contents

Foreword

Growth's the word: A foreword from Hannah Bernard and Matt Hammerstein

From founder and FTSE boardrooms to the brightest policy minds and leading economic commentators, the UK's national growth has jumped to the top of most discussions recently.

Amid macroeconomic shifts, technological change and global competitiveness, the challenge and opportunity of business growth, and its link to wider UK prosperity, is more sharply in focus than at any point in recent memory.

We developed the Barclays Business Prosperity Index to insert an objective, trackable indicator of the current performance and future growth prospects of UK businesses, from start-ups to IPO and beyond, into those discussions.

The market is full of opinions – we want to present some data which could guide choices and enable more confidence, higher investment, and faster growth. Across the Barclays UK Corporate Bank and Business Banking teams that we lead, we've combined our deep pool of Barclays' data with timely sentiments from over 1,000 business leaders.

Through this quarterly series, we will seek to uncover the emerging business trends playing out across the country and the latest business leader insights about those trends.

We hope you enjoy exploring the Index and applying our insights to your work. We all have a role to play in unlocking the UK's growth.

Hannah Bernard

Hannah Bernard
Head of Barclays Business Banking

Matt Hammerstein

Matt Hammerstein
Chief Executive of Barclays UK Corporate Bank

"Our new Index is designed to be a bellwether of business sentiment, performance, and future growth opportunities. We hope business leaders and policy makers find it a valuable tool to navigate the economic landscape."

Hannah Bernard

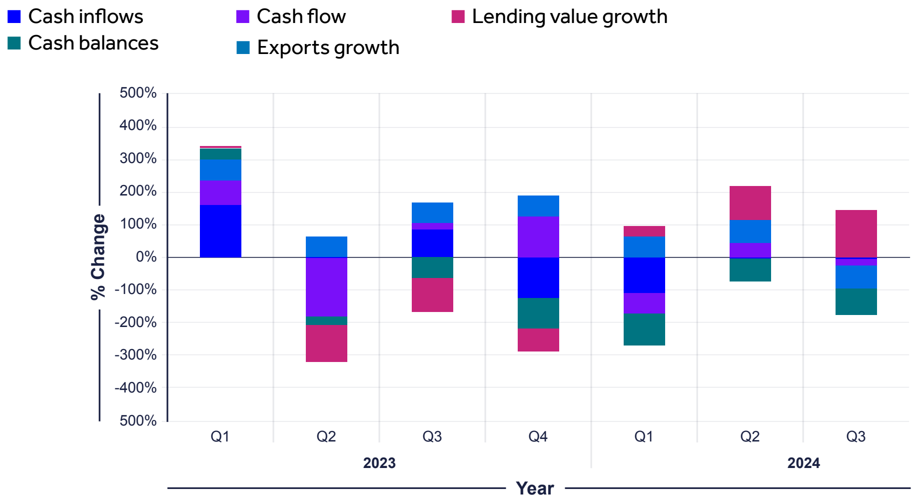
"The economic environment remains challenging for those on tight margins, but there are signs of cautious optimism emerging. Our data shows many businesses with investment plans on hold are now confident to kick-start growth by seeking the funding they need."

Matt Hammerstein

What is the Barclays Business Prosperity Index?

The Barclays Business Prosperity Index is a quarterly measure of UK business performance. It combines proprietary Barclays data with external survey data collated by Opinium. The economic modelling of these sources is conducted by the Centre for Economics and Business Research (Cebr) to create a trackable indicator for current business performance and future growth. The Index is a rebased average of two pillar scores: the current business performance pillar and the future growth pillar, both weighted at 50%. Data used from Barclays is transformed and weighted by Cebr to represent the UK business population.

Overall Barclays Business Prosperity Index score



Source: Barclays Research

The current business performance pillar combines Barclays data – showing stability in UK business cash flow – with external survey insights from over 1,000 UK business leads on confidence metrics including productivity, headcount growth and demand. The future growth pillar consists of three sub-pillars, equally weighted, that provide insights on the financial resilience of UK businesses, as well as their internal and external barriers to growth.*

Overall Barclays Business Prosperity Index pillar scores

	2024		Change Actual	Change %
	Q2	Q3		
Total score	-13.08	18.22	26	27% ▲
Current business performance (50%)	74.5	96.5	22	30% ▲
Future growth (50%)	21	25	4	19% ▲

The Barclays Business Prosperity Index uses standardised metrics that have been converted into a single unit, to effectively combine a range of different data points into an overall score. Each quarterly Index score will range between +150 and -150, where 0 is the historical mean.

