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PRESS RELEASE

UK RECOVERY SLOWS AS PRICE PRESSURES INTENSIFY

- Latest Lloyds Bank UK Recovery Tracker reveals that the pace of the UK's recovery slowed in November. Ten of 14 UK sectors monitored posted output growth, two fewer than in October, while just four saw output growth accelerate month-on-month.
- Rising energy costs and salary pressures contributed to a record rate of input cost inflation, with more technology equipment firms reporting rising costs than any other sector.
- An increasing number of businesses increased output prices. However, margin pressures remained acute for many, with a widening gap between the number of businesses reporting rising input and output prices.

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The number of UK sectors reporting output growth fell in November, as record input cost pressure squeezed firms' margins, according to the Lloyds Bank UK Recovery Tracker.

Ten of the fourteen sectors monitored by the Tracker registered output growth, down from twelve in October. Only four sectors – Software & Services (61.5), Transportation (60.2), Chemicals (57.7) and Industrial Services (55.2) – posted faster month-on-month output expansion, two fewer than in October.

A reading above 50 signals output is rising, while a reading below 50 indicates contraction. The survey was taken before the emergence of the new Omicron variant of the virus.

Record input price pressure, as energy and salary costs soar
Technology Equipment firms – which includes producers of specialist parts in smart devices, motor vehicles, computers and industrial machinery – saw the most widespread input cost rises of any sector. The sector posted a reading of 99.7 on the Tracker's UK Input Prices Index – up from 97.0 in October and a 2021 low of 68.9 in January – as businesses continued to face supply shortages of key input components and higher shipping costs.

Industrial Goods (91.5) and Chemicals (90.6) businesses saw the second and third highest prevalence of input price rises, respectively, while the Tourism & Recreation sector (90.5) saw the most widespread price rises of any service sector category.

Rising energy prices were an increasingly significant driver of cost inflation. In November, the number of UK businesses that said they experienced higher energy bills and fuel prices was 3.8 times higher than the pre-2021 average. This compares to 3.5 times the pre-2021 average in October.

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Staff retention challenges continued to drive up salary costs, particularly within the UK's service sector. In November, the number of companies reporting the need to increase salaries was a record 3.8 times the long-run average – up from a previous high of 3.4 times in October – as businesses competed to attract talent amid ongoing worker shortages.

Widening gap between firms reporting rising input and output prices threatens UK business resilience
The Tracker also revealed a widening gap between the number of firms experiencing rising input costs and those raising output prices, signalling increasing pressure on margins that could potentially leave firms vulnerable to weakening demand and further input price shocks.

While an increasing number of businesses increased output prices in November, the gap between the UK's Input Prices Index and Prices Charged Index grew to 18.9 – the biggest difference on record.

At a sector level, the UK Recovery Tracker showed that tourism and leisure had the biggest gap between its input and output price indices (31.6), while the software and services sector saw the smallest gap and therefore potentially the least pressure on margins (9.2).

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, said: "Business leaders have been working hard to capitalise on higher demand, while facing the headwind of cost inflation.

"With uncertainty around the spread of the Omicron variant, businesses now need to respond to 'plan B' impacts in England and restrictions in the UK's nations as well as overseas.

"Smart businesses will be ensuring their working capital position can support further pressures in costs or allows them to secure supplies in advance of their needs to ensure no interruptions.

"I'm confident businesses will approach the coming months with the same resilience, drive and creativity that has seen many continue to pursue growth, despite persistently challenging conditions."

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: "The lack of robust evidence on key aspects of the Omicron Covid variant casts a cloud over the UK's economic outlook. While our report indicated a modest slowing in the pace of activity growth last month, both the new mandatory restrictions and voluntary restraint are clear headwinds to near-term growth prospects.

"However, a period of subdued demand is not the only concern facing firms. Cost pressures are rising at a record pace and across all the sectors we monitor. While there are early signs that some capacity issues may be easing, UK businesses are still contending with significant supply chain disruption and strong competition for skilled staff, putting upward pressure on salaries to retain and attract the people they need.

"What is particularly notable is that many UK businesses, facing rising input costs, are potentially choosing not to fully pass them on to their customers. How sustainable this will be remains to be seen. Ultimately, persistent or worsening price pressures could leave some with no choice but to eventually raise prices.

"With UK inflation potentially set to move higher in the coming months, the scope for the new variant to lead to a tightening of restrictions globally only adds to existing concerns. The Bank of England will therefore be paying close attention to both the growth and inflationary implications of Omicron this week."

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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.

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 November, the UK sectors recording output growth were: Chemicals, Beverages & Food, Household Products, Tourism & Recreation, Banks, Real Estate, Industrial Services, Transportation, Technology Equipment and Software & Services.

In November, the UK sectors recording faster output growth month-on-month were: Software & Services, Transportation, Chemicals and Industrial 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.