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PRESS RELEASE

UK SECTOR GROWTH SLOWS AS RISING INFLATION WEIGHS ON DEMAND

- Growth slowed in eight out of 14 UK sectors in April, compared to four sectors in March
- 11 out of the 14 sectors record weaker demand
- However, the number of sectors recording an overall increase in output only fell by one, despite businesses reporting strongest inflationary pressures on record
- 13 of the 14 sectors registered a rise in employment

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According to the Lloyds Bank UK Sector Tracker, output growth in most UK sectors slowed in April as rising inflation weighed on demand for goods and services.

While the overall UK economy continued to grow in April, eight out of the 14 sectors monitored by the Tracker experienced a slower rate of output growth month-on-month – four more than in March. However, the number of sectors recording an overall increase in output remained resilient, dropping by only one month-on-month (11 in April vs. 12 in March).

The slowdown in output growth was driven by consumers and businesses reining in spending amid concerns over levels of inflation. Eleven out of 14 sectors recorded weaker demand for new orders in April – the highest number since July 2021. The economic headwinds have led to expectations that businesses are likely to respond by focusing on building in financial and operational resilience, including through strong working capital management and optimising inventory levels.

The UK Sector Tracker is an evolution of the Lloyds Bank UK Recovery Tracker. It uses PMI data from S&P Global to shed light on current trends in the UK economy.

Businesses in the service sector continued to see overall order volumes grow month-on-month, despite the sector recording the sharpest slowdown in order growth. Between March and April, the Tracker's service sector new orders index fell by five and a half points to 54.9, compared to a decline of 0.1 points in the equivalent manufacturing sector index (51.7). A reading above 50 on the Tracker indicates a rise, while a reading below 50 indicates contraction.

Tourism & Recreation – which includes pubs, hotels, restaurants and leisure facilities – saw output grow at the second-fastest rate of any sector monitored in April (65.0), behind only software and services (69.2), as firms continued to benefit from a relaxation in Covid-19 travel restrictions.

However, the sector's pace of growth slowed month-on-month as firms reported a fall in new business for the second month in a row (56.6 in April vs. 63.6 in March and 64.5 in February).

The output of the transport sector – which includes airlines, hauliers and rail operators – also continued to fall, decreasing for a fourth consecutive month (46.1 vs. 49.7) as new business orders contracted at their fastest pace since February 2021 (42.6).

The manufacturing sector's pace of order growth in April was the softest in 15 months. Manufacturers of metals and mining products registered the sharpest month-on-month drop in output (47.6 in April vs. 64.4 in March), as firms saw a contraction in new business (49.0 vs. 58.6).

Global headwinds drive record price rises and re-ignite supply chain disruption

Businesses' own inflationary pressures rose at the fastest pace in 24 years of the Tracker's underlying data in April, amid a particularly sharp acceleration in costs across the manufacturing sector.

Six out of the seven manufacturing sectors monitored by the Tracker reported faster input cost inflation. Firms were a record 16 times more likely than the long-run average to report higher energy costs and five times more likely to report more expensive material costs, the highest level since October 2021.

A spike in agricultural commodity prices underpinned record cost inflation for food and drink manufacturers for a second consecutive month, registering 96.8 on the Tracker's Input Price Index – up from 94.3 in March.

Meanwhile, incidences of supplier delivery delays increased for the first time since October 2021, with delays most common among technology equipment (22.4) and industrial goods producers (28.1).

Service sector costs in April also rose at the greatest extent on record, as businesses faced rising goods prices, salary pressures and energy costs.

Tourism and leisure firms recorded the fastest uptick in input prices of any services sector – registering 91.4 on the Tracker's Input Price Index – followed by transportation businesses (87.6).

Customer prices rise, and employment levels surge

Against a backdrop of rising costs, businesses increased what they charged customers at a record pace in April. The Tracker's Prices Charged Index posted a record increase from 68.3 in March to 69.4.

Price increases were most common among manufacturing firms, particularly automobile and auto parts (85.9) and food and drink (80.8) producers.

Despite inflationary pressures, UK businesses continued to raise their employment levels, with 13 of the 14 sectors registering a rise in employment over April – the same proportion as March as firms maintained efforts to clear staffing backlogs.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Commercial Banking, said: "Consumers are becoming far more conservative in relation to spending as the cost-of-living rises – which in turn is having a direct impact on business' output growth.

"Businesses are also battling intense cost pressures, with a record share of firms reporting raising prices to maintain margins. However, it remains to be seen just how much more they can pass on – with higher prices already having a sizeable knock-on effect on demand in some sectors.

"It's encouraging to see sustained hiring across the economy, despite the more challenging backdrop. However, while the strength of the UK labour market represents a major positive for consumers, firms continue to struggle to fill vacancies. This poses risks for faster wage growth and further increases in inflation in the year ahead. A crucial factor will be the outlook for demand and how new orders respond to the rising cost of living.

Scott Barton, Managing Director, Corporate and Institutional Coverage, Lloyds Bank Commercial Banking, said: "Surging input costs and supplier delays will be top of the agenda in executive offices up and down the country.

"Strong working capital management will be key as firms look to navigate the uncertain landscape. While prices squeeze margins, and delays hinder production and delivery, cashflow disruptions will hold businesses back from capitalising on growth opportunities as they arise.

"Reviewing operational areas like supplier and customer payment time and optimising inventory levels will all help improve operational flexibility, putting businesses on the strongest possible footing for future growth ahead."

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Notes to Editors
The UK Sector Tracker (UKST) is an evolution of the Lloyds Bank UK Recovery Tracker. It uses PMI data from S&P Global to shed light on current trends in the UK economy.

The UKST builds on the core data set of the UK Recovery Tracker – evolving to deliver deep insight into the topics and themes most relevant to today's economic environment as UK GDP returns to pre-pandemic levels.

Methodology
The Lloyds Bank UK Sector 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 Sector 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 April, the UK sectors recording output growth were: Chemicals, Automobiles & Auto Parts, Beverages & Food, Tourism & Recreation, Banks, Real Estate, Healthcare, Industrial Goods, Industrial Services, Technology Equipment and Software & Services.
In March, the UK sectors recording faster output growth month-on-month were: Chemicals, Beverages & Food, Banks, Healthcare, Industrial Goods and 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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