The Index pillar score is based on movements in each metric, based on their historical distribution regardless of the metric's original unit. As the Index develops over time, the scores will calibrate based on new data. See pages 11-12 for detailed breakdown of metric analysis.

*The weighting of each trackable metric varies based on Cebr's assessment of each metric's relative importance to prosperity and business growth potential, so this report must be reviewed with an inherent degree of subjectivity. The first Index scores include almost three years of proprietary data and two months of survey data and will adjust over time.

Executive summary

The inaugural Barclays Business Prosperity Index shows improved financial resilience and confidence to invest among UK businesses in Q3, compared to Q2. Despite a slight decline in cash inflows, net cash flow (the difference between the cash coming in and going out) increased, suggesting that businesses may have reined in spending to improve their financial position. The findings also revealed that businesses expected to increase investment over the next year, a sharp rise compared to Q2. Businesses continue to feel the effects of inflation and rising costs, and many are introducing strategies such as making changes to their product offering and updating supply chain processes to retain customers. Overall, the findings highlighted an optimistic uptick in investment intentions as business leaders are eager to lay the groundwork for growth.

Overall Index score 18.2

Current business performance pillar ▲ -3.3

Key takeaway

Demand for products and services picked up in Q3 2024, compared to Q2 2024, but remains weaker than in the same quarter last year, with international inbound payments falling. However, businesses still felt that demand levels were good, relative to the time of year.

Key business performance highlights from Q3

Despite cash inflows remaining 3.0% lower in Q3 than in the same period the previous year, net cash flow was 17.0% higher in that same timeframe, due to a sharper reduction in outflows. This indicates stable business performance, supporting business resilience through improved cash retention.

	Q3
Cash inflow	-6.38
Net cash flow	-18.82
Demand levels	-70.71
Productivity growth	-70.71
Exports	-70.71
Headcount growth	-70.71

Future growth pillar ▲ 40.9

Each of the three sub-pillars within the future growth pillar saw improvements in Q3 relative to Q2. Financial resilience improved as lending volumes picked up. While cash balances also declined, this seems to be linked to higher investment intentions, which picked up slightly this quarter.

All three metrics within the internal barriers sub-pillar saw improvement. In the external barriers sub-pillar, perceptions of both the macroeconomic and political environment improved, while labour market tightness increased slightly.

1.4%
Firms intend to increase investment by 1.4% in the next 12 months[1]

4.8%
The value of drawn loans picked up by 4.8% in the year to Q3[1]

[1] Barclays' proprietary data, made up of circa one million anonymised business customers. Proprietary data compares Q3 2024 with previous quarters.

Overview of current business performance pillar

The current business performance pillar improved compared to Q2 2024. Two of the six metrics showed an improvement on last quarter, while four declined. This pillar on the whole showed a nuanced demand picture, but headcount growth picked up sharply.

Current business performance pillar

Cash inflows

Cash inflows have improved for the third consecutive quarter, although the pace of growth has slowed to 1.7% in Q3 from 1.9% in Q2. Despite recent improvements, cash inflows remain 3% below where they were in the same quarter last year.[1]

This data, which proxies for revenue, is in line with recent GDP data, which shows continued growth throughout 2024 to date, following a recession at the end of last year. However, the pace of growth has slowed entering the second half of the year and is expected to remain subdued over the short term.

Net cash flow

Net cash flows improved in Q3 for the fifth consecutive quarter. The pace of improvement also increased to 4.0% in Q3 from 2.8% in Q2. Net cash flows were 17% higher in Q3 than the same period a year earlier, compared to a 3% fall in inflows in that same period due to an even faster decline in cash outflows.[1]

Overall, this data could indicate that business expenditure is declining faster than revenues, leading to improved profitability.

Value of trade via international payments

Inbound international payments fell in Q3, the second consecutive quarter of decline. Overall, a decline in inbound payments is not surprising, given that the value of the pound generally rose against the euro and dollar across Q3.

