CORPORATE & INSTITUTIONAL

UK Sector Tracker

June 2025

4/14

UK sectors saw a rise in output in May

▲ **+2** vs. previous month

LLOYDS

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UK Summary

Key highlights

- UK business activity rose marginally in May following April's contraction, but growth was concentrated in services as manufacturing production fell again
- A reduction in trade tariff uncertainty helped to lift optimism, though demand conditions remained subdued with 12 out of 14 sectors reporting lower new orders
- Cost pressures arising from rising wage bills remained widespread in May, feeding through to further margin tightness

In collaboration with S&P Global, the Lloyds Bank UK Sector Tracker leverages their Purchasing Managers' Indices (PMI) to provide unique and exclusive insights into the UK economy at a more-granular industry level in a timely manner.

Survey data on 14 key 'fine' sectors is presented across a range of indicators such as output, new orders, employment, prices and output expectations to indicate the direction of change compared to the previous month.

By using comments from survey respondents, we are also able to assess the extent to which topical themes feature in their current thinking and expectations for the future.

May data show modest increase in private sector output

Following a sharp loss of momentum in April, in response to concerns around the global economy prompted by the US tariff announcements, the UK economy regained some poise in May. At 50.3, up from 48.5 in April, the UK Composite Output PMI climbed back marginally into growth territory, albeit the reading was the second-lowest since October 2023.

May's improvement was due to a recovery in services activity (50.9), while manufacturing output (46.5) fell for a seventh-consecutive month. At a sub-sector level, four out of the fourteen 'fine' sectors monitored recorded an increase in output (Chart 1), two more than April but down from 11 at the same point last year. Software & Services (55.8) saw the sharpest rate of expansion, while modest increases in output were seen across Transportation (51.6), Real Estate (51.6) and Beverages & Food (51.1). Furthermore, all four services sub-sectors that reported falls in output saw the rate of decline ease since April – there were only mild reductions in Tourism & Recreation (48.8), Financial Services (49.3) and Commercial & Professional Services (49.2) in May.

In contrast, rates of output contraction remained steep across some of the manufacturing fine sectors, including Automobiles & Auto Parts (35.4) and Metals & Mining (36.7), indicative of the weak external environment. Tech equipment manufacturers also reported another strong drop in production (40.5) in response to lower sales and supply issues. Chemicals (41.3) posted its steepest monthly contraction in output since June 2023.

While tariff-related uncertainty eased in May, amid the announcement of a UK-US trade agreement and a general rollback of US tariffs, there were still concerns about the outlook for the world economy. The PMI Comments Tracker for uncertainty dropped from 4.3 to 2.8 in May, but this still represented the second-highest reading since March 2020.

> "This month's UK Sector Tracker provides tentative hope that the economy saw a rebound in activity in May with four sectors reporting output growth - two more than in April - while two sectors saw an increase in new orders, up from just one in April.
>
> While most sectors still face weak demand and rising costs are squeezing margins for businesses, the broader uptick in activity could suggest some early signs of renewed momentum."

Nikesh Sawjani
Lloyds Bank Market Insights
Corporate & Institutional Banking

UK Summary

As a result, there was still a reluctance from households and businesses for non-essential spending – leading to a drop in new orders across the UK private sector for the sixth month running. Beverages & Food (56.7) and Software & Services (54.0) were the only two sectors to post an increase in sales. In contrast, marked contractions were seen in Automobiles & Auto Parts (33.4), Metals & Mining (36.8) and Healthcare (37.6).

