LLOYDS BANK

PRESS RELEASE

FOOD AND DRINK MANUFACTURING LEADS OUTPUT AND DEMAND GROWTH IN MARCH

- **Food and drink manufacturers outperformed all other UK sectors in both output and new order growth in March. Overall, nine out of 14 sectors reported output growth in March – one fewer than in February.**
- **The Tracker's exclusive PMI data reveals that food and drink producers were the driver behind the UK manufacturing sector's first return to growth in more than a year.**
- **Food and drink manufacturers cut prices charged to customers for a sixth month out of the last seven, but face their first increase in costs since April 2023.**

UK food and drink producers outperformed all other UK sectors in both output and new order growth in March and were the primary drivers for the wider manufacturing sector's first expansion in output in more than a year, according to the latest Lloyds Bank UK Sector Tracker.

Of the 14 sectors monitored by the Tracker, food and drink manufacturers reported the fastest growth of output growth in March (59.1 vs. 51.8 in February). This was driven by a strong rise in new orders (59.3 vs. 47.3), which was also the fastest of any sector recorded in March. A reading on the Tracker above 50.0 indicates expansion, while a reading below 50.0 indicates contraction.

Of the seven manufacturing sub-sectors monitored by the Tracker, only three – chemicals (56.9 vs. 50.4), food and drink manufacturing (59.1 vs. 51.8) and industrial goods manufacturing (50.8 vs. 53.9) – saw output grow.

Food producers continue to cut prices, but see their own costs rise

In March, food and drink manufacturers continued to cut prices charged to customers (48.5 vs. 47.6 in February). This means that the sector has now reduced prices in six of the last seven months – with January 2024 the only period when prices were reportedly raised, and even then, only marginally.

However, food and drink producers reported the first increase in their own costs since April 2023 in March – a trend that, if it persists, could challenge any future price-cutting plans. Reports of higher costs came as the number of manufacturing businesses experiencing higher shipping-related expenses was nearly four-times (3.86) the long-run average.

Overall, nine of the 14 UK sectors monitored saw output growth in March, one fewer than in February. Real estate (57.5 vs. 52.9) saw the second fastest rate of activity growth, after food and drink manufacturing. In contrast, automobile and auto parts manufacturers saw output contract for a third month in a row and the most sharply (31.8).

Seven sectors saw demand, as measured by new orders, grow – one more than in February. Real estate also posted the second-fastest rate of demand growth (57.7 vs. 60.4), supported by an improving economic backdrop and rising confidence among clients, while metals & mining firms saw demand fall at the fastest rate (39.9 vs. 46.9).

Nikesh Sawjani, Senior UK Economist, Lloyds Bank, said: "Our latest report provides some tentative signs that UK manufacturing may be finally coming out of a challenging couple of years. However, growth is largely concentrated in one or two areas – particularly food and drink – rather than spread across the whole sector with other parts continuing to be hit with declining demand. This suggests that manufacturing still has some way to go towards making a sustainable recovery.

"That said, there are encouraging signs in terms of purchasing activity. Three of the seven manufacturing sub-sectors reported a rise in input buying in March, representing the most broad-based improvement since May last year, and a positive signal for UK manufacturing prospects."

Aled Patchett, Head of Retail and Consumer Goods, Lloyds Bank, said: "Of the sectors we monitor, food and drink manufacturing is the one that has most consistently cut prices over recent months. If this trend continues, this could help support the future growth of businesses that purchase wholesale food stocks, such as supermarkets, restaurants, pubs and hotels, and reduce costs for end-consumers.

"However, there's renewed pressure on firms when it comes to their own input costs. As well as potentially forcing businesses to pause price-cutting, or even start to raise prices again, this will be putting an immediate squeeze on working capital. That's something management teams across the sector will need to be closely tracking in order to minimise the impact and maintain their long-term resilience."

