UK Sector Tracker

14 December 2023

7/14	**+3** vs. previous month
	+4 vs. November 2022

UK sectors saw a rise in output in November

LLOYDS BANK

Contents

Introduction

Global economic activity marginally expanded in November based on the Global Composite Output PMI (50.4) edging back above the key 50 threshold. This was supported by a stabilisation in demand, with the Global Composite New Orders PMI rising to 50.0 - its joint-highest level since July, following consecutive monthly declines.

Economic performances differed significantly by country. Europe remained a key drag on global growth in November, with the 'big four' of the Eurozone (Germany, France, Italy, and Spain) simultaneously reporting declines in output for the first time since August. India was the key driver of the global output growth, while China and the US continued to resist contraction.

With the full effect of higher policy interest rates yet to impact the real economy, businesses were generally cautious on the near-term outlook. The Global Composite Future Output PMI (61.3) fell for a third consecutive month in November, to its lowest level since December 2022, with concerns about inflation still tracking at more than twice the long-run average in the Global PMI Panel Comments Tracker.

In the UK, the Composite PMI Output Index moved above the 50-mark in November for the first time since July, signalling a return to growth across the private sector after a three-month period of contraction. The rise was driven by firmer service sector output while the rate of contraction across manufacturing also eased to its slowest pace since April.

Of the 14 'fine' sectors monitored in the UK Sector Tracker, seven recorded output growth in November, up from four in October and the most for five months. Automobiles & Auto Parts and Beverages & Food led the recovery, with the former reporting an expansion for the first time since May.

New orders also rose in November, but at a more modest rate compared to output, with increases confined to just three out of the fourteen sectors. That suggested that much of the uplift in output reflected firms working more intensely through previously uncompleted work. Notably, backlogs data showed that volumes of unfinished business were once again depleted on a widespread scale. In fact, November marked the first time in nearly three-and-a-half years where backlogs of work fell across all 14 'fine' sectors.

Employment trends were mixed across the fourteen sectors with half reporting rises in employment while the other seven indicated falls. In most sectors, the employment index moved in the same direction as output, signalling that firms that were successful in hiring new workers sought to do so to achieve an immediate boost to their activity. At the same time, cost considerations continued to play a key part in recruitment plans in November, driving more companies to make cuts to employment amid concerns over customer spending and margins. Our panel comments tracker data showed the number of firms citing cost-related staff reductions at the highest since March 2021.

It is somewhat encouraging that more areas of the UK economy saw activity pick-up. However, with this largely being driven by firms working through previously uncompleted work, it raises questions over whether current output levels will be sustained. Businesses can't run on outstanding work alone and we could eventually see their output fall when these jobs are exhausted.

Nikesh Sawjani
Senior UK Economist
Lloyds Bank Corporate & Institutional Banking

The better news chimes with signs of improving sentiment more generally in November which is encouraging, given the importance of this time of year for many businesses. However, while there are reasons for optimism, it remains crucial that management teams retain close oversight of their operations and working capital to both capitalise on opportunities and manage any challenges from a still uncertain economic outlook.

Scott Barton
Head of Corporate Coverage
Lloyds Bank Corporate & Institutional Banking

Global themes

Europe's woes weigh on global economy

Having ground to a halt in October, the S&P Purchasing Managers Indices suggested that the global economy expanded in November. After five months of declining growth momentum, a first monthly rise in the Global Composite Output PMI (50.4), to back above the key 50.0 threshold, signalled a marginal increase in global business activity.

This was accompanied by a stabilisation in demand, as evidenced by the Global Composite New Orders PMI (50.0) reaching its joint-highest level since July, following back-to-back monthly declines in the demand for goods and services. It remains to be seen whether the improvement in new order demand momentum will be short-lived or represents a reversal of the broader trend. The significant contribution of outstanding volumes of work and still negative 'demand gap' (measured as the difference between Global Composite Output and New Order PMIs) warn that it may well be a temporary reprieve.

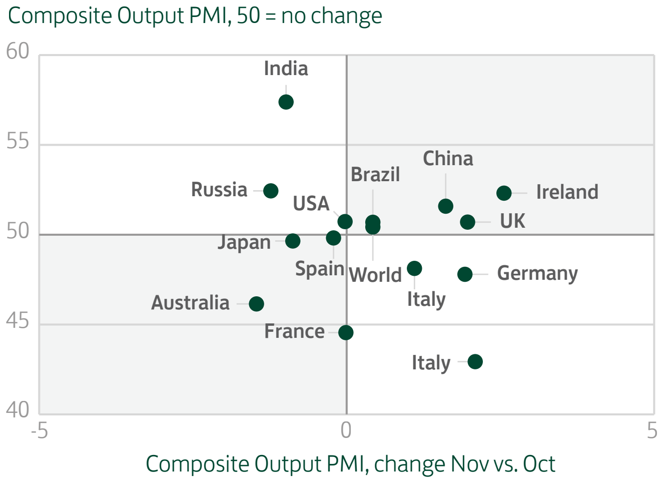
Country-level performances again showed persistent disparities in November (Chart 1). Six of the thirteen major economies monitored posted contractions in activity, with European economies continuing to weigh on the global economy. The 'big-four' of the Eurozone – France (44.6), Germany (47.8), Italy (48.1), and Spain (49.8) – simultaneously reported declines in activity for the first time since August.

India (57.4) remained the engine of global growth. The world's fifth-largest economy looks set to close out a strong year – its average Composite Output PMI reading between January and November 2023 (59.7) was 5.6-points higher than over the remainder of the series history (54.1).