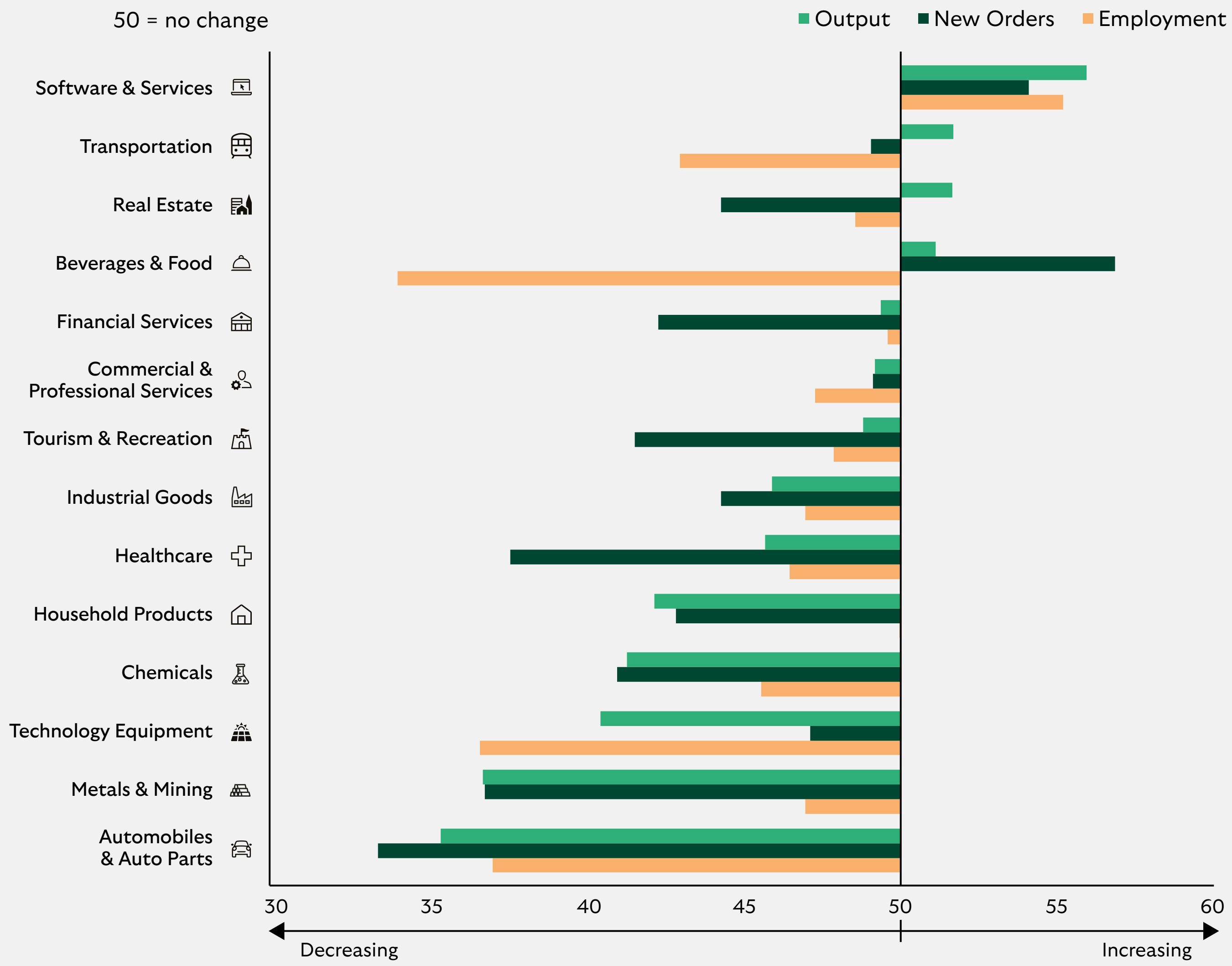
Weaker demand stemmed from foreign markets as international clients continued to withhold big-ticket spending as they awaited greater US tariff stability.

Employment trends diverge

UK private sector employment contracted for an eighth consecutive month in May, highlighting sustained weakness in the labour market driven by rising payroll costs and fragile business confidence. Thirteen out of the fourteen fine sectors registered lower employment, the most since August 2020. However, there were mixed trends across manufacturing and services, with the latter registering the softest pace of headcount reduction in six months, whereas job shedding across manufacturing accelerated to the second-quickest in almost five years, including declines in Beverages & Food (34.0) and Technology Equipment (36.7).

Job reductions reflected a mix of hiring freezes and restructuring, with redundancies also cited. The respective PMI Comments Tracker reported mentions of restructuring or redundancies at twice the usual monthly level. Firms that reported no change to their workforces in May mentioned

1. **Number of UK sectors reporting higher output, New Orders and Employment**



UK Summary

having recruitment freezes in place, highlighting a widespread hesitancy for firms to hire at this time in a bid to reduce costs (Chart 2).

In part, this reflected the fact that – while output growth expectations for the year ahead reached its highest level since October 2024 with improvements seen across 9 out of 14 sectors – all 14 continued to report Future Output Expectations indices below their long-run average. That suggested that overall confidence was still relatively soft and likely impacting on firms' plans to expand capacity (Chart 3).

Cost pressures remain strong

UK companies remained under considerable pressure from higher wage bills in May. Although the respective PMI Comments Tracker highlighted that the impact on business expenses peaked in April, when the Autumn Budget announcements related to National Insurance contributions and National Minimum Wage rates were implemented, mentions of higher salary costs were still 4.3x higher than normal (down from 6x). Consequently, the UK Composite Input Prices PMI was at its second-highest for two years.

