



PRESS RELEASE

STAFF SHORTAGES AND RISING INPUT COSTS SLOW PACE OF UK ECONOMIC GROWTH

- 12 out of 14 UK sectors reported output growth in July, down by two on June and the lowest number since March
- Food and drink and healthcare output fell, driven by staff shortages amid high levels of self-isolation, and decreased demand
- Four sectors posted faster month-on-month output expansion, down from five in June and 11 in May
- Higher wages and raw material costs contributed to unprecedented input price inflation, while firms report the highest output price rises on record
- Future output expectations dipped to their weakest since January, as the UK's economic recovery matures

The number of UK sectors reporting output growth was not unanimous for the first time since March in July, as food and drink manufacturers wrestled with labour shortages and healthcare firms faced weaker demand, according to the Lloyds Bank UK Recovery Tracker.

Momentum in the UK food and drink sector stalled, as output declined at the fastest pace in eight months (45.6 in July vs. 60.5 in June). A reading above 50 signals output is rising, while a reading below 50 indicates contraction. Severe staff shortages, driven in part by large numbers of workers being asked to self-isolate, were cited as restricting production capacity.

Healthcare businesses' output (48.7 vs. 50.1 in June) also recorded an overall fall in activity – the sector's first drop in six months – as spending on pandemic-related healthcare continued to ease. This was seen in the sector's new order index, which posted 48.0 on average in the three months to July.

Of the 12 sectors reporting growth, just four posted a faster month-on-month rate of expansion, down from five in June and 11 in May.

Technology equipment manufacturers (76.1 vs. 66.6 in June), which includes producers of specialist parts in smart devices, motor vehicles, computers and industrial machinery, posted the fastest overall rate of growth and the steepest month-on-month rise, boosted by strong domestic and overseas demand for critical components.

Technology demand also supported the UK software services sector (62.7 vs. 60.7 in June), which recorded its sharpest rate of expansion in nearly seven years.

Meanwhile, the tourism and recreation sector saw its growth rate ease, falling to 55.3 from 63.1 in June, a level which it's the strongest output growth recorded since January 2012. Businesses pointed to a levelling-off in forward

Media contacts

David Thomas

07912 098 781

David.Thomas3@lloydsbanking.com

See it on social media



@LloydsBankNews
#UKRecoveryTracker



bookings for UK holidays, and cited restricted capacity caused by staff shortages – a key challenge also reported by firms in transportation (51.5 vs. 51.8 in June), particularly among hauliers.

Labour and supply chain issues sustain strong input price inflation

Higher wage costs, driven by recruitment challenges, and increases in the prices of key inputs such as electronics, metals, steel and timber, contributed to a record pace of input price inflation in July.

Input costs rose for all 14 sectors monitored by the Tracker, with the composite input prices index registering 76.3 – the highest since the series began in January 1998.

Businesses in the services sector saw costs rise at an unprecedented rate since the services input prices index began in July 1996.

As a result, prices charged by businesses also increased at the fastest rate on record. All 14 sectors reported a price hike, with metals and mining, chemicals and household products posting the sharpest increase.

Ten of the 14 sectors monitored recorded a rise in the backlog of work, caused by ongoing pandemic-related supply issues and labour shortages. However, backlogs rose at a slower pace than in June, with only three sectors – transportation, banks and software services – seeing faster month-on-month growth in their volume of unfinished work.

UK sectors' future output expectations dipped in July, to their weakest since January. Ten of the 14 sectors were less optimistic than they were in June about achieving stronger output volumes over the next 12 months.

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: “Official data confirmed the rapid pace of UK economic growth in the second quarter as indicated by the Recovery Tracker in recent months. As the economy edges back towards pre-pandemic GDP levels, there will understandably be less capacity for such rapid and out-sized gains. The latest report for July supports this, with both fewer sectors posting faster month-on-month growth in output and a marked drop in optimism around future growth prospects.

“Another important area to closely monitor is the ongoing impact of surging input and output prices. It is clear that many businesses are facing growth constraints due to ongoing disruptions to supply chains and shortages of labour. These pipeline issues represent early indicators of the potentially broader inflationary pressures to come. While UK annual CPI inflation slowed in July, this will likely prove a temporary respite, particularly if businesses continue to face further price pressures.”

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, said: “While the UK recovery remains on solid ground, staff shortages and higher materials costs are clearly disrupting current business activity and future prospects, most notably in the hospitality sector.

“Recent adjustments to the self-isolation rules should help alleviate staff shortages. However, the ongoing impact of the pandemic and Brexit may result in labour market pressures that persist for some time longer. Against this backdrop, management teams will be urgently considering how they can ensure their growth ambitions remain on track.”

ENDS

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

In July, the UK sectors recording output growth were: Chemicals, Metals & Mining, Automobiles & Auto Parts, Household Products, Tourism & Recreation, Banks, Real Estate, Industrial Goods, Industrial Services, Transportation, Technology Equipment and Software & Services.

The sectors recording faster output growth month-on-month were: Chemicals, Banks, Technology Equipment and Software & Services.

The sectors expecting stronger output growth over the next 12 months were: Technology Equipment, Industrial Goods, Industrial Services, Metals & Mining

The sectors experiencing an increase in backlogged work were: Technology Equipment, Metals & Mining, Automobiles & Auto Parts, Industrial Goods, Software & Services, Chemicals, Banks, Industrial Services, Tourism & Recreation, Transportation 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 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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.