Lloyds TSB England Regional PMIs

Weather disruptions lead to slower growth in majority of English regions in December. Input cost inflation accelerates sharply.

Key points:
- Heavy snowfall contributed to slower growth of private sector activity in December.
- Six of the nine English regions posted weaker rises in business activity.
- The West Midlands saw the fastest growth of all English regions in December.
- Business activity was close to stagnation in the North West and South East.
- Input cost inflation accelerated in each English region at the end of 2010.
- The North West topped the regional table for average output growth in 2010.

Today's release of Lloyds TSB regional Purchasing Managers’ Index™ (PMI™) data indicated that private sector output growth slowed in December across the majority of English regions. The slowdown was centred on the service economy, with a number of firms suggesting that unusually bad weather conditions had an adverse impact on client demand at the end of 2010. Meanwhile, a strong recovery in manufacturing production continued in December, helping place the West Midlands at the top of the regional growth table for the first time since September 2007. The weakest performing regions in December were the North West and South East, where business activity increased only fractionally over the month.

Comment

Commenting on the Lloyds TSB Regional PMIs, John Maltby, managing director, Lloyds TSB Commercial, said:

"Heavy snowfall had a substantial impact on regional business activity at the end of 2010, with the latest PMI data suggesting that adverse weather conditions had a particularly disruptive impact on the service sector. As a result, regions in the south of England were among the weakest performing in December. The West Midlands was the standout region, with improved export sales fuelling the ongoing recovery in the area’s manufacturing output and helping place it at the top of the regional growth table.

“Overall, the latest PMI figures indicate that regional business activity proved resilient in the final months of 2010, which will provide encouragement to SMEs looking to expand their businesses during the year ahead. Seizing new opportunities for growth in domestic and export markets will be crucial in helping offset the continued squeeze on operating margins at SMEs, as they continue to face sharply rising cost burdens and limited pricing power.”

Summary

December data pointed to increased levels of business activity and incoming new work across the English regions, suggesting that the recovery in private sector business conditions remained on track at the end of 2010. Jobs growth was also recorded in all English regions outside of London and the South East, driven by rising workloads and stronger underlying demand. However, inflationary pressures intensified in December, with higher fuel and raw material prices generally cited as the main reasons for rising cost burdens.

Output and demand

All nine English regions posted an increase in business activity during December, continuing the trend seen in each of the past four months. However, only the South West, West Midlands and Yorkshire & Humber saw faster rises in output than in the previous month. The strongest performing region in December was the West Midlands, while for 2010 as a whole it was the North West.
However, the North West saw a relatively weak finish to 2010, with output growth only marginal in December and the slowest of all English regions.

In line with the trend for business activity, the West Midlands posted the fastest growth of incoming new work in December. This was driven by a sharp rise in manufacturing sector new orders, with some companies attributing the improvement to stronger export sales. Meanwhile, London and the South East posted the least marked rises in new work, partly reflecting the relative weakness of the service sector in December.

**Employment and backlogs**

December data mostly pointed to marginal rates of employment growth in the English regions, reflecting a cautious approach to job hiring amongst private sector companies. Moreover, workforce numbers fell slightly in London and were unchanged in the South East. Yorkshire & Humber and the North East posted the most marked rises in staffing levels, partly reflecting a manufacturing led recovery in output in these regions.

The majority of English regions reported a decline in work-in-hand (but not yet completed) in December, which a number of firms linked to a lack of pressure on operating capacity at their units. Where an increase in backlogs was reported, some respondents commented on weather-related disruptions to their businesses in December.

**Input and output prices**

Input price inflation picked up strongly in each of the nine English regions monitored by the survey in December. Anecdotal evidence overwhelmingly pointed to higher fuel, energy and raw material costs. In a number of regions, cost burdens rose at the fastest pace since late 2008. The East of England recorded the sharpest rate of input price inflation, followed by Yorkshire & Humber.

Higher output charges were broad-based across the English regions in December, continuing the trend seen in the previous month. This reflected efforts to protect operating margins, but the rates of output charge inflation fell well short of those for input prices in each region. Latest data showed that prices charged rose at the sharpest rate in the North West, while the slowest increase was recorded in the South West.

**PMI Business Activity (Output) Index**

<table>
<thead>
<tr>
<th>Region</th>
<th>Nov</th>
<th>Dec</th>
<th>Dec. index high/low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emids</td>
<td>54.0</td>
<td>55.8</td>
<td>15-month low</td>
</tr>
<tr>
<td>NW</td>
<td>54.8</td>
<td>55.8</td>
<td>15-month low</td>
</tr>
<tr>
<td>SE</td>
<td>53.2</td>
<td>54.6</td>
<td>4-month low</td>
</tr>
<tr>
<td>Eng. Ave.</td>
<td>52.5</td>
<td>54.7</td>
<td>4-month low</td>
</tr>
<tr>
<td>Scot</td>
<td>50.7</td>
<td>54.7</td>
<td>19-month low</td>
</tr>
<tr>
<td>Wales</td>
<td>49.5</td>
<td>54.7</td>
<td>19-month low</td>
</tr>
<tr>
<td>NI</td>
<td>49.5</td>
<td>54.7</td>
<td>19-month low</td>
</tr>
<tr>
<td>UK</td>
<td>49.5</td>
<td>54.7</td>
<td>19-month low</td>
</tr>
</tbody>
</table>

**PMI Employment Index**

<table>
<thead>
<tr>
<th>Region</th>
<th>Nov</th>
<th>Dec</th>
<th>Dec. index high/low</th>
</tr>
</thead>
<tbody>
<tr>
<td>NW</td>
<td>50.3</td>
<td>50.3</td>
<td>2-month low</td>
</tr>
<tr>
<td>SE</td>
<td>50.3</td>
<td>50.3</td>
<td>2-month low</td>
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<td>Eng. Ave.</td>
<td>50.3</td>
<td>50.3</td>
<td>2-month low</td>
</tr>
<tr>
<td>Scot</td>
<td>49.5</td>
<td>49.5</td>
<td>22-month low</td>
</tr>
<tr>
<td>Wales</td>
<td>49.5</td>
<td>49.5</td>
<td>22-month low</td>
</tr>
<tr>
<td>NI</td>
<td>49.5</td>
<td>49.5</td>
<td>22-month low</td>
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<tr>
<td>UK</td>
<td>49.5</td>
<td>49.5</td>
<td>22-month low</td>
</tr>
</tbody>
</table>

*Numbers relate to monthly seasonally adjusted diffusion indexes. An index reading above 50 signals an increase on the previous month. A reading below 50 signals a decline. The greater the divergence from 50, the greater the rate of change indicated.*
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Notes to Editors:
England's Regional PMIs are based on data compiled in December 2010 from monthly replies to questionnaires sent to purchasing executives in over 1200 private manufacturing and service sector companies. Panels have been carefully selected to accurately replicate the true structure of the UK private sector economy.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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.

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Lloyds TSB Bank plc

Lloyds TSB Scotland plc

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