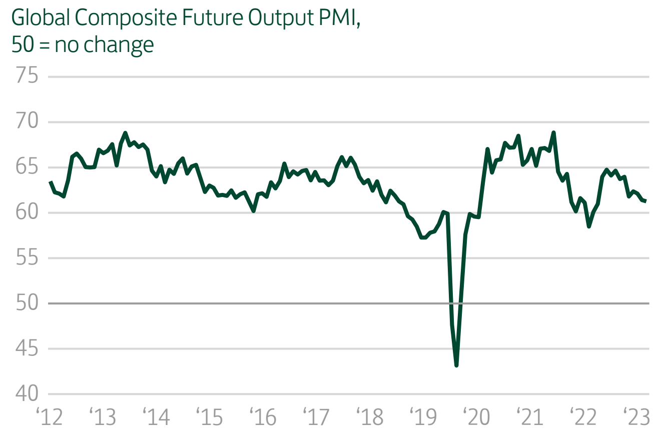
The world's two largest economies continued to resist contraction in November. Despite facing a myriad of economic challenges, activity in China (51.6) expanded at its fastest pace in three months, while the US Composite Output PMI (50.7) matched October's three-month high.

With the full impact of higher policy interest rates yet to take effect, businesses were cautious on their expectations for output growth over the next 12 months. The Global Composite Future Output PMI (61.3) fell for a third successive month in November, to its lowest since December 2022 (Chart 2). According to the Global PMI Panel Comments Tracker, sustained inflationary pressures remained a concern, with mentions of lower confidence due to higher prices at more than double (2.2x) their long-run average. While it compares favourably to this time last year (5.2x), it points to stickiness in inflation expectations.

1. Output vs output momentum, by country



2. Business confidence under pressure



Global themes

Global cost inflation moderates

There were positive developments on the near-term inflation front in November. The Global Composite Input Prices PMI (55.7) was below the series average for a second consecutive month, for only the first time since October 2020. It signalled the slowest rise in operating costs in just over three years. Furthermore, the easing of cost pressures was relatively broad, with Input Prices PMIs for both the manufacturing and services sectors moderating for the first time since May.

In recent months, staff expenses have put upward pressure on business costs. However, with global labour market conditions softening, highlighted by the Global Composite Employment PMI falling to its lowest since August 2020, wage inflation has cooled. According to the Global PMI Panel Comments Tracker, mentions of rising salary costs (1.3x) were only marginally above their long-run average in November, considerably lower than the levels seen earlier in the year (Chart 3).

Generally weak demand conditions combined with lower input cost inflation led to a competitive approach to pricing from businesses. The Global Composite Output Prices PMI (53.5) rose for the third time in five months in November but held very close to October's three-year low (53.0). With reports of lower new orders due to current high selling prices (1.8x) still running well above its long-run average, firms were concerned that inflationary pressures may remain a drag on prospects in 2024.

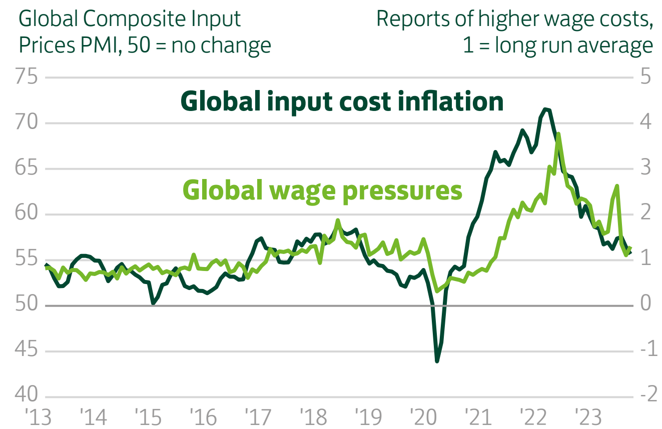
Labour market holds key to outlook

Global hiring activity slowed for a third consecutive month in November, with the Global Composite Employment PMI (50.1) at its lowest since January 2021. Having faced into soft demand conditions and worked through backlogs, pressure on firms to reduce staffing levels has increased. That said, globally at least, reports of headcount reductions as part of wider cost-saving initiatives (0.7x) remain well below average levels.

However, exploring labour market dynamics by country suggests that European firms are feeling this pressure more acutely (Chart 4). France, Germany, Italy, and the UK, reported the largest declines in total workloads, which were accompanied by the most significant falls in employment. With the Eurozone and UK at the epicentre of the global economic slowdown, there is a significant risk that these trends intensify as we progress towards 2024.

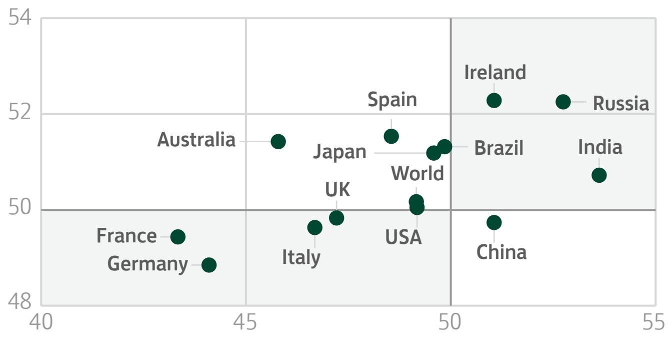
How the labour market fares is likely to play a pivotal role in determining the trajectory of the world economy and, in turn, interest rates over the next twelve months. In the event of a deeper deterioration in the global labour market, broadly forecast by central banks and economists alike in 2024, demand is likely to be further constrained, particularly for businesses in consumer-facing sectors.

3. Wage pressures and cost inflation ease



4. Falling workloads accompanied by lower employment

Composite Employment PMI, 50 = no change



Global sectors

Global manufacturing decline extends

Activity in the global manufacturing sector declined for a sixth consecutive month in November. However, at 49.9, from 48.9 in October, the Global Manufacturing Output PMI registered its highest reading since May, with goods production close to stabilising (Chart 5). Weakness in demand remained apparent, with the Global Manufacturing New Orders PMI (48.9) posting a seventeenth successive monthly contraction.

