



PRESS RELEASE

HOSPITALITY OUTPUT GROWTH SOARS AMID BROADER SECTORS SLOWDOWN

- UK tourism and recreation sector output grew at the fastest rate since January 2012
- The output of every UK sector monitored grew for a third consecutive month in June
- However, only five out of 14 sectors posted faster month-on-month growth down from 11 in May.
- 11 out of 14 sectors were less optimistic about their prospects for the next 12 months

June saw the output of UK hospitality businesses grow at the fastest rate in nine years, as more consumers took advantage of lockdown-easing, according to the Lloyds Bank Recovery Tracker.

The tourism and recreation (63.1) sector recorded its strongest output growth since January 2012. Prior to April 2021, the sector's output had fallen every month since August 2020.

The sector – which includes pubs, hotels, restaurants, travel agents and leisure facilities – benefited from the release of pent-up demand following another easing of lockdown restrictions across the UK in late May, a rise in bookings for domestic holidays and consumers watching Euro 2020 matches in pubs and fan zones.

Key sectors monitored grew for the third consecutive month in June – but only five reported faster month-on-month growth, down from 11 in May. The transport sector (51.8 in June versus 63.2 in May), household products (61.2 versus 68.5) and food and drink manufacturing (60.5 versus 67.3) reported the sharpest slowdowns in the pace of their growth. A reading above 50 signals output is rising, while a reading below 50 indicates output is contracting.

Transport businesses – which includes airlines and rail operators – experienced a slump in bookings for overseas travel, affected by the government's traffic light system.

Manufacturers of household products were adversely affected by a change in consumer behaviour, with people spending more on purchases outside of their home, while food and drink producers were hindered by staff shortages. Both sectors also reported a drop in exports, unlike the other five manufacturing categories monitored by the Tracker.

Inflation and capacity pressure push business growth expectations downwards

Turning to the Tracker's measure of expected output, 11 of the 14 sectors monitored in June were less optimistic about achieving stronger output volumes over the next 12 months.

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Only the transport sector saw a consistent rise in optimism month-on-month, with hopes over looser overseas travel restrictions helping to lift growth expectations to the highest level since April 2015.

The drop in overall business optimism, which pushed the UK's projected output growth overall to a five-month low, was driven by business concerns over inflation, constrained capacity and staff shortages more generally, which has been an ongoing issue over the last few months.

Every sector monitored by the Tracker experienced a rise in input costs during June, with the rate of inflation for manufacturers surpassing May's 29-year high.

Thirteen of the 14 sectors monitored also recorded a rise in backlogged orders, leading to the largest rise in uncompleted work since 1999. Manufacturers experienced the most significant increase, with food and drink producers in particular acutely affected by staff shortages.

Of the UK firms reporting higher levels of unfinished work, around 31% of them pointed to reduced capacity caused by raw materials shortages, while 18% blamed labour shortages for the rise.

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: "The slowdown of output growth across the majority of sectors shows we are entering a new phase of the UK's recovery. We are less likely to experience the rapid month-on-month output growth we've typically seen when businesses have been able restart operations after successive lockdowns.

"The slowdown in output growth also reflects the challenges firms are navigating to meet increased demand for their goods and services. The effective management of materials and labour shortages and other supply side issues will affect how businesses perform in the second half of the year.

"While a four week-delay to the final stage of lockdown being lifted in England did little to affect the strong performance of tourism and recreation businesses in June, it will be interesting to see if this week's lifting of [all] restrictions will cause footfall in hospitality venues to rise further as many expect."

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, said: "A third consecutive month of GDP growth underlines the impact the surge in confidence is having on the UK's economic recovery. The further lifting of mandatory restrictions from July onwards, should arguably help the economy recover.

However, with infections rising sharply, alongside intensifying price pressures and skilled labour shortages, only adds to the re-opening challenges facing UK businesses".

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Notes to Editors

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

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 June, the UK sectors recording output growth were: 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.

The sectors recording faster output growth month-on-month were: Metals & Mining, Automobiles and Auto Parts, Tourism and Recreation and Real Estate.

The sectors expecting stronger output growth over the next 12 months were: Real Estate, Food & Drink and Transport.

The sectors experiencing an increase in backlogged work were: Chemicals, Metals & Mining, Automobile & Auto Parts, Beverages & Food, Household Products, Tourism & Recreation, Banks, Real Estate, Industrial 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 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 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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