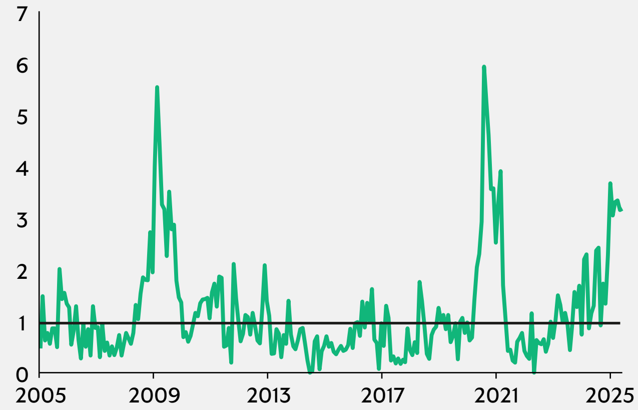
Services recorded a much faster increase in costs than manufacturing – in fact, the difference in the sector input prices indices was the joint-largest for 13 months. Tourism & Recreation (79.3) saw by far the most intense cost pressure. However, a number of manufacturing sub-sectors also saw input costs rise sharply, including Beverages & Food (67.9) and Technology Equipment (65.6), which firms cited as due to rising food prices and supply chain disruption. Delays to international shipping became more apparent in May, as some respondents reported that longer customs procedures and reduced freight availability in the US (due to lower trade) led to their lead times lengthening. Notably, reports of shipping delays rose to the highest level since September 2022.

The extent to which cost increases were passed on to customers eased somewhat in May. The Composite Output Prices PMI, which also touched a recent high in April, dropped to its lowest in the year-to-date, falling 3.5 points over the month compared to 2.1 points for the Input Prices PMI. This marked the second consecutive month where the gap between input costs and output charges had widened, although sector data indicates that services firms were more impacted.

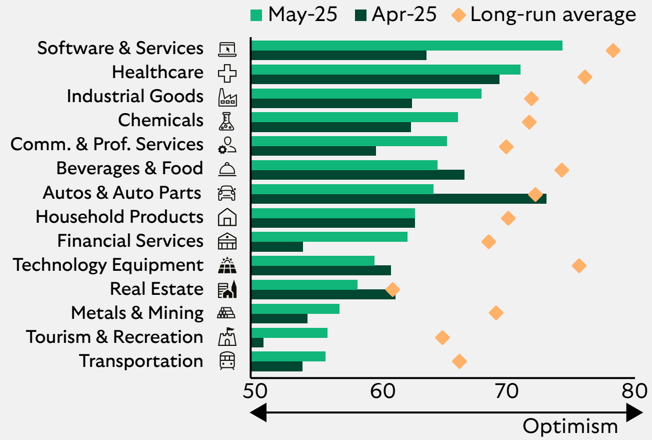
Comments from survey panellists suggested that a sustained decline in new business had made firms opt for more competitive pricing strategies. Indeed, even where prices charged had risen, corresponding mentions attributing this to greater demand fell to a five-month low. Out of the fourteen fine sectors, nine registered a lower Output Prices Index in May, with marked falls seen in Beverages & Food (-8.7) and Software & Services (-7.1), the latter falling sharply to a 53-month low. Outright reductions in charges were seen in Automobiles & Auto Parts (45.5) and Chemicals (49.5). This was the first instance of price discounting among chemicals manufacturers since January 2024.

2. Mentions of firms lowering employment due to cost-cutting reasons remain elevated

PMI Comments Tracker, Lower employment due to cost-cutting, 1 = long run average



3. Year-ahead output expectations across all 14 sectors below their long-run averages



Services

Key highlights

- Service sector activity firms after decline in April, but uncertainty continues to weigh on demand
- Headcount cutbacks continue, albeit pace of reductions slows amid improvement in business optimism
- Margin pressures rise as firms struggle to pass on the extent of increases in costs

UK services activity sees mild uptick

In May, the UK Services Output PMI moved back above the 50.0 mark, signalling a return to expansion after the first decline in UK service sector activity in eighteen months in April. At 50.9, however, the latest reading indicated only a marginal rise, as elevated uncertainty continued to weigh on client demand.