Downbeat readings for forward-looking indicators suggested the near-term outlook is likely to remain challenging. There was a considerable drag from exports in November, with the Global Manufacturing New Exports Orders PMI (48.1) extending its contraction phase to twenty-one months. Meanwhile, the Global Manufacturing Orders-to-Inventories ratio – showing businesses' ability to meet sales from stocks – remained below 1.0, consistent with ongoing limited production needs. Unsurprisingly then, the Global Manufacturing Future Output PMI (60.1) highlighted subdued growth expectations for the year ahead by historical standards, albeit stronger than in October.

There was better news on the supply-side, as the Global Suppliers' Delivery Times PMI (50.5) suggested improved supply chain momentum for a tenth consecutive month. Softer declines in purchasing activity and stocks of inputs indices provided further evidence that the worst of the manufacturing sector slump may be behind us.

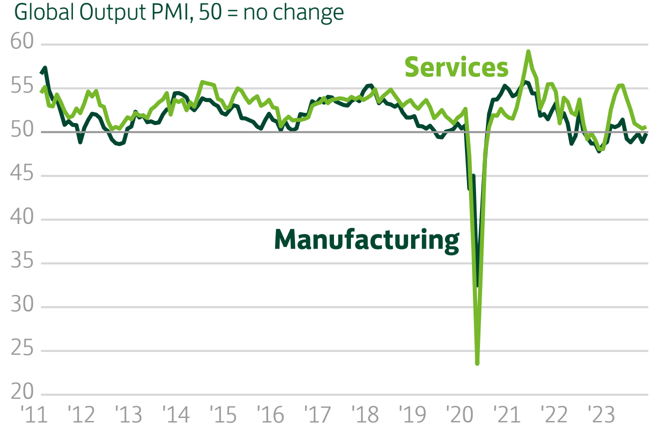
The global services sector reported another month of sub-par activity growth. The Global Services Output PMI (50.6) remained well below its long-run average (53.6), and only just in expansionary territory, as mounting headwinds continued to impact household spending. Global service sector activity was supported by a modest rise in new business in November, signalled by the first above-50 reading in the Global Services New Orders PMI (50.5) since August, but there appeared little conviction that demand conditions had sustainably turned. The Global Services Future Output PMI (61.7) fell for a third consecutive month to its lowest in almost a year, as firms braced themselves for a slowdown in consumer spending in 2024.

Consumer-facing sectors struggle

Of the fourteen global 'fine' sectors monitored by the UK Sector Tracker, six reported falls in output in November (Chart 7). Although this was fewer than the nine in October, and the lowest since June, several key sectors remained under pressure.

Automobiles & Auto Parts (49.9), Household Products (49.0), and Tourism & Recreation (48.9) reported contractions, warning of the continuing challenges facing consumers around the world from cost-of-living pressures and as labour markets soften.

5. Output, manufacturing vs. services



6. Leading indicators warn of challenging manufacturing environment

Global sectors

Highly cyclical industries, including Metals & Mining (47.1) and Industrial Goods (49.1), also acted as a drag on global business activity in November. Given their importance as critical inputs into the production of many goods across the supply chain, this bodes particularly badly for the near-term outlook of the global manufacturing sector.

There were mixed results among the more rate sensitive sectors. Banks (50.4) registered a second successive monthly expansion, which contrasted with a second consecutive contraction by Real Estate (47.2).

More positively, Software & Services (53.1) expanded for a twenty-fifth consecutive month, reporting an improvement in output momentum in November. This saw it reclaim the top ranking for output growth amongst the 'fine' sectors. Elsewhere, there were renewed modest expansions in Chemicals (51.3), Technology Equipment (50.8), Beverages & Food (50.6), and Transportation (50.2).

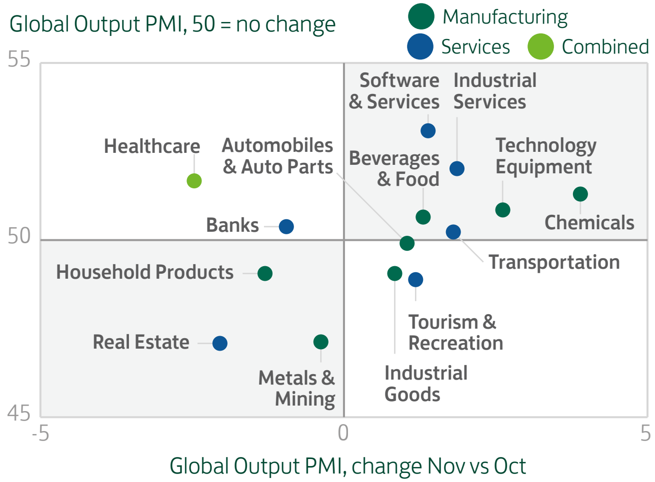
'Fine' sector demand momentum supported by more competitive pricing

The effects of more competitive pricing on demand were evident in November (Chart 8). Eleven of the fourteen 'fine' sectors registered a moderation in their Output Charges PMI in October, which also coincided with an increase in their respective New Orders PMI in November. It appears that recent moderations in output price inflation have started to help demand momentum stabilise.

