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LLOYDS BANK

PRESS RELEASE
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Pace of uk economic recovery slows in october amid further lockdown measures

- *The pace of the UK's economic recovery from Covid-19 fell behind the global benchmark in October. The first time since June 2020 and following the introduction of tighter restrictions*
- *The UK manufacturing sector continued to outperform services, as consumer-facing businesses bore the brunt of tiered lockdowns and a slowdown in demand.*
- *The UK slowdown mirrored Europe's downward trend, although its performance remained ahead of Spain, Italy and France.*

In October, the pace of the UK's economic recovery from coronavirus fell behind the global benchmark for the first time since June 2020, as consumer facing industries and their suppliers grappled with new restrictions and slowing demand, according to the latest Lloyds Bank UK Recovery Tracker.

The UK posted a reading of 52.1 (down from 56.5 in September), mirroring the economic slowdown seen across the rest of Europe amid a resurgence of Covid-19. The Tracker, complied through IHS Markit, provides unique insight into the shape and pace of the UK's recovery following the disruption caused by Covid-19.

Six of the fourteen UK sectors monitored by the Tracker saw output rise faster than the global index during October. However, this is five fewer than in September.

UK sectors lose ground in global recovery

Beverages and food (43.5), household goods (45), technology equipment (52.7), chemicals (51.9), real estate (52.4) and banks (55.2) all dropped below the benchmark in October, while tourism and recreation (25.5) and transportation (43.6) both fell further behind. A reading above 50 signals output is rising, while a reading below 50 indicates output is contracting.

Tourism and recreation fell particularly sharply behind the global benchmark in October following the rollout of various tiered lockdown measures as new hospitality curfews and restrictions on social interaction were introduced. Beverages and food also fell sharply as a result, with producers in the sector experiencing a drop in orders from pubs and restaurants.

Metals and mining (70.3) was the most notable upside outlier, maintaining its position as the UK sector furthest ahead of the global benchmark for the second month in a row.

Manufacturing firms lead UK's two-track recovery

UK manufacturing firms outperformed services businesses for an eighth consecutive month in October, highlighting the disparity with consumer facing sectors, such as tourism and recreation, when it comes to restrictions on trade.

The best performing manufacturing sectors, metals and mining and automobile and auto parts, were relatively unaffected by the new measures introduced in October, with many experiencing rising order numbers as international supply chain disruption continued to ease following the end of the Spring lockdown.

The UK's healthcare sector posted the highest month-on-month jump in output growth (59.4 in October vs 51.3 in September), partly reflecting increased activity across the healthcare supply chain due to Covid-19. This category includes pharmaceutical manufacturing, production of medical equipment, research and development activities, and the provision of private healthcare services.

Meanwhile, the UK metals and mining industry benefitted from robust demand for raw materials from foreign manufacturers, posting the second-highest month-on-month jump in output growth (70.3 vs 67.3 in September).

Automobile and auto parts (64.6 vs 62.2) registered the third-fastest acceleration, as demand from Asian markets for European vehicles increased. In October, the China Association of Automobile Manufacturers reported a 12.5% increase in new vehicle sales year-on-year.

Looking ahead, the proportion of UK manufacturers and services businesses stating that Brexit uncertainty will have a negative impact on output rose since the third quarter.

In October, almost a quarter (23%) of UK private sector companies that predicted their output will fall linked this to Brexit-related uncertainty, often raising concerns about the prospect of a no-deal outcome with the EU, compared with 15% on average during the third quarter.

Among manufacturers predicting lower output in the next 12 months, around 40% cited Brexit concerns in October, up from 20% during the third quarter.

European recovery falls behind the rest of the world

The Global PMI posted a reading of 53.3 in October, up from a revised 52.5 in September and above the UK's reading of 52.1. A robust recovery in business activity across the United States (56.3) was the main contributor to the rising global benchmark, alongside strong performances by China (55.7), India (58.0) and Brazil (55.9).

Despite a slowdown in growth, the UK's overall index was comparatively strong versus European nations that tightened Covid-19 restrictions earlier, with France (47.5), Spain (44.1) and Italy (49.2) all posting output contractions.

Germany was the only nation to buck the downwards European trend, with a steep rebound in manufacturing production underpinning the fastest expansion of private sector output since July (55.0).

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: "The October data shows that the UK's recovery was slowing after a strong economic rebound in the third quarter. At the sector-level, eleven of the sectors monitored by the tracker reported a weaker performance in October than during September.

"The restrictions facing many businesses last month are now being compounded by various lockdown measures. However, while near term growth prospects will continue to be determined by the path of the virus and the extent of restrictions to control its spread, news of potentially viable vaccines is an encouraging development. If, as hoped, a vaccination programme is rolled out, the UK's recovery should be revived and become more sustainable next year."

Ed Thurman, Managing Director, Global Transaction Banking, Lloyds Bank Commercial Banking, added: "The recent performance of manufacturers is welcomed, but our latest data underlines the impact restrictions are having in sectors that rely on the social interaction and freedom of movement we used to take for granted.

"It is still an incredibly challenging time. Navigating the road ahead will require businesses to draw on the resilience and innovation they've shown since the pandemic first took hold. We'll continue to be by their side as they do so, providing the resources and guidance needed to help firms overcome challenges and capitalise on new opportunities as we work towards recovery."

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Notes to Editors
Methodology
The Lloyds Bank UK Recovery Tracker includes indices compiled from responses to IHS Markit's UK manufacturing, services and construction PMI® survey panels, covering over 1,500 private sector companies.
The report also features IHS Markit Global Sector PMI indices, which are compiled by IHS Markit from responses to questionnaires sent to purchasing managers in IHS Markit's global PMI survey panels, covering over 27,000 private sector companies in more than 40 countries.
IHS Markit maps individual company responses to industry sectors according to standard industry classification (SIC) codes, covering the basic materials, consumer goods, consumer services, financials, healthcare, industrials and technology sectors across varying tiers of detail.
The Lloyds Bank UK Recovery Tracker monitors the following 14 individual UK and Global sectors:
Chemicals,Metals&Mining,Automobile& Auto Parts
Beverages & Food, Household Products, Tourism & Recreation, Banks, Real Estate, Healthcare, ndustrial Goods, Industrial Services, Transportation, Technology Equipment,Software & Services

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. Global survey responses are weighted by country of origin, based on sectoral gross value added. A diffusion index is calculated for each survey variable.
The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.
The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for p roviding the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.