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### GLOBAL DEMAND FOR UK TECHNOLOGY DRIVES RECOVERY IN FEBRUARY

- *Six out of 14 UK sectors recorded output growth in February, up from three in January.*
- *Technology equipment manufacturers, which include producers of specialist parts in smart devices, recorded the strongest growth in output as export demand surged.*
- *Overall, the UK remained behind the global benchmark as manufacturers experienced record raw materials shortages and supply-chain disruption.*

The number of UK sectors reporting output growth doubled in February, led by a strong performance from technology equipment manufacturers, according to the latest Lloyds Bank UK Recovery Tracker.

The Tracker, working with IHS Markit, provides unique insight into the shape and pace of the UK's recovery from the disruption caused by Covid-19.

#### Recovery signs in February

The output of six of the 14 UK sectors monitored by the Tracker rose in February, up from three in January, with technology equipment manufacturers (58.2) recording the strongest growth. A reading above 50 signals output is rising, while a reading below 50 indicates output is contracting.

Accounting for their robust performance, technology equipment manufacturers, which include producers of specialist parts in smart devices, motor vehicles, computers and industrial machinery, cited higher international demand for components. As a result, it was the only UK sector monitored by the Tracker to register a rise in new export orders during February.

Firms within the sector also cited new orders from global technology companies diversifying their supply chains and investing in research and development to improve resilience following Covid-19.

The output growth of food and drink manufacturers (53.7), the second-best performing sector during February, was driven by continuing strong demand from domestic retailers, while the healthcare (52.6) sector benefited from demand for goods and services that support the UK's Covid-19 vaccine programme.

Despite the increase in UK sectors registering output growth during February, the stringency of the UK's lockdown restrictions in comparison to other major economies meant only the technology equipment and food and drink manufacturing sectors were ahead of their global counterparts during February, down from three sectors in January.

However, the gap between world (53.2) and UK PMI output indices (49.6) narrowed in February suggesting many UK firms have become more resilient to the impact of lockdown.



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## Impact of falling exports and supply chain disruption on manufacturers intensifies

The output of automotive (49.1), household products (46.8), metals and mining (45.5) and chemicals (45.4) manufacturers fell in February as businesses reported longer lead times due to record shortages of raw materials and shipping containers.

Six of the seven manufacturing sectors monitored by the Tracker recorded a fall in new export orders during February. Chemicals, automotive and food and drink manufacturers all cited reluctance from overseas customers to place new orders amid post-Brexit trade frictions with the European Union.

Meanwhile, the proportion of manufacturers reporting shortages of raw materials, including timber, packaging and polymers, was the highest so far recorded by the Tracker. The number of firms affected by a lack of transport capacity was also nearly ten times higher than in October 2020. February's scarcity was linked to shipping container shortages and delays at UK ports.

This supply chain disruption fuelled the fastest rate of manufacturing sector input cost inflation since January 2017, when sterling exchange rate depreciation against the US dollar led to a spike in the price of imported materials to the UK.

**Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said:** "It is encouraging to see a rising number of UK sectors register output growth in February, despite the challenging lockdown conditions. It highlights both strong global demand and how well UK businesses and households have adapted to tough restrictions on mobility. It suggests that a modest rise in monthly UK GDP is possible in February, after the smaller-than-expected decline in January.

"However, February's data also shows that the UK's economic recovery from Covid-19 is tied to more than just the stringency of lockdown restrictions, which disproportionately affect consumer-facing services sectors. Manufacturers are facing into a more challenging export environment and the global supply chain disruption currently holding many firms back looks set to continue."

**Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, added:** "The performance of technology equipment manufacturers during February highlights our position as a world leader in innovation, and UK firms' appetite to take advantage of new opportunities for growth during another challenging year.

"Every step towards recovery from Covid-19 is an important one, and while the UK remained behind the global benchmark during February, the picture should continue to improve as the vaccine rollout progresses and we take further steps in the government's roadmap out of lockdown."

**ENDS**

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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.



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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, Industrial Goods, Industrial Services, Transportation, Technology Equipment, Software & Services.

In February, the UK sectors recording output growth were: Technology Equipment, Beverages & Food, Healthcare, Industrial Goods, Industrial Services and Software & Services.

In February, the UK sectors outperforming the global benchmark for output growth were: Technology Equipment and Beverages & Food.

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 providing 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](mailto: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.

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