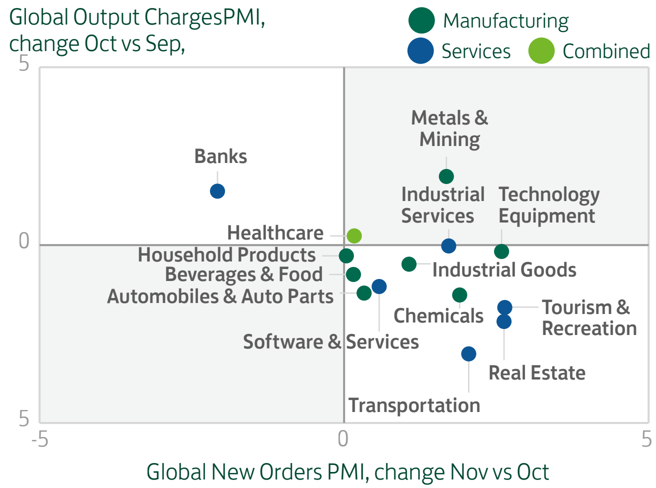
Significant improvements in demand momentum were observed in key service sectors including Tourism & Recreation, Real Estate and Transportation. The effects were more modest in several of the manufacturing sectors, such as Automobiles & Auto Parts, Beverages & Food, and Household Products.

The recent alleviation of margin pressures (measured as the difference between Input Prices and Output Charges PMIs), which saw twelve of the fourteen 'fine' sectors post readings below their respective historical averages in November, provides tentative hope that businesses can continue to pass on cost savings to their clients. This should help support demand across more sectors of the economy, and in doing so broaden out the eventual recovery.

7. Global fine sector output vs output momentum



8. Moderating price pressures support demand momentum



UK demand

Half of UK sectors see output expand

At 50.7 in November, the Composite PMI Output Index indicated an increase in private sector activity for the first time since July, ending a three-month period of contraction. The rise was driven by a return to growth in the service sector (50.9 vs 49.5), while manufacturing output (49.2 vs 44.3) fell to its lowest level since April.

Of the 14 'fine' sectors monitored in the UK Sector Tracker, seven recorded output growth in November, up from four in October and the highest for five months (Chart 9). Topping the rankings were the consumer goods sectors of Automobiles & Auto Parts (66.6) and Beverages & Food (62.0), with the former reporting expansion for the first time since May. Household Products (53.1) also saw an upturn, though largely due to firms completing existing work.

While consumer goods sectors performed well in November, other manufacturing segments remained in contraction. Technology Equipment (42.5) recorded a particularly steep drop in output as sales slumped, while Industrial Goods (43.4) saw the sharpest reduction in output since the first Covid-19 lockdown. There was further evidence from respondents that clients were delaying investment spending due to heightened economic risks and elevated borrowing costs.

The financial sector had the greatest upward influence on the service economy in November. The uplift in real estate activity (61.0) was the most marked since March 2022 as firms mentioned relief after the pause in interest rate hikes and on hopes of more stable market conditions. Business activity at Banks (53.2) rose for the first time since June and solidly, amid some improvement in global financial conditions.

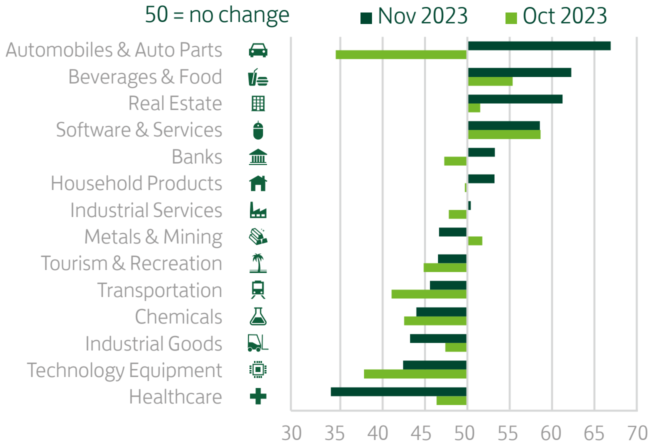
Software & Services retained its strong momentum in November as respondents continued to report higher sales, while Industrial Services (50.4) posted its first expansion since July. Weakness last month was largely concentrated across consumer-facing categories, with Tourism & Recreation (46.6) and Transportation (45.7) recording sustained downturns.

New orders improve but still in decline

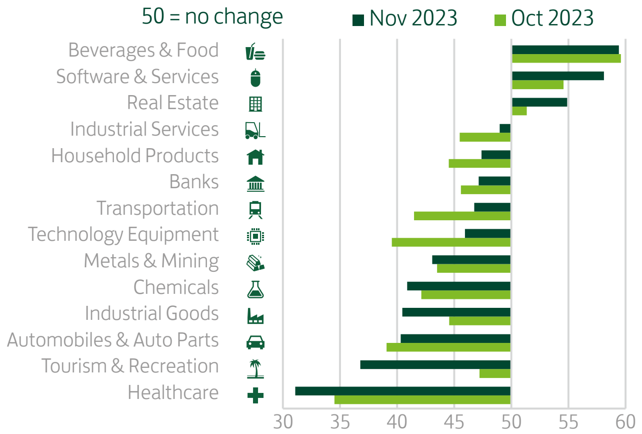
The Composite New Orders Index rose to a four-month high of 49.6 from 48.1 in October. However, the index stayed below the key 50 level for the fifth month running.

As was the case with output, new orders in the services part of the economy returned to growth for the first time in four months, though at 50.3, the index pointed to only a mild rise. Similar to October, the upturn was concentrated on Software & Services (58.1) and Real Estate (54.9), where growth accelerated amid stronger customer demand (Chart 10).

9. UK sectors ranked by output index



10. UK sectors ranked by new orders index



UK demand

Declines in new orders across most of the remaining service sectors slowed in November, with Tourism & Recreation (36.8) the only area to register a steeper fall. In fact, companies in this segment registered the sharpest drop in new orders since February 2021, which panellists linked to weak customer confidence and unfavourable weather.

Although manufacturing new orders dropped by the least extent since May, the contraction remained sharp (45.7) and deeper than the pullback in output. Businesses continued to report subdued market conditions as high interest rates and weak foreign demand curtailed new orders. Beverages & Food was the only manufacturing sector to post a rise in new orders (59.4), and this contrasted with marked downturns across Automobiles & Auto Parts (40.3), Industrial Goods (40.5) and Chemicals (40.9).