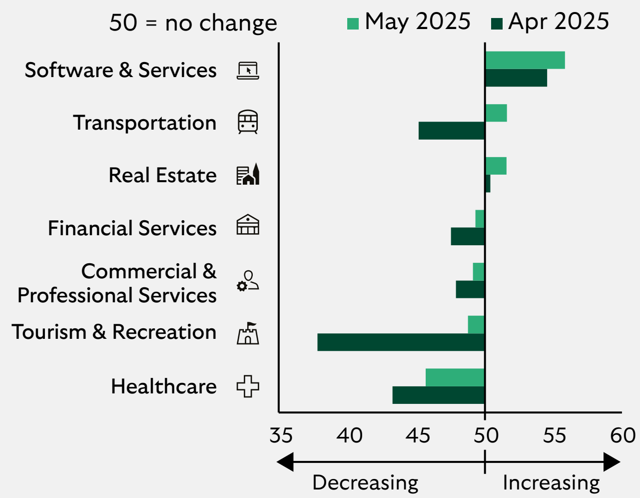
On a more positive note, May marked the first month since March 2021 where all seven 'fine' sectors reported a higher output index. For three, this meant expansion. For the other four, output contracted by less than in April.

Software & Services (55.8) remained the best performing sector as new business rose for the second month running. Firms in this sector put this down to the onboarding of new clients, although there were some reports of more cautious spending behaviour from customers based in the US. The sector's New Orders PMI has averaged 53.6 in the second quarter so far, markedly lower than in the three previous quarters which have averaged roughly 60. Given the sector has been a strong component of services growth in recent months, the softening of demand growth in Q2 is a worrying sign.

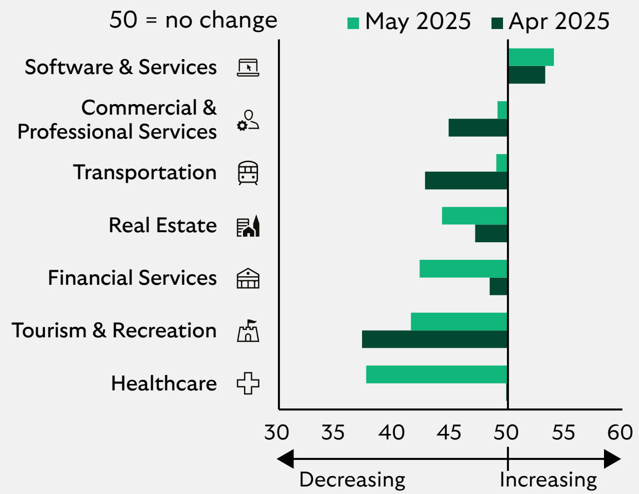
Of the other two sectors to report output growth in May, Transportation (51.6) and Real Estate (51.6), increases in output were mild, although Transportation saw its first increase in activity since August 2024. Firms in this sector put the improvement in May down to a rise in booking volumes following the rollback of US tariffs. Expectations for future output remained weak though, with Transportation (55.8) posting the lowest optimism of all 14 fine sectors.

For the four services fine sectors that reported contractions in output, higher Output PMIs in May relative to April indicated that rates of contraction softened on the month. Healthcare (45.7) registered the sharpest decline in output, but the rate of contraction was the slowest for seven months. Likewise, Tourism & Recreation (48.8) saw a much softer decline in activity as well as a pick-up in business confidence following more languid readings earlier in the year. However, new business intakes fell sharply as panellists cited ongoing signs of restraint from consumers.

4. UK Services Sectors ranked by Output PMI



5. UK Services Sectors ranked by New Orders PMI



Services

In Commercial & Professional Services (49.2), output fell only modestly, amid the slowest decrease in new work since October 2024. Companies noted that clients were more willing to restart projects and increase spending. A mild decline in activity was also registered by Financial Services (49.3), as respondents reported that market volatility had dampened investment inflows, which saw the respective New Orders Index to fall to its lowest level in almost three years (42.3). Nevertheless, there was a sharp rebound in 12-month activity projections in May, reflecting confidence from firms that capital market conditions will improve.

Employment continued to decline

Services firms continued to make headcount reductions in May, driven by lower workloads and ongoing pressure on margins from higher payroll costs. Employment fell for the eighth month in a row which, outside of the pandemic is the longest sequence of job cuts since 2008-10. That said, the latest reduction was the softest since November 2024. However, hiring activity was notably strong in Software & Services (55.1) where the rate of employment growth held close to April's 14-month high.