ENDS

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Notes to editors

Chart 1: Food and Beverage manufacturing tops the Output rankings in March…

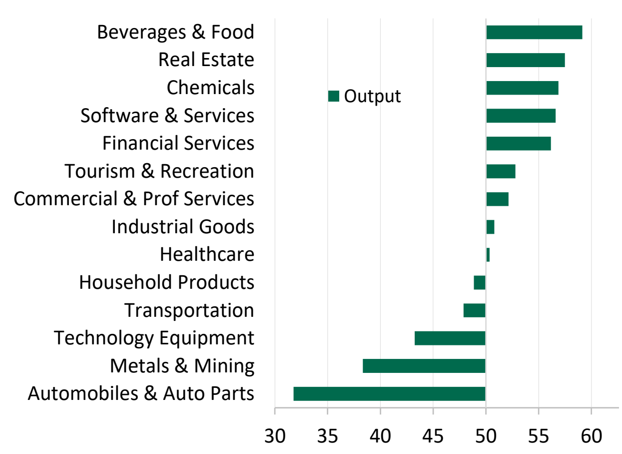


Chart 2: … as well as for New Orders

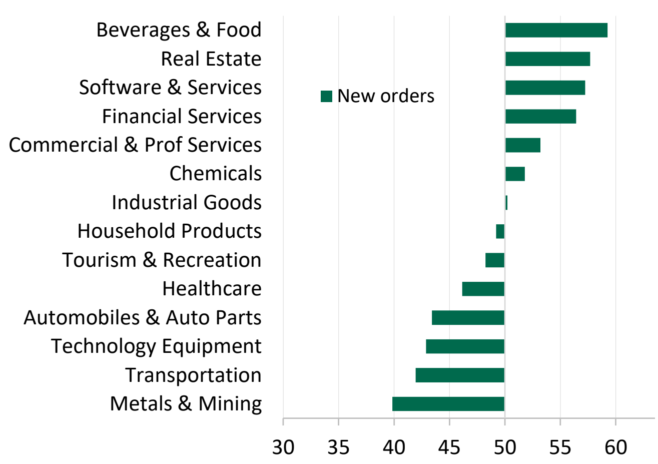


Chart 3: Prices charged by Food & Beverage manufacturers have fallen in six out of the last seven months…

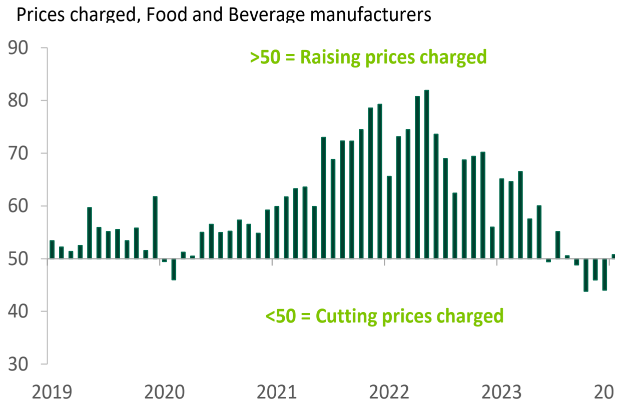
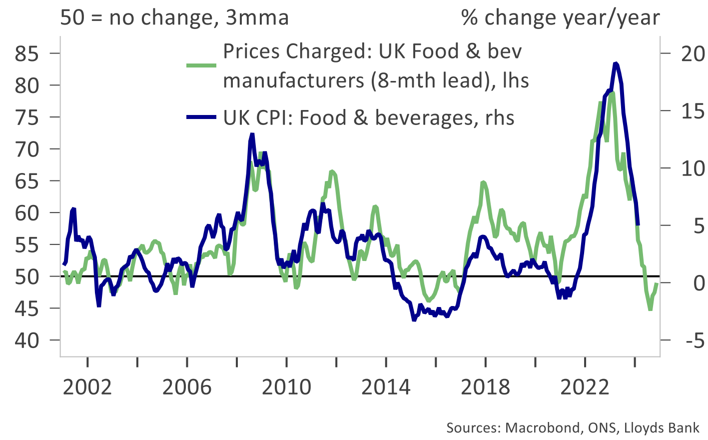


Chart 4: … which bodes well for UK food price inflation



Summary of sector performance in March:

Output growth: Food and drink manufacturing (59.1), real estate (57.5), chemicals manufacturing (56.9), software services (56.6), financial services (56.2), tourism and recreation (52.8), commercial and professional services (52.1), industrial goods (50.8) and healthcare (50.3)

Output contraction: Automobile and auto parts manufacturing (31.8), metals and mining (38.3), technology equipment manufacturing (43.2), transportation (47.9) and household product manufacturing (48.9).

Demand growth: Food and drink manufacturing (59.3), real estate (57.7), software services (57.2), financial services (56.4), commercial and professional services (53.2), chemicals manufacturing (51.8) and industrial goods manufacturing (50.2).

Demand contraction: Metals and mining (39.9), transportation (42.0), technology equipment manufacturing (42.9), automobiles and auto parts manufacturing (43.4), healthcare (46.2), tourism and recreation (48.2) and household products (49.2).

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 Lloyds Bank UK Sector Tracker monitors the following 14 individual UK sectors: Chemicals, Metals & Mining, Automobile & Auto Parts, Beverages & Food, Household Products, Industrial Goods, Technology Equipment, Tourism & Recreation, Financial Services (this sector has been updated to include banks, insurance providers and other financial services firms), Commercial & Professional Services, Transportation, Software & Services, Healthcare and Real Estate,

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. 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@spglobal.com**

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