For the second month running, Healthcare was at the bottom of the sector rankings amid a record decline in new work intakes (31.1). This was driven by a downturn among manufacturers in the Healthcare segment, with surveyed firms noting a slump in sales amid stock cuts at distributors and lower pharmaceutical orders.

Output expectations rally from October's 10-month low

The UK Future Output Index rose from 66.9 in October to 68.2 in November. 'Fine' sector level data showed that the uplift mostly came from the service economy reflecting firmer activity and sales. That said, the index was still at its second lowest in 2023 so far, printing over three points lower than April's (71.4).

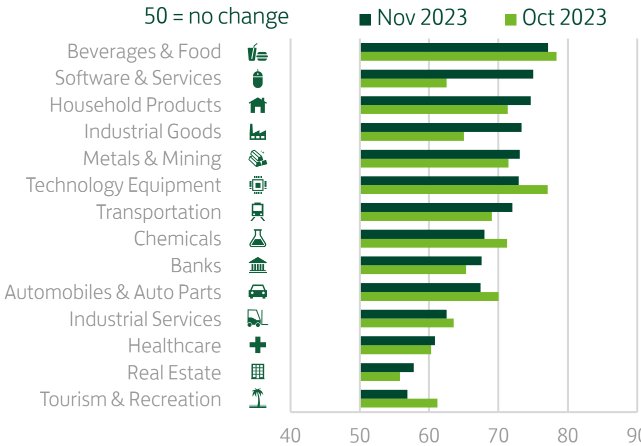
Anecdotal evidence suggested that the slowing in headline rates of inflation and a pause in interest rate hikes had provided some firms with greater confidence towards the year ahead. However, the overall business environment was expected to remain tough, with other firms predicting a continued dampening of client spending and business investment. Recession fears and headwinds from a weaker global economy saw the panel comments tracker measuring economic risks stay close to October's ten-month high (2.28) (Chart 11).

Seven out of the fourteen 'fine' sectors were more positive about future output trends in November, including Transportation where confidence rose to a 28-month high (Chart 12). Overall optimism was strongest in Beverages & Food and Software & Services as resilient sales growth fed through to upbeat output expectations. Corroborating this, a record decline in Healthcare new orders led to the weakest business confidence in this sector since April 2020.

11. UK companies reporting lower future output due to economic risks

Index, 1 = long run average

12. UK sectors ranked by future output index



UK supply capacity

Mixed employment pattern in November

The UK Composite PMI Employment Index moved up from 48.8 in October to 49.8 in November, marginally below the 50.0 no-change mark to indicate only a fractional decrease in overall staffing numbers at UK private sector firms. That said, our more granular sector level data showed split trends with seven of the fourteen 'fine' sectors tracked reporting a rise in employment, while the other seven indicated falls (Chart 13).

In most sectors, the employment index moved in the same direction as output, signalling that firms that were successful in hiring new workers sought to do so to achieve an immediate boost to their activity. There were renewed increases in sectors such as Banks (50.1) and Industrial Services (50.8), though these were only marginal. Software & Services (52.9) and Real Estate (51.8) also increased staffing levels, albeit both at a slower pace than in October.

At the same time, cost considerations continued to play a key part in recruitment plans in November, driving more companies to make cuts to employment amid concerns over customer spending and margins. Our panel comments tracker data showed the number of firms citing cost-related staff reductions at the highest since March 2021 (1.69) and above its long-run average for the third month running (Chart 14).

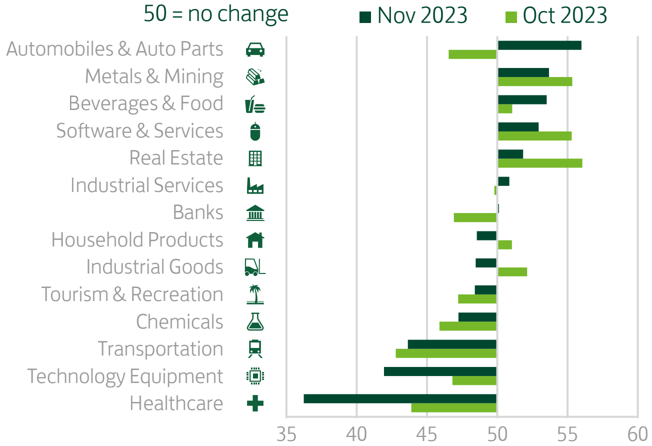
Consequently, there were several sectors where employment declined. Long-sustained falls in Transportation (43.6) and Tourism & Recreation (48.4) continued, while businesses in Healthcare (36.2) reported a record monthly drop in staffing levels. In manufacturing, the greatest fall was observed in Technology Equipment (41.9) where the index reached its second lowest since May 2009. Meanwhile, after having reported consecutive monthly increases for nearly three years, Industrial Goods (48.4) recorded a fresh decrease in employment amid reports of redundancies as firms looked to cut spare capacity.

All 'fine' sectors see fall in backlogs

Spare capacity remained a key theme of the UK Sector Tracker as 'fine' sector backlogs data showed that volumes of unfinished business were once again depleted on a widespread scale. In fact, November marked the first time in nearly three-and-a-half years where backlogs of work fell across all 14 monitored 'fine' sectors (Chart 15).

Software & Services (47.6) recorded a decrease for the first time since August, while all remaining sectors saw a continued decline. This included a record drop in backlogs across Healthcare (26.3) plus severe cuts among Chemicals (35.8), Household Products (36.7) and Automobiles & Auto Parts (38.8).

13. UK sectors ranked by employment index



14. UK companies reporting lower headcount due to cost cutting

Index, 1 = long run average

UK supply capacity

These findings suggest that companies are still focused on catching up on previous orders to sustain output levels, which explains why more sectors saw output expand than did new orders. It also comes at a time when input shortages continue to fade – panel comment mentions of staff shortages were among the lowest since the pandemic began (1.50) – which offers an insight into why more companies appear willing to reduce payroll numbers.

