# PRESS RELEASE

## MAJORITY OF UK SECTORS SHOW OUTPUT UP, DESPITE WEAKENING CUSTOMER DEMAND

- *9 out of 14 UK sectors post higher output in June – one more than in May*
- *Input cost inflation slows for the first time in 2022, but remains steep*
- *Demand weakens economy-wide, with nine sectors seeing new order volumes contract – the highest number since January 2021*
- *Employment growth loses momentum, as future output expectations fall*


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The number of UK sectors reporting greater output increased in June, according to the latest Lloyds Bank UK Sector Tracker. However, businesses across the economy saw weaker demand as inflation dampened customer spending.

In June, nine out of the 14 sectors monitored by the Tracker reported activity up, compared to eight in May and 11 in April.

June's higher output was supported primarily by businesses working through backlogs of existing work, rather than growing demand. However, nine of the 14 sectors monitored by the Tracker saw new orders contract in June, one higher than in May (eight) and the highest number since January 2021.

Weaker demand was reported across both services (51.6 in June vs. 54.2 in May) and manufacturing businesses (48.3 in June vs. 51.1 in May). Goods producers were particularly hard-hit, recording the first fall in new orders after 16 consecutive months of growth. A reading on the Tracker above 50 indicates expansion, while a reading below 50 indicates contraction.

**Input price inflation slows for first time this year**
Although overall input costs continued to rise for UK businesses in June, the rate of increase softened, signifying the first slowdown in cost inflation so far this year. The Tracker registered a reading of 84.5, down from May's record high of 85.9.

Slower input cost inflation has reduced pressure on firms to raise their own prices. The Tracker's measure of inflation in prices charged to customers dropped to 68.2 2 – from 69.2 in May - to reach its lowest level since February 2022 (65.4).

In fact, the Tracker's data also suggested that, in the seven sectors that did see stronger price inflation, those costs were not passed on to customers in full.

**Employment momentum eases, as confidence levels fall**
While 11 of the 14 sectors monitored by the Tracker registered overall employment growth in June, seven of these did so at a slower pace than in May, indicating a loss of hiring momentum.

Three sectors, transportation (47.3), chemical manufacturing (48.6) and food and drink manufacturing (43.0), reported that overall headcount levels had fallen.

This slowdown in hiring came as businesses expressed their lowest expectations of future output growth (63.9) since May 2020.

Optimism about future output growth has fallen every month since February, and June's figure signals an expectation from companies surveyed that activity will slow considerably over the 12 months ahead.

**Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate and Institutional Banking, said**: "While it is encouraging to see UK economic activity holding up better in June, our data also shows clear signs that demand is weakening across a range of sectors

"Perhaps tellingly, most sectors we monitor reported a further deterioration in business expectations for the year ahead as high inflation increasingly takes its toll on households and firms.

"Our report suggests that concerns about demand are starting to outweigh a still intense pricing environment for many businesses. Despite cost pressures escalating, firms across a range of sectors chose not to increase their prices in June, perhaps for fear of weakening demand further. While this is positive news for inflation watchers, like the Bank of England, the growth picture looks challenging."

**Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, said: "**Although input cost inflation has eased, pressures remain acute compared to historical trends.

"Businesses will need to continue to keep a strong focus on their working capital to ensure they're able to respond to new opportunities and manage potential downturns in trading. Funds locked in unsold stock, or unpaid invoices is money that can't be quickly accessed for growth.

"This will be more important than ever in the face of current demand profiles. Not only will this affect potential revenue streams but could also result in firms having more money held in working capital than demand requires. Carefully managing this, along with input cost requirements, will be key."

**ENDS**

**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 June, the UK sectors recording output growth were Chemicals, Metals & Mining, Automobiles & Auto Parts, Banks, Healthcare, Industrial Goods, Transportation, Technology Equipment and Software & Services.

In June, the UK sectors recording faster output growth month-on-month were Banks, Healthcare, Industrial Goods, Transportation and Software & Services.

In June, the UK sectors that saw faster input cost inflation month-on-month were Metals & Mining, Beverages & Food, Banks, Real Estate, Healthcare, Transportation and Technology Equipment.

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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