LLOYDS BANK

PRESS RELEASE

ALL UK SECTORS FORECAST OUTPUT GROWTH IN 2023

- *In January, all 14 sectors monitored by the UK Sector Tracker expect positive output growth in the next 12 months – the first time since July 2022*
- *Output growth forecasts were more buoyant, compared to December, in 11 out of 14 UK sectors*
- *Improved outlook on inflation drives optimism as business' cost pressures eased to a 20-month low*

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For the first time in six months, all 14 sectors monitored by the Lloyds Bank UK Sector Tracker expect their output to grow over the next year, up from 13 in December.

According to the Tracker, improved optimism was driven by expectations of weaker inflation over the next 12 months. The number of businesses citing that they expect inflationary pressures to weigh on output this year fell to a 10-month low (5.3 times the long-run average vs. 10 times the long-run average in December).

Of the 14 sectors monitored, in January 11 reported more buoyant output growth expectations than in December.

The UK metals and mining sector (74.1 versus 58.6 in December) saw the largest month-on-month rise in output expectations of any sector, followed by tourism and recreation (59.6 versus 47.7 in December) – which includes pubs, hotels and restaurants. Transportation (54.2 versus 51.9 in December), and food and drink manufacturing (72.7 vs 70.0 in December) reported the lowest increases.

A reading above 50.0 indicates an expected increase in output over the next 12 months, while a reading below 50.0 indicates an expected decline.

Input cost inflation weakens, but salary pressures prove sticky

The more positive outlook came as the Tracker recorded a sixth consecutive month of declining output across the UK economy (48.5 in January vs. 49.0 in December) – the longest continuous period of contraction since the 2008 financial crisis.

A reading above 50.0 indicates expansion, while a reading below 50.0 indicates contraction.

Positively, the rate of input cost inflation (71.2) across both manufacturing and services slowed, with the lowest monthly increase since May 2021, supported by weaker energy cost pressures.

However, businesses suggested that strong wage pressures have prevented input cost inflation from falling more quickly. The number of survey respondents citing that operating expenses have risen due to increases in staff salaries was 2.3 times higher than the long-run average in January.

Jeavon Lolay, Head of Economics and Market Insight at Lloyds Bank Corporate & Institutional Banking, said: "Hopes that inflation has peaked underpinned a broad-based recovery in business confidence in January. For the first time since last July, all 14 sectors monitored by the UK Sector Tracker anticipate positive output growth in the year ahead. This cautions against an overly pessimistic view of the economic outlook, although the impact of sustained high inflation and past increases in interest rates will inevitably weaken demand over the coming quarters.

"Given the improving economy-wide expectations for output growth, employment trends may remain robust as businesses maintain staffing levels to capitalise on prospective opportunities. However, this could pose a problem for the Bank of England if it means that wage pressures and domestically generated inflation prove to be more persistent."

Scott Barton, Managing Director, Lloyds Bank Corporate and Institutional Banking, added: "Businesses have shown huge ingenuity and resilience to capitalise on growth prospects so far, in what has been a challenging environment.

"Management teams are recognising opportunities but certainly won't be blind to the hurdles that remain. In these conditions, prioritising financial flexibility, ability to deploy resources to manage both unexpected downturns and upticks in trading, will be crucial."

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In January, the UK sectors reporting output growth were food & drink manufacturing (65.1); tourism & recreation (58.3); software services (55.6); industrial services (53.4); real estate (51.0); and automobiles & auto parts manufacturing (50.6).

The UK sectors that reported stronger month-on-month annual output growth expectations were: chemicals manufacturing (68.1, +6.9 month-on-month); metals & mining (74.1, +15.5); automobile & auto parts manufacturing (80.8, +9.9); food & drink manufacturing (72.7, +2.7); household products manufacturing (69.4, +5.4); tourism & recreation (59.6, +12); banks (69.2, +5.7); healthcare (80.0, +10.6); industrial services (66.1, +3.5); transportation (54.2, +2.2) and software services (78.2, +11.1).

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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