Supply chain improvement eases

Supplier delivery times improved again in November, as they have done in every month since January, highlighting a turnaround this year as pandemic constraints have faded. However, the suppliers' delivery times index dropped for the fifth time in six months in November, to 51.5 from 51.8 in October, to signal the slowest improvement since February.

The findings suggest that the turnaround in supply conditions enjoyed by domestic producers has largely run its course. Lower demand from manufacturers has supported vendor improvements this year, whereas a softer downturn in November meant that some suppliers had less spare capacity. Panellists mentioned that intense price negotiations with suppliers and renewed shipping disruptions had contributed to delays.

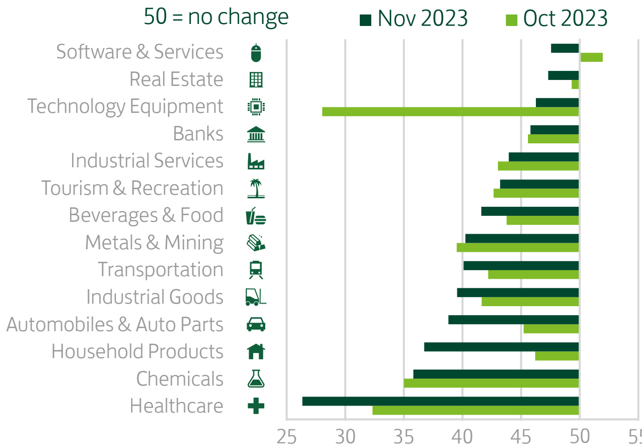
Nevertheless, five out of the seven manufacturing sectors continued to record a drop in delivery times, with Technology Equipment (68.4) seeing by far the strongest improvement. On the flip side, lead times at Beverages & Food (46.6) producers extended for the first time in three months, alongside further delays for Automobiles & Auto Parts (43.9).

Downturn in purchasing activity softens

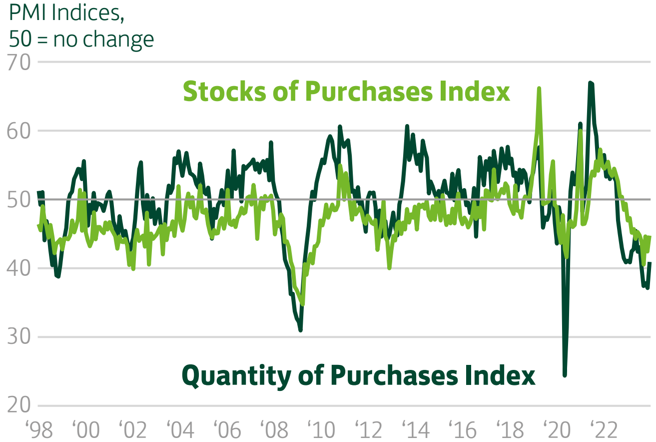
Manufacturing purchasing levels continued to be dragged down by softening client demand and the depletion of unfinished business. Following the sharpest decline since 2009 in October (barring Covid-19 lockdown periods), the contraction nonetheless eased in November and was the least marked in five months (40.9). Subsequently, the Stocks of Purchases Index picked up to a five-month high (44.7), still indicating a fall in inventories of inputs but at the weakest rate since June (Chart 16).

Reduced purchasing led producers to run down their holdings of finished products for the fifth straight month. The decline quickened slightly in November and was the strongest recorded since early 2022. While these findings point to a subdued market environment, they imply that manufacturers may need to start rebuilding inventories in the first half of 2024, which could provide greater demand stimulus to the sector. Indeed, a number of survey panellists noted that their clients have reached the end of their destocking cycle, indicating that inventory trends could become more favourable in the coming months.

15. UK sectors ranked by backlogs index



16. UK manufacturing sectors ranked by Suppliers Delivery Times Index



UK prices

Wage pressures drive cost inflation

The UK Composite Input Prices index picked up for the first time in four months in November, pointing to an acceleration in firms' input cost inflation. Although still among the lowest readings since January 2021, the outturn of 61.2 was well above the neutral 50.0 value and signalled a solid monthly increase in average cost burdens.

Higher salary payments were the main driver of rising input costs in November. Our panel comments tracker for wage costs saw reports of higher salary payments at almost double the long-run trend. At 1.85, the respective index was up from 1.16 in October and the highest since August (Chart 17). In contrast, mentions of rising material prices were around half the long-run trend (index at 0.53), with a similarly subdued figure for energy costs (0.65).

The combination of higher staff wages and falling raw material prices meant that cost pressures continued to diverge between the manufacturing and service sectors. Goods producers recorded a decline in input prices for a seventh consecutive month in November, which was linked to lower costs for a range of purchases (especially chemicals and metals). Service providers meanwhile signalled a strong rise in average cost burdens as the rate of inflation edged up from October's 32-month low. Survey respondents noted that higher salaries and prices paid for essential business services more than offset softer raw material prices and lower fuel bills during November.

Of the fourteen 'fine' UK sectors monitored, Tourism & Recreation (66.4) recorded by far the fastest increase in average cost burdens, followed by Real Estate (62.3) and Software & Services (60.6) (Chart 18). Banks (56.6) and Transportation (59.3) saw relatively muted cost inflation in comparison to the service sector average, with the latter posting its lowest reading for three years.