Productivity

Productivity growth, measured by output per job, increased by 6.5% in the year to Q3, up from 2.6% in Q2.[1] This growth may be driven by labour market tightness, which has led firms to maximise efficiency amid hiring challenges and continue business with smaller headcounts. Four in 10 (40%) businesses plan to invest in research and development (R&D) of new products or services in the next year.

Headcount growth

The average business saw headcounts rise by 3.9% in the year to Q3, according to survey data. This was an increase from the 0.6% growth rate seen in Q2.[1]

Headcount growth was fastest across large firms and weakest across micro firms. At a sub-national level, all regions saw positive headcount growth in the year to Q3. The strongest growth was seen across Northern Ireland, followed by Scotland and London.

Demand levels

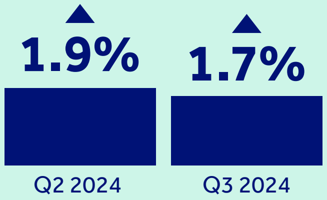
Business leaders have judged demand to be broadly strong for the time of year (score of 0.9, where 0 is broadly average) and to a broadly similar extent than they did in Q2 (0.8).[1]

Larger firms were more likely to say that demand was strong for the time of year compared with small or micro firms. This data corroborates the cash inflow data by painting a picture of demand conditions that have improved in Q3 relative to Q2.

[1] Barclays' proprietary data, made up of circa one million anonymised business customers. Proprietary data compares Q3 2024 with previous quarters.

Overview of current business performance pillar

Cash inflows



Decrease in pace of improvement

-3%

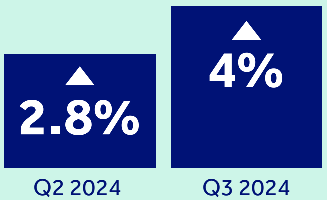
Cash inflows were 3% lower in Q3 than the same time last year[1]

Headcount growth

3.9%

Headcounts grew by 3.9% in Q3 2024 compared to Q2 2024[2]

Net cash flow

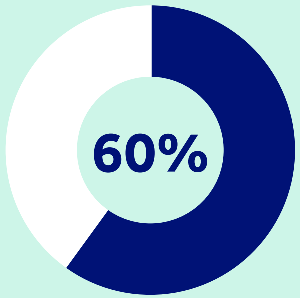


Increase in pace of improvement

17%

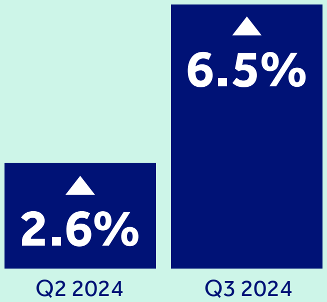
Net cash flows were 17% higher than the same time last year[1]

Demand levels



Over half of firms feel that demand is strong for the time of year[2]

Productivity



Growth in output per job in Q3 2024, compared with Q2 2024[2]

[1] Barclays' proprietary data, made up of circa one million anonymised business customers. Proprietary data compares Q3 2024 with previous quarters.
[2] Survey data relates to research among 1,000 business decision makers, conducted between 11th and 28th October 2024 by Opinium Research on behalf of Barclays.
The businesses represented in the survey are of various sizes, sectors, and regions.

Overview of future growth pillar

The future growth pillar explores key factors influencing future business growth, covering internal challenges, as well as external economic and political impacts. It also demonstrates financial resilience, highlighting business reliance on external financing, and the persistent constraint of labour market shortages.

Future growth pillar

Financial resilience

Cash reserves, a low-cost source of capital, have decreased over recent years, suggesting a low likelihood of cash hoarding in times of uncertainty. Transportation, storage, construction, education and manufacturing saw the largest declines in cash balances. Lending values have also risen. This increase in lending value suggests that businesses are increasingly turning to loans to support growth amid limited internal cash reserves.

Internal barriers

Investment levels – capturing capital allocation, training, digital tools, R&D, and marketing – have become a critical focus for businesses seeking growth. Planned investments rose in 2024, from 0.6% to 1.4%, led by medium and large-sized enterprises, highlighting increased commitment to building competitive capabilities. Lastly, export activity, often linked to productivity and expansion, improved slightly, from 77.5% of firms, to 78.3%.

