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PRESS RELEASE

UK HOSPITALITY SECTOR HIT WITH FASTEST COST INCREASES IN NOVEMBER

- *Hospitality and tourism firms recorded the fastest rate of input price inflation of any UK sector in November*
- *Three out of 14 sectors reported a rise in output, up from two in October*
- *Proportion of firms attributing lower sales to the high inflation environment increases from ten to fifteen times the long-term average*
- *Companies continue to hire, but pace of recruitment slows as seven of 14 sectors report rises in staffing levels, down from 10*

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Hospitality and tourism businesses saw the fastest operating cost rises of any UK sector in November, as firms faced sharp increases in the price of energy, food, and drink, according to the latest Lloyds Bank UK Sector Tracker.

The sector – which includes pubs, hotels and restaurants – faced higher inflationary pressures than any of the other 13 UK sectors monitored, registering 86.1 on the Tracker's measure of cost inflation.

British car makers (82.7) and technology manufacturers (83.0) also faced significant price rises between October and November, driven by ongoing supply chain problems, particularly for key electrical items such as semiconductors.

The Tracker's Composite Input Cost Index – which measures cost rises across both manufacturing and services sectors – showed that, overall, cost inflation across the economy accelerated month-on-month (76.7 vs. 75.7 in October). In November, the UK had the sharpest rate of cost inflation of all 13 countries monitored by the Tracker – a position it has held more times (six) than any of its global counterparts over the past 12 months.

However, the number of sectors recording a rise in output rose to three out of the 14 sectors monitored by the Tracker, up from two in October.

Food and drink manufacturing posted the fastest rate of output growth (56.5), although the pace of growth slowed marginally compared to October (58.4). Healthcare (54.4 in November vs. 48.1 in October) and industrial services (51.3 vs. 49.9) also saw output grow. A reading above 50.0 on the Tracker indicates expansion, while a reading below 50.0 indicates contraction.

Meanwhile, 12 of the 14 UK sectors saw demand fall in November due to the impact of the rising cost of living on households and businesses.

In response to the panel survey, the number of firms reporting falling sales due to price increases rose sharply reaching 15 times the long-term average, up from 10 times higher in October. November's result was the second highest level for this measure on record and only marginally below the high registered in April 2022, in the immediate aftermath of the start of the war in Ukraine.

Businesses were, overall, still growing their workforces with seven of 14 sectors showing a rise in staffing levels. However, rising costs and weaker demand meant the rate that companies are adding staff fell to its slowest pace since February 2021, when the UK was in lockdown.

Against this backdrop, the number of UK companies that said they were facing challenges to retain staff in November rose to 1.90 times the long-term average – the highest level since March 2009 – up from 0.97 times the average in October.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate and Institutional Banking, said: "While silver linings can be found within the latest official GDP, employment and inflation data, the broader UK backdrop remains one of slowing economic activity amid elevated price pressures and low confidence. Our report highlights that demand and price conditions remain very challenging across almost all sectors of the economy.

"This poses major challenges for policymakers, particularly the Bank of England as it considers how much higher borrowing costs need to rise to get inflation back to two per cent on a sustainable basis, with some members fearing more persistent price pressures and others the risks of over-tightening. However, voting for another sizeable rate hike appears the most likely course of action."

Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, added: "Confidence is low among businesses, with firms understandably concerned about future economic conditions.

"Last month's Autumn Statement will have given management teams some reassurance when it comes to future fiscal direction. However, the wider economic landscape makes it difficult for them to accurately plan and allocate resources.

"In such uncertain times, it will be critical to regularly review the factors that are fundamental to resilience and performance to deliver a firm base for long-term success."

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Notes to Editors

UK input price inflation was compared against rates in Germany, France, Italy, Spain, Japan, China, India, Brazil, Ireland, USA, Australia and Russia.

In November, 3 UK sectors recorded output growth – one more than in October. These were: food & drink manufacturing (56.5), healthcare (54.4) and industrial services (51.3).

The UK sectors reporting growth in orders were food & drink manufacturing (57.2) and real estate (53.1).

The UK sectors that recorded a decrease in staffing levels were chemicals (39.8), metals & mining (41.5), automobiles & auto parts (49.8), tourism & recreation (48.3), transportation (47.7) and software services (48.9).

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

Methodology

The Lloyds Bank UK Sector Tracker includes indices compiled from responses to S&P Global's UK manufacturing and services PMI® survey panels, covering around 1,300 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.

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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