LLOYDS BANK

PRESS RELEASE

MORE UK SECTORS REPORT FALLING DEMAND IN AUGUST

- *11 out of 14 UK sectors reported falls in demand in August – up from 10 in July*
- *Only technology sector businesses and metals and mining firms saw demand grow*
- *Positively, input cost inflation falls to its slowest pace since September 2021*

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The number of UK sectors reporting falls in demand increased for a fourth successive month in August, according to the latest Lloyds Bank UK Sector Tracker.

Of the 14 sectors monitored by the Tracker, 11 saw demand, as represented by new orders, fall – one more than in July and the highest number since June 2020. Tourism and recreation (38.0 vs. 42.3 in July), which includes pubs, hotels, restaurants and leisure facilities, saw the fastest fall in demand, as consumers continued to rein in discretionary spending.

Each of the sectors which saw new orders contract also saw output decrease (11 out of 14 sectors in August vs. nine in July). Technology equipment manufacturers (58.1 on the Tracker's measure of demand vs. 52.4 in July), providers of software services (57.8 vs. 58.0) and metals and mining firms (51.0 vs. 34.3) were the only sectors to see both demand and output grow.

Elsewhere, the Tracker showed that slower rises in material and logistics costs helped bring overall input cost inflation (76.6 vs. 78.4 in July) down to its slowest pace since September 2021. However, reports of energy and salary cost inflation remained close to record highs.

In addition, supply constraints continued to ease in August with companies reporting supplier shipping delays falling to their lowest level since October 2020. Meanwhile, manufacturing firms reported that input shortages dropped to their lowest level since November 2020, providing some relief to businesses.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate and Institutional Banking, said: "Our Tracker shows that the slowdown in activity spread to more sectors of the UK economy in August. More tellingly, all eleven sectors that saw output fall last month also saw demand falter.

"While the government's energy support package represents a crucial intervention for households and businesses, it is too early to tell whether this will turn the overall trend of the economy. However, it should have a marked impact on UK inflation, with the likely peak later this year now estimated to be closer to the current rate of 10%, rather than the much higher double-digit rates anticipated for next year.

"Looking ahead, firms will be paying close attention to the new Chancellor's plans for emergency support during the energy price crisis and his policies to boost growth."

Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, said: "The cost of doing business remains extremely high, and firms continue to face into a significant period of uncertainty.

"Reduced supply chain pressures is positive news for businesses, helping to alleviate one of the challenges they face and should allow them to free up some working capital that they may have otherwise tied up in stock.

"This should allow businesses to benefit more from the flexibility and agility to react to whatever lies ahead. Healthy cashflow and strong working capital management will be key – ensuring that management teams can deploy funds where needed, when required, to capitalise on new opportunities and continue to trade through slower periods."

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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.

Data for August's UK Sector Tracker was gathered before the announcement of the government's energy support package for businesses and consumers.

A reading on the Tracker above 50.0 indicates expansion. A reading below 50.0 indicates contraction.

In August, the tourism and recreation sector posted a reading of 38.0 on the Tracker's measure of demand.

In August, technology equipment manufacturers posted a reading of 55.6 on the Tracker's measure of output, and a reading of 58.1 on the Tracker's measure of demand.

In August, software service providers posted a reading of 63.1 on the Tracker's measure of output, and a reading of 57.8 on the Tracker's measure of demand.

In August, metals and mining firms posted a reading of 57.4 on the Tracker's measure of output, and a reading of 51.0 on the Tracker's measure of demand.

In August, the Tracker's measure of overall input cost inflation was 76.6.

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 August, the UK sectors recording output growth were: technology equipment (55.6), software and services (63.1) and metals and mining (57.4)

In August, the UK sectors recording faster output growth month-on-month were: technology equipment and software and 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