External barriers

In 2024, most UK businesses perceived the UK economic environment as having somewhat of a positive impact on long-term growth potential. This sentiment became more optimistic from Q2 to Q3, approaching a somewhat positive impact for the average firm. Perceptions of the political climate worsened slightly from Q2 to Q3, but diverged significantly from micro and small firms who were more negative, and medium and large firms who were more positive. Labour market tightness – the difficulty of recruiting skilled labour – remained a consistent concern, moderately impacting medium-sized businesses the most.

Business Prosperity Fund

The Barclays Business Prosperity Fund is designed to demonstrate our available funding for UK businesses and help new and existing clients and customers capitalise and better understand the growth opportunities and finance options available. The £22bn Fund is available across Business Banking and UK Corporate Banking, for businesses to apply for lending and refinancing of existing facilities in 2025. It is another way for Barclays to deploy £30bn of RWA investment to support the UK economy. Through our industry verticals, and regional teams, we're going to use our expertise to help our clients better understand and navigate their financing options.

barclays.co.uk/business-banking

or **barclayscorporate.com/big-picture-banking**

[1] Barclays' proprietary data, made up of circa one million anonymised business customers. Proprietary data compares Q3 2024 with previous quarters.
[2] Survey data relates to research among 1,000 business decision makers, conducted between 11th and 28th October 2024 by Opinium Research on behalf of Barclays. The businesses represented in the survey are of various sizes, sectors, and regions.

Overview of future growth pillar

Financial resilience

Cash balances growth

-2.8%

year on year[1]

Lending value growth

4.8%

year on year[1]

Internal barriers

Cultural/organisational barriers to growth

METRIC SCORE

1.1

-3 -2 -1 0 1 2 3

Neutral[1]

Investment

1.4%

year on year[1]

Percentage of firms who export

78.3%

(up 0.8% on last quarter)[1]

External barriers

Macro perceptions

METRIC SCORE

0.53

-3 -2 -1 0 1 2 3

Neutral[1]

Political perceptions

METRIC SCORE

0.68

-3 -2 -1 0 1 2 3

Neutral[1]

Labour market tightness

METRIC SCORE

2.56

1 2 3 4

Major impact — No impact[1]

[1] Barclays' proprietary data, made up of circa one million anonymised business customers. Proprietary data compares Q3 2024 with previous quarters.

[2] Survey data relates to research among 1,000 business decision makers, conducted between 11th and 28th October 2024 by Opinium Research on behalf of Barclays. The businesses represented in the survey are of various sizes, sectors, and regions.

Conclusions

The Barclays Business Prosperity Index for Q3 2024 reveals broad improvements across key business performance pillars, with demand, cash flow, and investment intentions all showing gains. However, challenges remain, particularly in labour market tightness and cash flow variability.

The Barclays Business Prosperity Index findings

The Index's findings suggest that UK businesses were cautiously positioning themselves for growth in Q3 despite continued external pressures. Improved financial resilience and lower interest rates seem to have boosted investment and lending. At the same time, a slight uptick in demand continued to lead to demand for labour, with skills shortages remaining acute.

Key takeaways

- **Demand picks up but remains subdued**: UK businesses have seen a gradual improvement in demand over Q3, but it remains at subdued levels. It was already widely anticipated that the rate of economic growth would ease throughout the second half of the year following the initial post-recession bounce back before the budget took place.
  Yet post-budget research conducted by Barclays showed that 46 per cent of firms in Q3, compared to Q2, reported they had investment plans on hold but now intend to move ahead, with 37 per cent in Q3, compared to Q2, more likely to seek additional funding to invest.[3]

- **Improved financial resilience boosting investment**: Businesses are showing optimism in future growth, with lending volumes up by 4.8% in Q3, compared to Q2 and investment intentions rising by 1.4% in Q3, compared to Q2, for the coming year. This trend likely reflects improved financial resilience, with net cashflows up by 17.0% in the year to Q3, compared to Q2. These figures came before the Bank of England's decision to cut interest rates in November, with further rate cuts expected over 2025.

- **Labour demand remains strong**: Our survey of business leaders suggests that headcounts grew faster in the year to Q3 than in Q2. Regardless of the immediate outlook for labour demand, it is clear that supply is tight and will remain so. As vacancies continue to fall from the post-pandemic highs, increasingly, the constraints businesses continue to face in finding the talent they need are becoming mostly structural.

