LLOYDS BANK

PRESS RELEASE

TOURISM AND RECREATION OUTPUT FALLS AS CONSUMERS TIGHTEN SPENDING

- *Tourism and recreation firms post the sharpest fall in output in September, as customers rein in discretionary spending amid rising inflation*
- *Record number of manufacturers report rising energy prices as a driver of input cost inflation*
- *Price pressures improve as rise in quarterly input costs and prices charged slow, which could indicate inflation is close to its peak*
- *Five of 14 UK sectors saw output and new order growth in September (up from three in August)*

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#UKSectorTracker

Tourism and recreation experienced the sharpest fall in output of any UK sector in September, according to the latest Lloyds Bank UK Sector Tracker.

Output in the sector, which includes pubs, hotels, restaurants and leisure facilities, contracted at the fastest pace (36.3) since February 2021, when the UK was last in lockdown.

The drop was caused by demand – represented by new orders – falling for a fourth consecutive month (38.5) as consumers reined-in discretionary spending amid rising inflation.

However, five of the 14 UK sectors saw output grow in September (vs. three in August), while the same number saw new orders grow (vs. three in August)*.

Output growth was highest among software service providers (55.8 vs. 63.1 in August), followed by healthcare firms (53.6 vs. 47.8). A reading on the Tracker above 50.0 indicates expansion. In contrast, the metals and mining sector was closely behind tourism and recreation in posting rapid output contraction (38.2 vs 57.4).

Weaker demand was felt by most services businesses across the UK economy. However, providers of software services was the only entirely service-based sector monitored by the Tracker to see new orders rise (52.6 vs. 57.8 in August).

Elsewhere, the Tracker showed that overall input cost inflation for businesses intensified in September for the first time since May (77.4 vs. 76.6 in August). The increase was driven by rising energy prices for manufacturers, reported by a record number of firms, surpassing a previous peak during the 2008 oil price shock.

However, while cost inflation accelerated month-on-month, there were positive signs of a gradual improvement in price pressures quarter-on-quarter.

Between Q2 and Q3 2022, the average pace of input cost inflation slowed in all 14 sectors monitored by the Tracker. This was supported by easing wage and shipping cost pressures – with reports of higher shipping costs reaching a 21-month low in September.

Meanwhile, the pace of inflation in prices charged to customers slowed in 12 sectors.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate and Institutional Banking, said: "Inflation returned to double digits, reaching 10.1% in September.

"While we expect UK inflation to remain stubbornly high in the coming months, there are clear signs of an easing in pipeline cost pressures in our latest UK Sector Tracker report. In the third quarter, output prices rose more slowly in twelve of the fourteen sectors we monitor, meanwhile input cost inflation moderated across all fourteen sectors compared to the previous quarter.

"That's not to say that businesses won't continue to face intense cost pressures, but suggests that peak inflation is near. This will be welcome news for both businesses and consumers.

"However, the recent news that the energy price guarantee scheme from April will prioritise support for the most vulnerable means that what happens to wholesale energy prices will, again, have a significant bearing on UK inflation from then on. The Bank of England will need to assess carefully prospects for both inflation and growth as it considers just how much more tightening is needed."

Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, added: "Management teams are facing a difficult balancing act. They must adapt to make sure they're not overtrading amid weaker demand, while ensuring that they're still in a position to respond to any new growth opportunities.

"Maintaining strong working capital management will be key to helping walk this fine line. By making sure that funds aren't unnecessarily tied-up in working capital, businesses will be in the strongest possible position to capitalise on rises in demand ahead."

ENDS

Notes to Editors

***** In September, the UK sectors recording output growth were: Household products (50.6), healthcare (53.6), industrial goods (50.4), technology equipment (50.7) and software services (55.8).

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

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