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PRESS RELEASE

PACE OF UK RECOVERY SLOWS AS OMICRON IMPACT BITES

- 10 of 14 sectors monitored saw an expansion in output, but the overall pace of the UK's recovery slowed in December
- Consumer-facing businesses felt the brunt of the impact from Omicron, with the tourism, hospitality and transportation sectors acutely affected
- Strong demand and encouraging signs of some easing in supply chain pressures helped spur output for household products, technology equipment and industrial goods manufacturers
- Staffing shortages continued to prove more problematic for firms in the UK, with growing wage pressures that could drive future inflation trends

Omicron stalled the growth of consumer-facing businesses in December, as manufacturers benefited from easing supply chain pressure, according to the Lloyds Bank UK Recovery Tracker.

Despite headwinds that resulted in an overall slowing of the pace of the UK's economic recovery, the total number of UK sectors monitored by the Tracker reporting output growth held steady month-on-month – with growth in 10 sectors in both December and November.

Activity in the tourism and recreation sector – which includes pubs, hotels, restaurants and leisure facilities – contracted for the first time in nine months in December (43.2) as concern over the Omicron virus variant impacted consumer behaviour. A reading above 50 signals output is rising, while a reading below 50 indicates contraction.

UK transportation – which includes airlines, hauliers and rail operators – experienced its first loss in momentum for four months, recording its weakest output growth since August 2021 (54.3).

In contrast, three of the manufacturing sectors monitored by the Tracker registered a stronger month-on-month performance in December, supported by strong demand and easing supply chain pressures.

This included manufacturers of household products, which saw output growth accelerate to the fastest rate since June 2021 (56.7 in December versus 52.2 in November), manufacturers of technology equipment (60.1 vs. 53.1) and industrial goods (52.2 vs. 50.0)

Business capacity issues remain, with staffing a major concern

The number of firms reporting an inability to meet demand due to staff or material shortages continued to ease from its peak in September 2021. However, the level remained elevated relative to the long-term average. In December, the number of firms reporting rising backlogs due to staff or material shortages, was around five times the long term average, compared with September when it was over six times the long term average.

According to the Tracker, UK companies were more likely to report capacity challenges stemming from staff shortages than counterparts in the Eurozone. The potential for the availability of qualified candidates to remain tight, and

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competition for talent to translate into further wage pressures could lead to high inflation in 2022 lasting for longer in the UK than in the Eurozone, even if supply chain pressures continue to ease.

All of the fourteen UK sectors monitored by the Tracker reported rising input costs in December, with wages remaining a key driver of costs – particularly for service sector businesses. Overall, UK firms were 4.3 times more likely than the long-run average to report an increase in their wage bills as businesses sought to attract and retain skilled talent, up from 3.8 times in November.

At the global level, the UK remained one of the countries with the largest gap between the Tracker's input and prices indices – signalling more acute pressure on firms' margins.

In December, the gap between the UK indices registered 15.2 index points, the joint-second highest with Italy, as Spain registered 17.2, which is well above the global benchmark of 9.5. This could fuel inflationary risks if businesses look to alleviate margin pressures through future price rises.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Commercial Banking, said: "While consumer-facing businesses, like those in travel and hospitality, unsurprisingly bore the brunt of consumer concern over the Omicron variant in December, the resilience shown in other service sectors and manufacturing helped soften the impact on the economy as a whole.

"Further signs of optimism were evident in data showing supply chains slowly recovering and staff numbers rising in all sectors with the exception of tourism and recreation.

"However, the cost backdrop remained acute as higher energy prices and wage bills pushed up firms' expenses. It's no surprise that an increasing number of firms plan to raise their prices in the year ahead, indicating rising and potentially sustained domestic inflationary pressure."

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Notes to Editors

Working with IHS Markit, the Tracker provides unique insight into the shape and pace of the UK's recovery from the disruption caused by COVID-19.

Methodology

The Lloyds Bank UK Recovery Tracker includes indices compiled from responses to IHS Markit's UK manufacturing, services and construction PMI® survey panels, covering over 1,500 private sector companies.

The report also features IHS Markit Global Sector PMI indices, which are compiled by IHS Markit from responses to questionnaires sent to purchasing managers in IHS Markit's global PMI survey panels, covering over 27,000 private sector companies in more than 40 countries.

IHS Markit 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 Recovery 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 December, the UK sectors recording output growth were: Beverages & Food, Household Products, Banks, Real Estate, Healthcare, Industrial Goods, Industrial Services, Transportation, Technology Equipment and Software & Services.

In December, the UK sectors recording faster output growth month-on-month were: Software & Services, Technology Equipment, Industrial Goods, Real Estate, Banks and Household Products.

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.



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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

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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