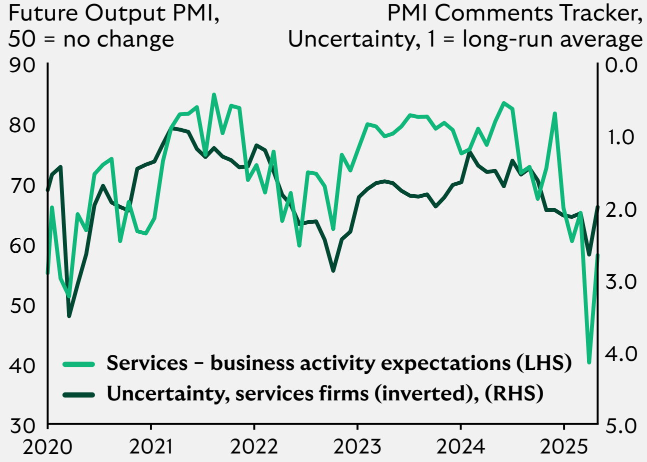
Although the other six services fine sectors saw employment fall in May, most saw softer declines relative to April. This correlated with marked improvements in output expectations, notably in Software & Services (+10.5) and Financial Services (+8.1), while Real Estate was the only service category to post a weaker forecast for the coming year, as well as a fresh decline in headcounts. More generally, expectations across the services sector were below their long-run average, with firms expecting "uncertainty" to dampen economic conditions.

Margins under pressure

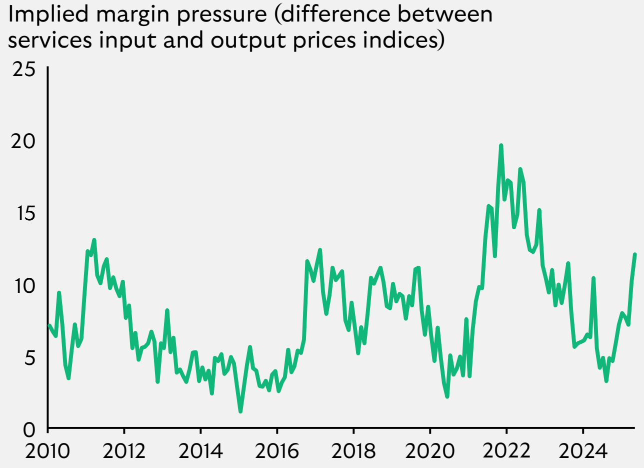
Service sector cost pressures eased from April's 21-month high but remained acute amid elevated wage costs and renewed supply chain pressures linked to US tariffs. Tourism & Recreation (79.3) continued to post the sharpest rise in costs, followed by Transportation (67.7), with firms citing that the minimum wage rise had added to expenses.

UK service providers responded by raising prices again in May, although the moderation in the services Output Charges PMI to 55.1 from 58.8 pointed to the softest output price inflation charged inflation since October 2024 – likely a reflection of the weaker demand environment. Consequently, our measure of margin pressures – the difference between the Input Prices and Output Prices PMI – signalled the strongest intensification of service sector profit margin pressure for two-and-a-half years. The current gap, which stood at 12.0 in May, has rarely been seen outside of the post-pandemic inflation surge of 2021/22.

6. Uncertainty weighing on services firms' expectations



7. Services firms facing increasing margin pressure



Manufacturing

Key highlights

- Elevated uncertainty weighed on manufacturers – production fell for a seventh month in a row, with six sub-sectors contracting.
- Weak demand prompted a retrenchment in purchasing and hiring activity across all seven sub-sectors, and particularly significantly in Automobiles & Auto Parts.
- Rising labour costs saw workforces trimmed, while cost pressures from other sources, including raw materials, energy, and transportation remained subdued.

Uncertainty hurts UK manufacturing

UK manufacturing output declined for a seventh month in a row in May as factories continued to report softening demand, including from overseas buyers. Although the UK Manufacturing Output PMI (46.5) reached its highest level in three months, it still pointed to a notable contraction in activity, with manufacturers concerned by heightened uncertainty weighing on business prospects, consumer confidence, and trade opportunities. References to uncertainty from manufacturers in the PMI Comments Tracker remained elevated at more than four times its long-run average. That said, the drop from its recent peak in the immediate aftermath of 'Liberation Day' perhaps suggests that firms are becoming more conditioned to the unpredictability of the economic environment.

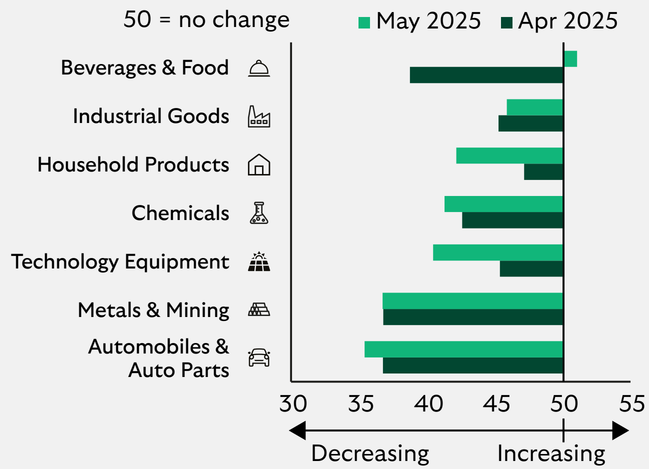
Six of the seven manufacturing sub-sectors recorded lower production in May (Chart 8), with five recording more significant falls in output than in April. The sharpest decline was seen in Automobiles & Auto Parts (35.4), which also saw the largest monthly contractions in new orders (33.4) and new export orders (28.6). Metals & Mining (36.7) was also under significant pressure, posting its second-lowest output reading since November 2022. Here too, the contraction in activity was driven by sustained weaknesses in both orders (36.8) and foreign demand (39.1). As both sectors seem likely to see significant knock-on effects from the recent increases in US tariffs on vehicles, steel and aluminium, output may yet fall further.

