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PRESS RELEASE
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MANUFACTURERS OUTPERFORM OTHER SECTORS, AMID BETTER GROWTH EXPECTATIONS FOR 2021*

- *Eight out of 14 UK sectors outperformed their international counterparts in December, ahead of the latest national lockdown.*
- *UK manufacturers and transport business buoyed by spike in demand for British goods ahead of the Brexit trade deadline and the temporary easing of restrictions at the start of December.*
- *Majority of British businesses more optimistic on growth expectations for 2021 than their overseas counterparts, as the UK's Covid-19 vaccine rollout began.*

Manufacturers helped push the UK's economic recovery ahead of the global benchmark in December, according to the latest Lloyds Bank UK Recovery Tracker.

The Tracker, compiled working with IHS Markit, provides unique insight into the shape and pace of the UK's recovery following the huge disruption caused by Covid-19. The latest data was compiled between 4th and 21st December 2020, ahead of the introduction of tighter lockdown restrictions at the end of the month, which should impact January's results in certain sectors such as hospitality and tourism.

Eight of the fourteen UK sectors monitored by the Tracker were ahead of the global index in December, up from six in November. Firms in the manufacturing industry, which posted a seven-month run of growth and helped slow falling UK GDP in November, were the biggest contributors to output growth in the final month of the year.

A spike in demand from overseas buyers ahead of the Brexit trade deadline pushed the output of the chemicals (63.2), household products (57.1) and beverages and food manufacturing (54.6) sectors ahead of their global counterparts in December. A reading above 50 signals output is rising, while a reading below 50 indicates output is contracting.

Meanwhile, transportation (56.9) outstripped global performance by the largest margin in December. This was the sector's first rise in activity since July and its fastest growth for nearly two-and-a-half years. The performance was driven by the lifting of national lockdown measures in early December and an end-of-year spike in demand for logistics services ahead of the Brexit trade deadline.

Vaccine rollout drives UK businesses 2021 growth expectations

Looking at a measure of expected output volumes, 11 of the fourteen sectors monitored by the Tracker anticipated stronger output growth than their global peers over the next 12 months during December, as the UK's Covid-19 vaccination programme got underway.

The UK's software services sector's expectations for growth were strongest of all sectors and well ahead of the rest of the world in December, with a reading of 81.5 against the global benchmark of 70.9. Accounting for the positive outlook, providers anticipate increased corporate investment in digital services to continue in 2021. A reading above 50 signals that respondents expect output to rise in the next 12 months, while a reading below 50 indicates output is expected to contract.

The industrial goods sector (75.6) was among those furthest ahead of the global benchmark (66.2) in December. The expectation of increased investment in industrial development and a positive outlook for the UK construction industry was behind the sector's optimism for the next 12 months.

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Chemicals (64.7), transportation (62) and real estate (58) were the only UK sectors monitored by the Tracker with 2021 growth expectations behind the global benchmark in December.

Chemicals producers commented on a slowdown in demand after sales to overseas buyers spiked ahead of the agreement of a trade deal with the European Union. Transport and real estate businesses anticipated another uncertain year for commercial property rentals and public transport, with many firms indicating employees will continue to work from home for a large proportion of 2021.

UK manufacturers' growth expectations for 2021 weakened by rising costs

While still well above the 50 mark that signals output is expected to rise over the next 12 months, the growth expectations of four UK manufacturing sectors weakened during December – chemicals (64.7 in December v 70 in November), metals and mining (69 vs 75), beverages and food (72.2 vs 77.4) and automobiles and auto parts (73.5 vs 73.7).

Signs of inflationary pressures across the UK economy contributed to these sectors' weaker output expectations for the next 12 months. Supply chain delays and the imbalance of container freight activity during 2020 led to a steep rise in shipping costs during December. Global raw material shortages also meant that UK manufacturers faced the sharpest rise in input prices for two-and-a-half years. Both factors are expected to increase prices charged by UK goods producers, which could negatively impact the competitiveness of domestic manufacturers in overseas markets during 2021.

Jeavon Lolay, Head of Economics and Market Insight, Lloyds Bank Commercial Banking, said: "While this survey was conducted before the latest national lockdown was announced, it is still worth highlighting the vaccine-induced rebound in business confidence across the economy. It is clear that, for many firms, this represents the defining influence for their prospects in the year ahead.

"December's data also highlighted the impact Covid-19 continues to have on global supply chains. Many manufacturers benefited from a boost in overseas sales ahead of the Brexit trade deadline, but raw material shortages, rising input costs and distribution problems are making the sector's road to recovery more challenging."

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, added: "Growth expectations for the next 12 months help us chart the trajectory of the UK economy's recovery from Covid-19. However, we cannot forget the incredibly challenging conditions businesses are currently facing during lockdown. Our immediate priority must be to support UK firms as they continue to demonstrate resilience and innovation in the face of adversity."

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Notes to Editors
***The data was compiled between 4th and 21st December 2020, further lockdown measures were introduced after this period which will have a potential impact on the outlook for 2021 for some sectors.**

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.

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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.

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.

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.