LLOYDS BANK

PRESS RELEASE

NUMBER OF GROWING UK SECTORS HITS 10-MONTH HIGH

- *10 out of 14 UK sectors reported output growth in February – up from eight in January and the most since April 2023 (10)*
- *Software providers and financial services firms recorded the strongest rates of output growth*
- *The service sector benefited from resilient demand, while manufacturing output growth was driven by optimism around future demand and backlogs of work*
- *Global supply chain disruption and wage pressures pushed input costs up at the fastest pace in six months*

The number of UK sectors reporting output growth hit a 10-month high in February, with companies indicating rising demand and spreading business optimism, according to the latest Lloyds Bank UK Sector Tracker.

In February, 10 of the 14 UK sectors monitored by the Tracker reported output growth. This was two more than in January (eight), the most since April 2023 (10), and pointed to a broadening out of expansion across the UK economy.

Software services – which includes software consulting and data processing firms – saw output grow at the sharpest rate of any sector monitored in February (57.5), closely followed by financial services (57.4), which includes banks, insurers and investment services firms. A reading on the Tracker above 50.0 indicates expansion, while a reading below 50.0 indicates contraction.

Meanwhile, technology equipment (43.2) and tourism and recreation (45.7) saw output contract at the fastest rates.

Drivers of growth

Output growth in the service sectors monitored by the Tracker was driven by growing demand. In February, the Tracker's index for service sector demand, measured by volumes of new business, climbed to 53.5 – its highest level since May 2023.

However, in manufacturing, new orders fell for an 11th month in a row (45.4). Tracker data suggests that manufacturing output growth was instead driven by firms running down backlogs of unfinished work, while businesses also indicated they were proactively increasing production in response to an improvement in underlying demand conditions.

In February, the net balance of manufacturers that expect their output to be higher in 12 months' time rose to the highest level since August 2023 as firms reported reduced recession concerns.

Supply chain disruption feeds through to UK firms

Alongside broadening output growth, February data provided further indications that global supply chain disruption, along with wage pressures, were potentially starting to increase costs for UK businesses.

In February, the Tracker's composite index of input price inflation rose to its highest level in six months. This came as more manufacturers reported shipping delays than at any time since September 2022 (mentions of it were 6.36 times the long run average), while the number of businesses reporting rising shipping costs climbed to a 15-month high* (4.97 times the long run average).

As a result, the rate at which prices charged to customers rose also accelerated marginally in February, albeit less sharply than input costs, suggesting that businesses were not passing the full extent of cost increases onto their clients.

Although the Tracker's measure of wage cost pressures dropped to a four-month low in February (1.47 times the long run average), wages continued to be a cited as a key cost driver.

Nikesh Sawjani, Senior UK Economist, Lloyds Bank, said: "Growth is continuing to spread to more and more parts of the UK economy as conditions improve.

"This positive momentum, alongside last week's GDP data showing the UK economy expanded in January, provides more evidence that early 2024 is less likely to experience the pattern of economic contraction seen in the second half of last year."

Scott Barton, Managing Director, Lloyds Bank Corporate & Institutional Banking, said: "It's encouraging that we are seeing activity increase across more parts of the UK economy. Moreover, a further rise in output expectations across most sectors suggests these trends have further to go. However, the data also shows that the impact of renewed supply chain disruptions is a headwind that firms will need to carefully navigate.

"Similarly, if firms are ramping-up production in anticipation of future demand, it's critical that they consider how they can build the inventory they need and where to invest in their businesses while still protecting their working capital.

"Getting this balance right will mean they can continue to be financially agile and able to mitigate against any sudden movements in the economy or external environment."

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Summary of sector performance in February:

Output growth: Software services (57.5), financial services (57.4), industrial goods manufacturing (53.9), commercial and professional services (53.0), real estate (52.9), food and drink manufacturing (51.8), household products manufacturing (51.8), transportation (51.5), chemicals manufacturing (50.4), and metals and mining (50.3).

Output contraction: Technology equipment manufacturing (43.2), tourism and recreation (45.7), automobile and auto parts manufacturing (46.2) and healthcare (46.6).

Demand growth: Real estate (60.4), financial services (57.9), software services (57.4), transportation (52.3), commercial and professional services (51.4), and chemicals manufacturing (50.5).

Demand contraction: Automobiles and auto parts manufacturing (35.1), technology equipment manufacturing (39.7), healthcare (41.0), tourism and recreation (46.0), metals and mining (46.9), food and drink manufacturing (47.3), industrial goods manufacturing (49.3), and household products manufacturing (49.8).

For more information, please contact:

*Note: In February, the number of businesses reporting rising shipping costs was the most since November 2022

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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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