Weak demand sees firms retrench

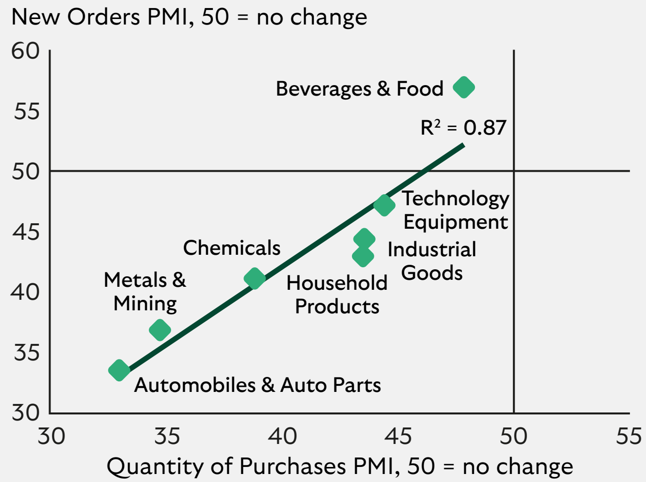
The cloudy near-term outlook kept businesses in retrenchment mode as manufacturers continued to reduce purchasing activity and closely manage inventory cycles. The PMI Comments Tracker showed firms noting lower purchases due to weak demand at almost seven times its long-run average in May – consistent with the level seen, on average, since mid-2022, which warns that the downturn in the inventory cycle may have further to run.

All seven sub-sectors reported lower purchasing volumes for a sixth successive month, as firms sought to reduce stock amid subdued demand and continued expectations for a challenging second half of the year. A particularly strong correlation between New Orders and Quantity of Purchases PMIs was evident in May (Chart 9), with those fine sectors experiencing the deepest declines

8. Output contracts in all manufacturing sub-sectors except Beverages & Food



9. Manufacturers scale back purchases as demand continues to weaken



Manufacturing

in demand also scaling back their purchasing most significantly as part of pre-production inventory reductions – this group included Automobiles & Auto Parts, Metals & Mining and Chemicals. Purchases were reduced to a lesser degree in Household Products, Industrial Goods and Technology Equipment. Although input purchasing activity fell narrowly in Beverages & Food, food and drink producers were nonetheless able to use positive cashflow from increased sales to raise their overall stocks of purchases.

Rising labour costs contribute to trimming of staff capacity

Faced with higher labour costs, employment was another source of retrenchment for manufacturers. The PMI Comments Tracker showed that, following the recent changes to national insurance and the minimum wage, firms reported higher salary expenses impacting key business metrics at near-record levels.

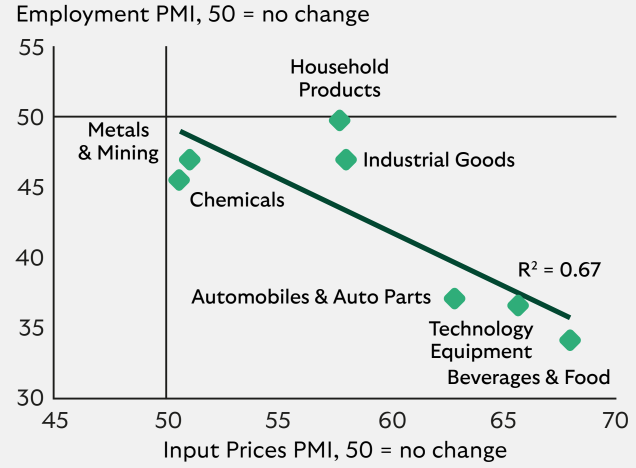
The Manufacturing Employment PMI signalled a seventh consecutive month of workforce reductions. All sub-sectors reported lower employment in May, with those facing the highest rates of input cost inflation scaling back most significantly (Chart 10).