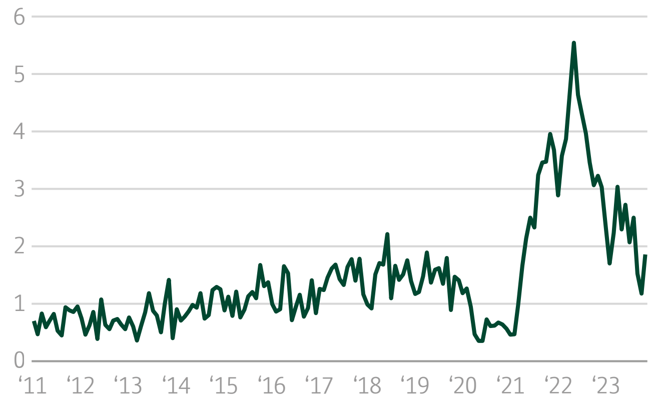
Chemicals (index at 39.6) recorded the steepest reduction in input costs during November, followed by Metals & Mining (41.0), with these sectors benefitting from lower commodity prices and softer energy cost pressures.

Beverages & Food (49.0) posted a fall in purchasing costs for the seventh successive month, albeit only marginally, but which bodes well for the broader outlook for domestic food price inflation.

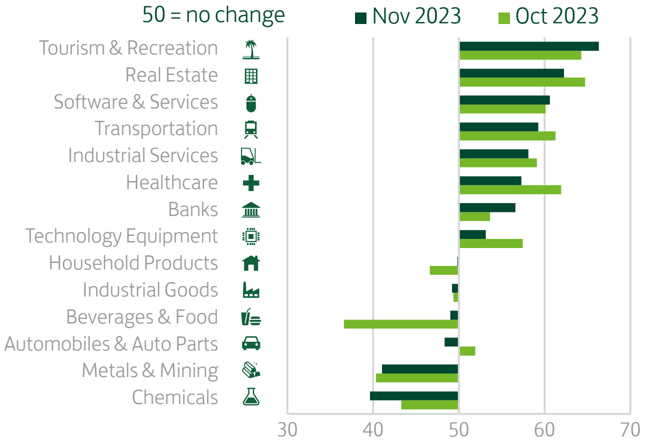
Technology Equipment (53.1) was the only manufacturing category to signal a rise in input prices. Still, the rate of inflation was the slowest since December 2019 as improving supply conditions continued to keep cost pressures subdued.

17. UK companies reporting higher input prices due to salary costs

Index, 1 = long run average, seasonally adjusted



18. UK sectors ranked by input prices index



UK prices

Output charges hit 4-month high

At 56.9 in November, up from 56.3 in October, the UK Composite PMI Output Charges Index edged up for the third month running to its highest since July. Overall prices charged inflation has softened considerably from the peaks seen in the second quarter of 2022, but the headline index remained well above its long-run average (53.2) and consistent with another month of solid price rises across the UK private sector economy.

Mirroring the trend for input costs, output charge inflation was led by a robust and accelerated rise in prices charged by service providers (index at 58.2). Service sector companies widely noted that elevated wage pressures and the need to defend margins had led to higher prices charged in November. Goods producers meanwhile signalled broadly stable factory gate prices, which followed marginal declines in four of the previous five months.

At the 'fine' sector level, Beverages & Food manufacturers reported the steepest rate of price discounting in November, followed by Industrial Goods, linked to rising competitive pressures and falling input costs (Chart 19). Software & Services recorded the fastest rise in prices charged, with the rate of inflation the strongest since June. Robust increases in average charges were also seen in Healthcare, Real Estate and Tourism & Recreation.

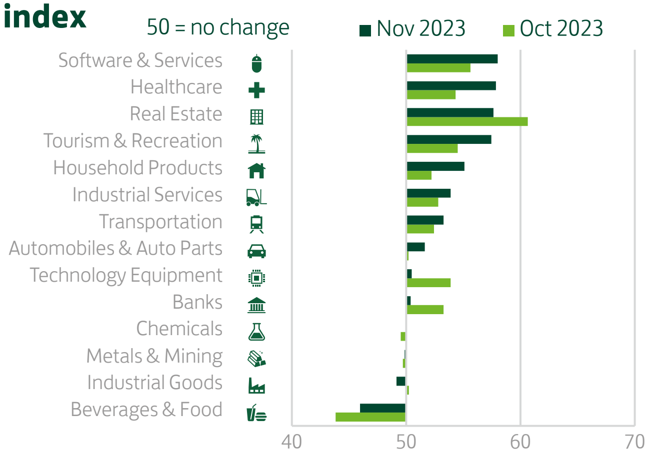
Margin pressures intensify

Our measure of relative margin pressures – the difference between the Input Prices and Output Charges indices – edged up to 4.3 in November. This was due to a faster acceleration in input costs than output charges during the latest survey period. Nonetheless, the latest reading signalled a looser squeeze on margins than seen on average over the first half of 2023 (7.4).

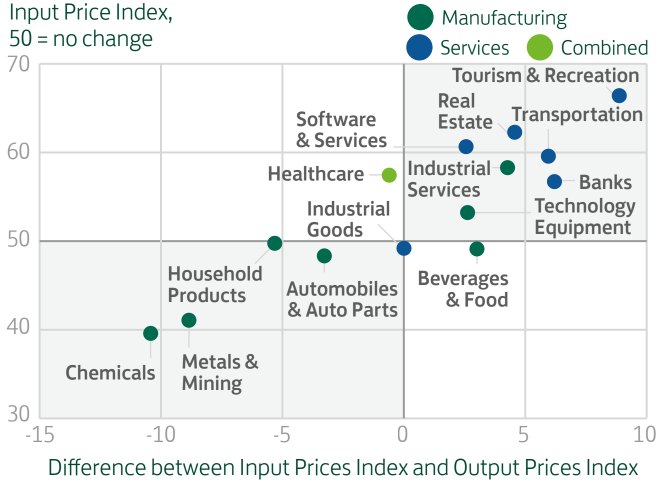
However, services providers saw another considerable squeeze on margins in November, with input prices rising much more sharply than output charges. In contrast, manufacturers saw their purchasing costs decrease during the latest survey period and factory gate prices were broadly stable, which suggested a modest overall improvement in operating margins.

