

# PRESS RELEASE

## UK RECOVERY ACCELERATES, AS MANUFACTURERS SHOULDER INFLATION PRESSURE

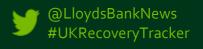
- 12 out of 14 UK sectors saw an expansion in output in March, up from 10 in February
- Gap between manufacturing and service sector output largest in 13 years, as manufacturers were disproportionally affected by the war in Ukraine
- Firms increased output prices at record rates for a second consecutive month

The number of UK sectors reporting output growth rose in March, according to the latest Lloyds Bank UK Recovery Tracker.

However, while UK services businesses benefitted from strong demand and a further loosening of Covid-19 restrictions, goods producers were disproportionately affected by the war in Ukraine – leading to the largest gap between manufacturing and service output growth in 13 years.

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In March, 12 out of 14 UK sectors monitored by the Tracker reported output growth, up from 10 in February. Of these, eight saw faster month-on-month output growth, four more than last month.

Tourism and recreation, which includes pubs, hotels, restaurants and leisure facilities, posted the fastest growth of any sector in March (68.5 vs 58.8 in February). A reading above 50 signals output is rising, while a reading below 50 indicates contraction.

The sector's activity was bolstered by holidaymakers booking more trips abroad following the easing of Covid-19 travel restrictions, as well as higher city-centre footfall.

Real estate also reported activity growth (62.5 vs 60.0), with the sector's output increasing at its fastest rate since the start of 2020, supported by increased demand for residential and commercial space.

By contrast, many manufacturing sectors struggled to achieve higher production levels in March amid rising input costs and supply challenges, driven by the impact of the war in Ukraine.

Soaring commodity prices and deteriorating supply conditions created by the conflict caused the output growth of food and drink manufacturers to fall to an eight-month low (50.1 vs 55.5).

Meanwhile, activity in the industrial goods manufacturing sector, which includes producers of machinery and equipment, heavy vehicles and construction materials, fell for the first time since May 2020. Firms cited both material shortages and delays in receiving shipments.



#### Manufacturers bear the brunt of cost inflation, as businesses across the economy raise prices

Cost inflation rose across the economy for the third month running in March, with the Tracker's Input Price Index registering a reading of 82.2 for the UK, its second-highest on record and only lower than the outturn recorded last November.

Manufacturers bore the brunt of rises in energy, shipping and raw material prices, posting a reading of 85.3, compared to 81.6 for services businesses. Cost inflation was most acute among food and drink manufacturers, which registered a reading of 94.3 – the sector's highest reading on record.

Meanwhile, manufacturing new order volumes grew at their slowest rate in 14 months.

Together, these factors contributed to the largest gap between the manufacturing (51.8) and service sectors (62.6) output indices since 2009.

#### Price increases more frequent across the economy

UK companies also raised their prices at an unprecedented rate for a second month in a row in March, with the Tracker's Prices Charged Index increasing by three points from February to 68.3.

As well as highlighting higher prices, the Tracker data also suggests that firms are now raising prices more frequently than they have in the past.

Nearly two-thirds (58%) of technology equipment manufacturers reported an increase in prices charged to customers in March, compared to the pre-pandemic 20-year average of 8% per month.

Similarly, 50% of both food and drink manufacturers and transportation firms reported a rise in their charges during March, compared to long-run averages of 14% and 13% per month respectively.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Commercial Banking, said: "The end of Covid-19 restrictions in England have given consumer-facing services businesses a boost. Tourism and recreation posted the fastest growth of any UK sector in March. However, while demand remains buoyant, unfortunately the latest wave of Covid-19 infections has caused major disruption to travel plans.

"Alongside labour market shortages, the unrelenting pressure from rising costs represents another major challenge for most UK businesses. Both service and manufacturing firms face higher inflation, in part driven by the ongoing war in Ukraine – a factor that is weighing particularly heavily on manufacturing activity.

"The Tracker shows that more businesses are raising prices, likely as a direct effort to help offset higher input costs. All eyes will be on how sustained and widespread this trend will be in the months to come.

"The Bank of England has already presided over three consecutive rate rises in recent months and faces a difficult decision next month with spiralling inflation coinciding with a less favourable outlook for growth."

#### ENDS

#### Notes to Editors

Working with S&P Global, 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 S&P Global's UK manufacturing, services and construction PMI® survey panels, covering over 1,500 private sector companies.



The report also features S&P Global Sector PMI indices, which are compiled by S&P Global from responses to questionnaires sent to purchasing managers in S&P Global's global PMI survey panels, covering over 27,000 private sector companies in more than 40 countries.

S&P Global 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 March, the UK sectors recording output growth were: Chemicals, Metals & Mining, Automobiles & Auto Parts, Beverages & Food, Household Products, Tourism & Recreation, Banks, Real Estate, Healthcare, Industrial Services, Technology Equipment, Software & Services.

In March, the UK sectors recording faster output growth month-on-month were: Chemicals, Tourism & Recreation, Banks, Real Estate, Industrial Goods, 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

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