- **Export demand weakened, but firms are becoming increasingly international**: Inbound international payments fell in Q3 when compared to Q2. The pound strengthened throughout the quarter, making exports more uncompetitive, which likely played a major role. This contrasts with official data, which found that underlying export performance was strong until the most recent data point in August. However, as our data captures payments specifically, it is likely that currency movements play a more immediate role compared to trade.
  Our survey data did find an uptick in the percentage of firms who were exporters in the past year compared to Q2, with a relatively high percentage of firms saying they exported for the first time in this time frame.

[3] Post-Budget survey data conducted among 500 business decision makers, between 31st October and 7th November 2024 by Opinium Research on behalf of Barclays. The businesses represented in the survey are of various sizes, sectors, and regions.

Methodology

The Index is created with data from two sources: survey data and data from Barclays. Both data sets are weighted by the Centre for Economics and Business Research (Cebr) by company size, region, and sector to represent the UK's business population. The survey is run by Opinium once per quarter and is responded to by 1,000 business decision makers. Barclays data is deflated to 2022 prices and weighted to represent the UK business population. Data has been weighted to reflect GVA by region, sector, and business size.

	Weighting	Data source
Current business performance	(50%)	
Cash inflows	**25%**	Barclays data – monthly average cash incomings.
Net cash flow	**15%**	Barclays data – monthly average cash incomings minus monthly average outbound cash outgoings.
Value of trade via international payments	**10%**	Barclays data – monthly average international payments inflows.
Productivity growth	**20%**	Survey – question asks for precise UK headcounts and turnover, which are then used to calculate output per worker.
Headcount growth	**20%**	Survey – asks how headcounts have changed in the past year.
Demand levels	**10%**	Survey, question asks: "How would you generally describe the current strength of your business's sales pipeline and overall demand for your products/services?"

Notes on individual metrics

- **Cash inflows** (year-on-year percentage growth) provides insight into current business growth.
- **Net cash flow** (year-on-year percentage growth) provides insight into current business cash flow and can be proxied as a measure of profitability.
- **Demand level** (numerical score between –3 and 3, where 0 is normal) this is included to complement revenue growth data, providing a qualitative assessment of underlying demand from business leaders.
- **Productivity growth** (year-on-year percentage growth) a key metric to measure the long-term health of both a business and an economy. Productivity is the primary driver of real wages over the long term.
- **Value of trade via international payments** (year-on-year percentage growth) included a year-on-year percentage growth) included as a proxy for export value growth. While the impacts of intra-company transfers cannot be removed, we assume this is broadly consistent over time.
- **Headcount growth** (year-on-year percentage growth) a measure of current labour demand, giving an insight into the UK labour market and business confidence.

Methodology

	Weighting	Data source
Future growth	(50%)	
Financial resilience		
Cash balances	1/3	Barclays data – daily average credit cash balance and daily average savings account balance.
Overdraft usage		Barclays data – daily average overdraft usage.
Lending value growth		Barclays data – monthly average loan value.
Internal factors		
Cultural/organisational barriers to growth	1/3	Survey – asks the question: "To what extent is your company's current internal culture and operational practices having a positive or negative impact on the long-term growth potential of your business?"
Investment (survey for launch, proprietary from Q1 2025)		Survey – asks the question: "Compared to the previous 12 months, what is the total planned level of investment in your business across these areas over the next 12 months?"
Percentage of firms who export		Survey – asks the question: "In the past 12 months, how has your business's involvement in international trade changed?"
External factors		
Macro perceptions	1/3	Survey – asks the question: "Thinking about the current UK economic environment as a whole, how is it impacting the long-term growth potential of your industry?"
Political perceptions		Survey – asks the question: "Thinking about the current UK political environment as a whole, how is it impacting the long-term growth potential of your industry?"
Labour market tightness		Survey – asks the question: "To what extent is difficulty hiring skilled labour currently having a negative impact on your business's ability to grow, if at all?"

Notes on individual metrics

- **Cash balances**: high cash reserves indicate financial resilience and are often the preferred source of investment capital due to their low cost. This metric complements the lending metric and can also indicate potential cash hoarding at times of low confidence.
- **Overdraft usage**: the average monthly balance across the quarter. In conjunction with the data on business cash balances, this provides insights into the level of financial resilience and available funds.
- **Lending value growth**: provides insight into current lending conditions from both a demand and supply lens and will complement investment data.

BARCLAYS

©Barclays 2024