Chemicals and Metals & Mining saw the biggest improvement in margins during November, followed by Household Products (Chart 20). At the other end of the scale, the largest squeeze on margins was signalled by Tourism & Recreation, despite the index easing to a 32-month low in November.

19. UK sectors ranked by output charges index

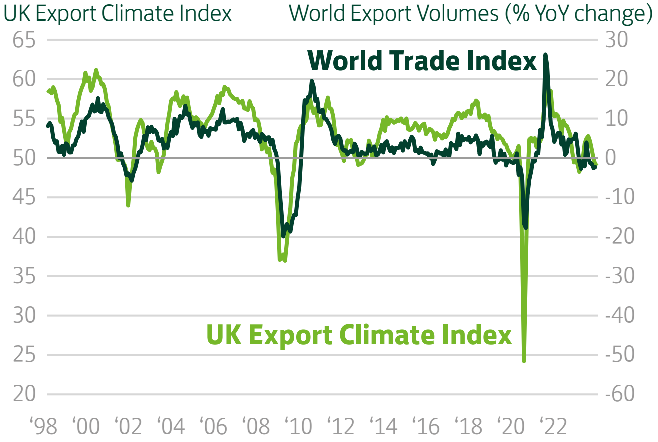


20. UK sectors margin pressure

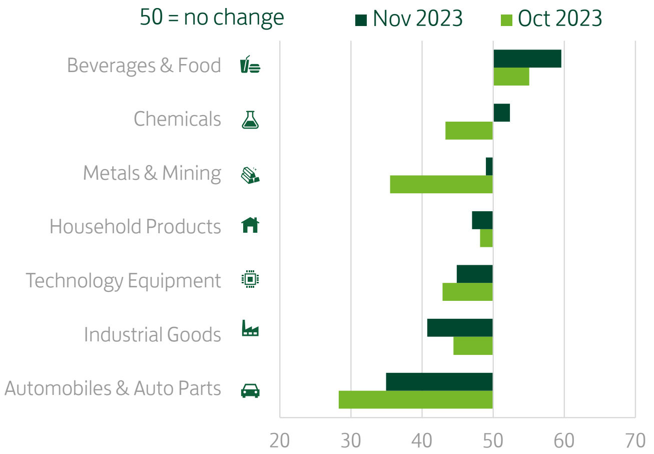


UK trade

21. UK export climate index monthly trend vs world export trends



22. UK manufacturing sectors ranked by new export orders index



Export climate weakness extends

The UK PMI Export Climate Index – a trade-weighted measure of global economic growth – held below the key-50 level for the fifth consecutive month in November, signalling an ongoing deterioration in export conditions across the UK private sector. However, the slight rise in the index from 48.6 in October to 49.6 pushed it to its highest in four months, indicative of only a mild decline (Chart 21).

Challenging economic conditions across Europe continued to negatively impact UK trade prospects, albeit softer downturns in Germany and other euro area nations provided hope export opportunities could soon recover. Demand signals from Ireland were particularly positive as output growth returned after a modest decline in October. Similarly, export opportunities to Asian markets were helped by a renewed upturn in business activity across Mainland China. US output also rose, albeit still only marginally, which more than offset a steeper contraction in Canada.

The latest world trade data from CPB corroborated the view that global export trading conditions had slumped in the second half of 2023, with trade volumes down by 2.5% on a year-on-year basis in September. While expansions in some major economies over November could support a recovery, the overall data continues to point to an underlying weakness in global exports which may prove hard to shake off.

Export orders decline softens

The stabilising export climate helped to push the UK Composite PMI New Export Business Index up to a six-month high in November (48.6), marking a slower reduction in exports at UK companies. Service sector exports increased for a second month running and at a slightly faster pace (50.6) than in October, as firms mentioned greater demand from clients in the US and Europe.

On the manufacturing side, export orders continued its run of decline midway through the fourth quarter, but with a lesser fall in November (46.8) that was the softest since May. Of note was an increase in export orders at Chemicals (52.4) manufacturers, the first since January 2022, as well as the strongest upturn for Beverages & Food (59.6) for two-and-a-half years (Chart 22). At the same time, Metals & Mining (49.0) and Technology Equipment (44.9) recorded softer declines, with the former noting the mildest fall in 15 months. A recovery in basic materials exports added to signs that manufacturers globally are starting to restock and increase their purchases of primary materials. On the flip side, overseas demand for Industrial Goods appears to be wilting amid elevated interest rates and heightened economic uncertainty, leading to a steep fall in export orders in November (40.7).

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 over 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 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:

- Automobiles and auto parts
- Banks
- Beverages and food
- Chemicals
- Healthcare
- Household Products
- Industrial goods
- Industrial services
- Metals and mining
- Real estate
- Technology equipment
- Tourism and recreation
- Transportation
- Software and 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 contact economics@ihsmarkit.com

The editors

Jeavon Lolay
Economics and Market Insights
Lloyds Bank Corporate
& Institutional Banking
E: jeavon.lolay@lloydsbanking.com

Nikesh Sawjani
Economics and Market Insights
Lloyds Bank Corporate
& Institutional Banking
E: nikesh.sawjani@lloydsbanking.com

Gajan Mahadevan
Economics and Market Insights
Lloyds Bank Corporate
& Institutional Banking
E: gajan.mahadevan@lloydsbanking.com

The contributors

Tim Moore
Economic Indices
S&P Global Market Intelligence
E: tim.moore@spglobal.com

David Owen
Economic Indices
S&P Global Market Intelligence
E: david.owen@spglobal.com

Joseph Hayes
Economic Indices
S&P Global Market Intelligence
E: joe.hayes@spglobal.com

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