

Number of UK sectors with falling output increases

- 11 out of 14 UK sectors saw output contract in December – three more than in November.
- Three sectors saw demand, as measured by new orders, rise – down from four in November.
- Overall cost inflation rose to an eight-month high, but businesses aren't passing on the full extent of cost rises to customers.
- More firms report increased focus on cost-cutting measures.

The number of UK sectors reporting falling output rose to 11 in December 2024, up from eight in November, and the highest number since September 2023, according to data from the latest Lloyds UK Sector Tracker.

The number of sectors with growing demand was one less than in November (four) and came as the number of businesses that said inflation was causing them to anticipate lower activity levels in 2025 rose to a 26-month high (10.9 times the long-run average).

The only sectors to report output growth in December were software services (56.7), real estate (53.3) and financial services (51.9). These sectors were also the only ones to report demand growth, as measured by new orders (software services (60.4), real estate (54.8) and financial services (54.0)).

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

Cost pressures mount

In December, the Tracker's measure of overall cost inflation rose to an eight month-high (61.8), with firms citing pressure from wages, IT infrastructure and software, and supplier price increases.

The number of sectors where costs were rising fell by one, month on month (13 in December vs. 14 in November), indicating pressures had become slightly more concentrated in fewer parts of the economy.

Businesses increased their prices charged to customers (55.4) but continued to do so at a slower rate than their own costs were increasing. Tourism and recreation (67.2), which includes pubs, bars and restaurants, saw the sharpest rate of cost (67.2) and price (58.7) inflation.

Nikesh Sawjani, Senior UK Economist at Lloyds, said: "Faced with continued cost pressures, our data suggests that firms are taking decisions to reduce operating expenses in order to protect their margins.

"This could help businesses limit the degree to which they may need to raise prices in the face of fragile demand, allowing them to retain customers rather than seek increased volumes."

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Notes to editor

Output growth: Software services (56.7), real estate (53.3), financial services (51.9).

Output contraction: Commercial and professional services (49.7), tourism and recreation (47.8), chemicals manufacturing (47.5), transportation (45.9), food and drink manufacturing (45.7), industrial goods manufacturing (41.7), healthcare (40.6), household products (39.7), automobile and auto parts manufacturing (39.3), technology

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equipment manufacturing (38.8) and metals and mining (35.0).

Growing demand, as measured by new orders: Software services (60.4), real estate (54.8), financial services (54.0).

Contracting demand, as measured by new orders: Food and drink manufacturing (49.5), transportation (48.5), commercial and professional services (47.2), chemicals manufacturing (45.6), automobile and auto parts manufacturing (43.7), industrial goods manufacturing (42.7), healthcare (42.3), tourism and recreation (40.9), household products manufacturing (38.5), technology equipment manufacturing (35.9), metals and mining (29.9).

Methodology

The Lloyds 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 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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