



PRESS RELEASE

UK GROWTH IMPROVES, AS PRICE PRESSURES MOUNT

- 12 out of 14 UK sectors reported output growth in October, the highest since July, with hospitality businesses recording the strongest rise for the second month in a row.
- Rising energy prices and salary pressures drove record input cost inflation, with all 14 sectors raising prices charged.
- The technology equipment manufacturing, healthcare and hospitality sectors saw the biggest squeeze on margins, and are now under the most pressure to raise prices.
- The UK real estate sector posted its strongest performance since August 2020 as housing market activity increased.

The number of UK sectors reporting output growth hit a three-month high in October, as businesses experienced intense pressure to raise prices, according to the latest Lloyds Bank UK Recovery Tracker.

Twelve out of 14 sectors reported output growth in October, up from 10 in September, and the highest number since July. 10 out of 14 sectors posted a faster month-on-month rate of expansion, up from nine in September, with consumer-facing services businesses experiencing the sharpest rise in activity.

Tourism and recreation (with an output reading of 70) – which includes pubs, hotels, restaurants and leisure facilities – was the fastest growing UK sector monitored by the Tracker for the second month in a row. The sector was boosted by the relaxation in international travel rules and more tourists visiting the UK. A reading above 50 signals output is rising, while a reading below 50 indicates contraction.

The UK real estate (57.5) sector posted its strongest performance since August 2020 due to a resurgence of housing market activity, while the transport (56.4) sector benefitted from an increase in domestic and international travel and higher demand for haulage services.

Pricing pressures intensify

All 14 sectors monitored by the Tracker increased their prices in October, with 11 sectors increasing what they charged customers by a greater extent than in September. The biggest price rises were by firms in the chemicals, metals and mining and industrial goods manufacturing sectors.

Price increases reflected the sharpest monthly rise in input cost inflation since October 2016. Out of the 13 countries monitored by the Tracker, businesses in the UK faced the highest rise in input costs. Firms said the most significant drivers of the increase were rising energy prices, particularly for natural gas and oil, and the need to offer higher salaries to recruit staff in a competitive labour market.

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The number of UK businesses that said energy costs added to their operating expenses rose to 3.5 times the long-run average in October and was the highest since August 2008. Meanwhile the number of firms that said salary pressures affected their bottom line was a record high of 3.4 times the average recorded by the Tracker.

The sectors that faced high levels of input cost inflation and comparatively lower levels of output price inflation were technology equipment manufacturing, healthcare and tourism and recreation. Firms in these sectors had their margins squeezed by the greatest extent in October and are potentially under the most pressure to raise their prices if conditions fail to improve in the months to come.

Businesses also experienced intense supply chain pressure in October, with the length of delivery times rising at the sharpest pace since August. Technology equipment and food and drink manufacturers felt the greatest pressure. Compared to the peak of the pandemic in April 2020, four of the seven manufacturing sectors monitored by the Tracker recorded worse supply chain delays in October.

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: “After a brief summer slowdown, the UK recovery regained some momentum at the start of the fourth quarter. However, while encouraging, the headwinds from supply chain disruption and brisk input price inflation are proving both more persistent and stronger. Many firms are currently preoccupied managing continuing pressures on their capacity and bottom lines.

“It suggests that inflationary pressures are likely to continue to intensify in the coming months. This could further dent consumer confidence and restrain household spending, the mainstay of the recovery so far.”

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, said: “October’s data reveal an improved economic picture for the UK, but the supply chain disruption and raw materials shortages that have dogged businesses for months are holding firm. They are now being compounded by rising energy prices and rising salary expectations.

“Many business leaders will be frustrated that they cannot take full advantage of recovering demand and will be concerned that fully passing on higher input prices could make their products and services less competitive. While the situation is currently very challenging, the broad expectation remains that this global cost shock will prove transitory and that supply chains will recover next year.”

ENDS

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.

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 October, the UK sectors recording output growth were: Chemicals, Metals & Mining, Automobile & Auto Parts, Beverages & Food, Tourism & Recreation, Banks, Real Estate, Industrial Goods, Industrial Services, Transportation, Technology Equipment, Software & Services.



In October, the UK sectors recording faster output growth month-on-month 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.

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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