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# PRESS RELEASE

## UK RECOVERY ACCELERATES AS SUPPLY CHAIN PRESSURES EASE

- 11 out of 14 UK sectors saw an expansion in output in January as the overall pace of the UK's recovery accelerated
- While consumer-facing businesses were held back by Omicron restrictions, improvements in supply conditions bolstered activity in a number of sectors, including automotive manufacturing.
- Widespread input price hikes led to service businesses raising output charges at the fastest rate on record
- Manufacturers posted the slowest rise in prices in eight months, though the current level of factory gate inflation still remained strong

The number of UK sectors reporting output growth rose in January as supply conditions improved, according to the latest Lloyds Bank UK Recovery Tracker.

However, businesses continued to face significant cost inflation, which translated into a record uptick in selling prices among service sector firms.

The number of UK sectors monitored by the Tracker reporting output growth increased in January to 11 out of 14 – up from 10 in December, and the highest number since October 2021.

UK chemicals manufacturers registered the fastest output growth of any sector monitored (66.9) due to a solid increase in new orders, after contracting in December (48.5). A reading above 50 signals output is rising, while a reading below 50 indicates contraction.

Meanwhile, fewer supplier delays helped automotive manufacturers' output increase at the fastest rate in seven months (55.5 in January vs. 49.6 in December). Strong growth in the sector led to the first fall in backlogs of work for automotive and auto parts manufacturers since February 2021.

A number of service sub-sectors also saw strong growth, including real estate (61.3 vs. 54.2) and industrial services (60.3 vs. 53.7) as demand was boosted by hopes that the UK economy will continue its recovery in 2022.

Concern over the Omicron variant and Plan B restrictions, which remained in place for the majority of January in England, hampered activity for consumer-facing businesses.

Tourism and recreation – which includes pubs, hotels, restaurants and leisure facilities – continued to see output contract for a second month in a row (43.1 in January vs 43.2 in December).

UK transportation – which includes airlines, hauliers and rail operators – fell for the first time in five months to register its weakest performance since August 2021 amid a renewed drop in passenger demand (49.0 vs. 54.3).

### Media contacts

**David Thomas**

07912 098 781

[David.Thomas3@lloydsbanking.com](mailto:David.Thomas3@lloydsbanking.com)

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#UKRecoveryTracker



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### **Goods inflation softens, but service prices rise at unprecedented rate**

Higher wages, energy bills and transport costs were evident as drivers of inflation across the entire UK economy in January. However, the latest Recovery Tracker pointed to diverging inflationary trends between manufacturers and services firms.

The UK Recovery Tracker pointed to further improvement in supply conditions in January, including private-sector material shortages falling to a ten-month low. These improvements helped every UK manufacturing sector, except household goods, to record a weaker month-on-month rise in input prices.

Food and beverages producers saw the biggest slowdown in cost increases – registering 73.2 on the Tracker’s Input Prices Index in January, versus 86.3 in December – followed by automotive manufacturers (77.2 vs. 86.6). A reading above 50.0 on this index signals costs are rising, while a reading below 50.0 signals them falling.

Although cost pressures remained intense, improved supply conditions helped UK manufacturers record the slowest rise in factory gate charges in eight months – registering 70.9 on the Tracker’s Prices Charged Index. This compares to a record-high reading of 74.3 in December.

By contrast, higher salary demands and energy prices contributed to the second-fastest increase in service sector input costs on record, registering 79.7 on the Input Prices Index (vs. 77.0 in December).

This, in turn, contributed to UK service businesses increasing the prices they charged consumers at the fastest rate in the Tracker’s 25-year history, registering 62.6 on the Prices Charged Index in January (vs. 61.2 in December).

**Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Commercial Banking, said:** “An increase in the number of sectors reporting output growth in January is good news to start the year.

“While consumer-facing service businesses have borne the brunt of Covid-19, high-frequency data show activity here also rebounding after restrictions were eased last month. If it goes ahead, the announcement that all Covid regulations could be abolished earlier than planned in England in the coming weeks should also translate into stronger consumer demand as the post-pandemic recovery further normalises.

“Sharp focus will also be on how the divergent inflationary trends revealed in our report unfold in the months ahead. Persistently high wage and energy prices for service firms could ultimately lead to more sustained, or even higher, prices for consumers. However, January’s Recovery Tracker also had some tentative, early, indications that the peak of price pressures for manufacturers may have passed.”

**ENDS**

### **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.



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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 January, the UK sectors recording output growth were: Chemicals, Automobiles & Auto Parts, Beverages & Food, Household Products, Banks, Real Estate, Healthcare, Industrial Goods, Industrial Services, Technology Equipment and Software & Services. In January, the UK sectors recording faster output growth month-on-month were: Banks, Real Estate, Industrial Goods and Industrial 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](mailto: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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