LLOYDS BANK

PRESS RELEASE

NUMBER OF UK SECTORS WITH FALLING OUTPUT HIGHEST SINCE MAY 2020

- *12 out of 14 sectors experienced a fall in output in October, up from nine in September*
- *Providers of software services experienced a rise in new orders and the strongest output growth*
- *Rising inflation weighed on demand, with 13 out of 14 sectors recording a fall in new orders*
- *UK staffing levels rose at the slowest rate in 20 months, as firms navigated a competitive labour market and reconsidered recruitment plans in the face of falling demand*

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The number of UK sectors experiencing falling output was at its highest level in 29 months in October, as demand for goods and services decreased, according to the latest Lloyds Bank UK Sector Tracker.

In October, 12 out of 14 sectors monitored by the Tracker recorded a contraction in output, up from nine in September and the highest number since May 2020, when the UK was first in lockdown.

Output contraction was caused by falling demand. Thirteen of the 14 sectors monitored by the Tracker recorded a decrease in new orders in October, up from nine in September, as rising inflation caused more businesses and consumers to rein in spending and investment.

Demand for goods in the chemicals (29.5), metals and mining (31.1) and household products (38.4) manufacturing sectors fell at the fastest rate in October. A Tracker reading below 50.0 indicates contraction. A reading above 50.0 indicates expansion.

Providers of software services was the only sector monitored to see increased demand (59.7) in October. As a result, the sector recorded the strongest output growth (60.0) of any sector, followed by food and drink (58.4). The food and drink sector also saw the slowest fall in demand (49.9) of any manufacturing sector.

Since July 2022, more than half of the UK sectors monitored by the Tracker have consistently reported falling output and demand, indicating that economic conditions have become worse in recent months.

Elsewhere, the Tracker found early signs of a labour market slowdown in the UK. Employment (52.4) rose at the slowest rate in 20 months in October, while the overall manufacturing sector recording its first drop in headcount since December 2020.

Relative to the previous month, four sectors (chemicals, metals and mining, household products and banks) recorded a decrease in staffing levels in October, the highest number since February 2021 and versus just one sector in September. Firms in these sectors said they chose not to replace workers because of lower customer demand or difficulty finding suitable replacements in a competitive jobs market.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate and Institutional Banking, said: "The indications from our report suggest that the UK economy may already be in recession. With both our domestic challenges and global headwinds unlikely to materially recede in the short term, the key question revolves around how long this downturn may last. However, it is worth highlighting that there are sectors and pockets of the economy that continue to perform well.

"The Autumn Statement laid bare the scale of the challenge ahead to repair the fiscal finances and restore growth. While the former inevitably necessitated some difficult decisions, the fact that fiscal and monetary policy are working together is clearly positive."

Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, added: "Businesses instinctively look closely at their capacity when demand declines. After working through backlogs, they assess whether or not they need to continue recruiting to meet new orders, which is at least part of the reason we saw the slowdown in employment growth in October.

"However, aligning recruitment plans to new orders can only go so far. Businesses must also forecast demand, which could prove particularly challenging for seasonal companies that are usually preparing for their busiest time of the year. Businesses should model for different scenarios to determine whether they have enough staff and cashflow to cover operations at various levels of capacity in the coming months. This will help them to build resilience in the face of another challenging period."

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Notes to Editors

In October, the UK sectors recording output growth were Software & Services (60.0) and Food & Drink (58.4).

The UK sector reporting new orders was Software & Services (59.7)

The UK sectors that recorded a decrease in staffing levels were Chemicals (46.6), Metals & Mining (46.3), Household Products (48.1) and Banks (47.6).

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, 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.

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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