Manufacturers reported cost-cutting at around three times its long-run average for a second month in a row. It appears that firms allowed natural attrition to trim staffing capacity – the PMI Comments Tracker highlighted a marked difference between retention challenges (3.4x) and redundancies (1.1x), which sits only marginally above its long-run average (Chart 11). However, the latest HMRC PAYE data showed a significant fall in payrolled employees in May, warning that the gradual loosening of previous labour market tightness may be accelerating.

More positively, other cost pressures have subsided. Aided by falling oil prices and a stronger sterling, the Manufacturing Input Prices PMI in May indicated that businesses faced the lowest rate of input cost inflation seen in 2025. Cost pressures from raw materials (0.2x), shipping (0.9x) and energy (0.5x) were all below average. This bodes well for firms seeking to maintain control of expenses, although it is reflective of conditions before the latest escalation in Middle East tensions. Of the seven sub-sectors the softest cost inflation was seen in Chemicals (50.6) and Metals & Mining (51.0), with the latter boasting the strongest growth in margins in May.

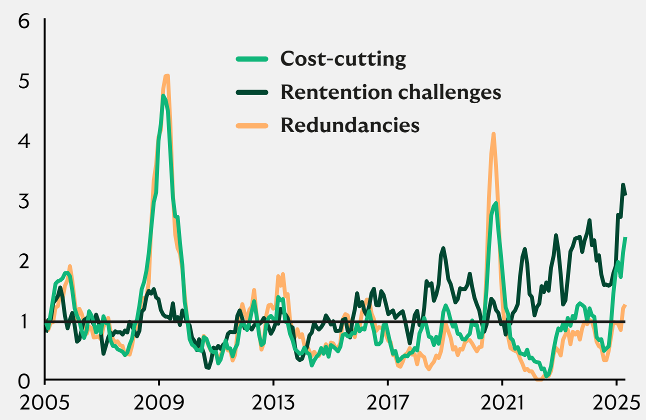
Cost pressures remained significant in other sub-sectors, including Beverages & Food (67.9), Technology Equipment (65.6) and Automobiles & Auto Parts (62.8), with frequent references to upstream suppliers passing on their own cost increases through higher prices charged. While, in the cases of Beverages & Food and Technology Equipment margins were defended via increases in selling prices, this was not the case for Automobiles & Auto Parts. Weak demand conditions and subdued confidence prompted the deepest rate of discounting since May 2009, leading to significant margin erosion – the gap between the sector's Input Prices and Output Charges PMIs (17.3) extended to its widest since October 2022. This acts as a warning to other sectors that there may be limits to how much further margins can be defended or rebuilt through higher prices, especially if or when demand conditions deteriorate.

10. Employment falls in all sub-sectors



11. Manufacturers reduce headcounts but redundancies remain controlled

PMI Comments Trackers, 1 = long run average



Construction

Weak demand drives defensive manoeuvres across Construction

A further fall in activity in May marked the fifth consecutive monthly contraction in output across the construction sector (47.9), although the pace of decline eased to its most modest since January.

Even so, the Output PMIs for all three sub-sectors remained below the 50.0 expansion-contraction threshold (Chart 12). A deeper decline in residential activity in May saw Housing act as the most significant drag on construction output, while Civil Engineering also reported a significant fall in activity. More positively, after a sharp decline in April, the Commercial sub-sector almost stabilised in May, reaching its highest PMI reading in 2025.

Demand across the construction sector remained subdued as the Construction New Orders PMI posted a fifth consecutive monthly decline (46.0) in May. This appears to have driven businesses into further defensive manoeuvres (Chart 13). Firms reduced their quantity of purchases for a sixth successive month seeking to reduce inventories. Meanwhile, employment fell at its fastest pace for nearly five years, as firms responded to a sustained weakness in order books by reducing staffing capacity. There was also a significant drop in sub-contractor usage, which was at its lowest since May 2020.

However, despite near-term challenges, businesses showed signs of optimism for the year ahead. Underpinned by hopes of a turnaround in demand, new tender opportunities, and the prospect of further reductions to the Bank of England's policy rate, future output expectations across the construction sector edged up to their highest since December 2024.

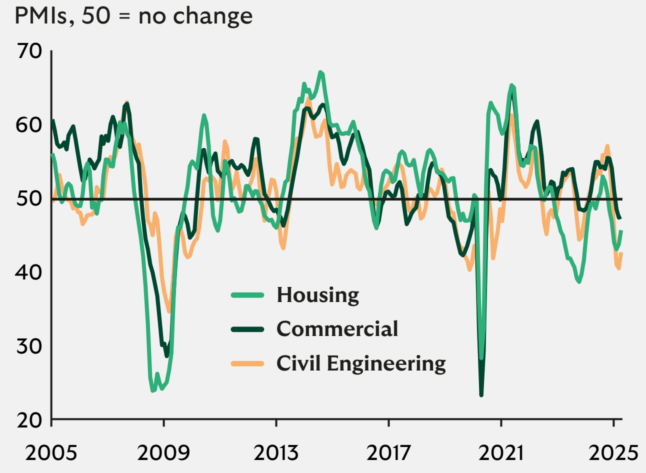
Real Estate shows resilience but employment falls as pressures build

In May, Real Estate (51.6) was one of just four UK sub-sectors to record an expansion in activity, holding above the 50.0 threshold for a third month running and highlighting a degree of resilience of firms in the sector to global and domestic headwinds.

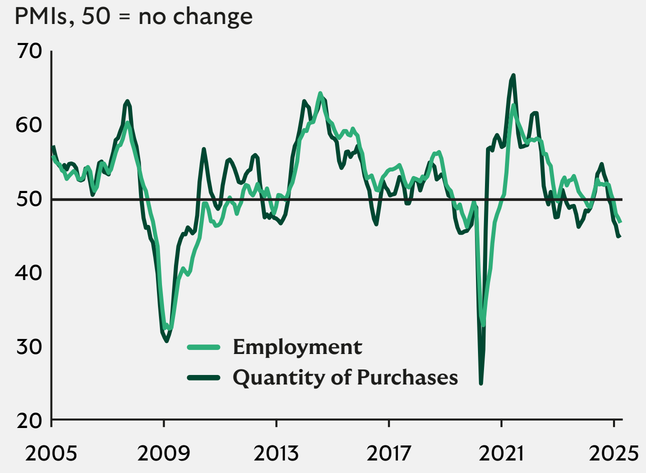
However, the rate of output growth was only modest as heightened uncertainty, subdued confidence, and elevated borrowing costs took its toll on order books – the Real Estate New Orders PMI (44.3) fell further in May, posting its second-lowest reading since September 2023.

The downturn in new orders and continued upward pressure on input costs – including higher staffing expenses following the changes to employer National Insurance Contributions and National Living Wage – helped trigger the first decline in employment across the real estate sector in seven months and at its fastest pace since September 2023. Reduced hiring activity is consistent with the decline seen in the sub-sector's Future Output PMI, which dropped to its joint-lowest in almost two years.

12. All construction sub-sectors remain in contraction



13. Construction firms continue to retrench



Sector snapshot – Services

Commercial & Professional Services

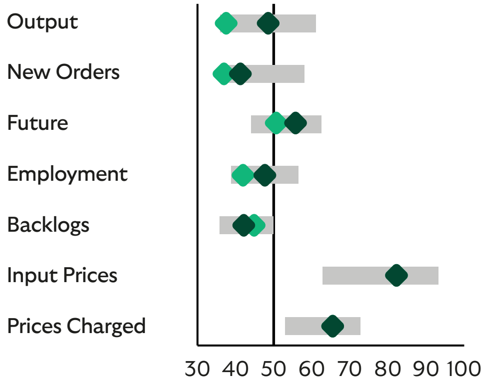
Financial Services

Healthcare

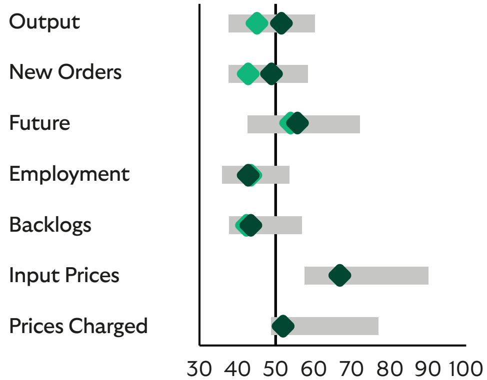
Real Estate

Software & Services

Tourism & Recreation



Transportation



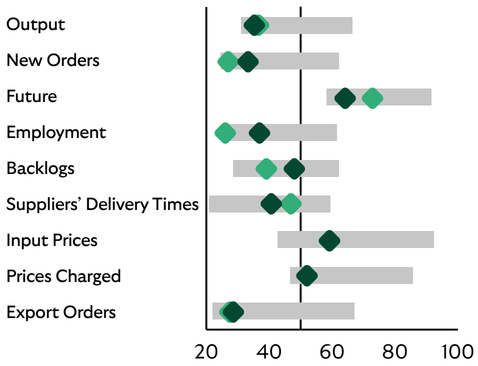
3-year range

Latest

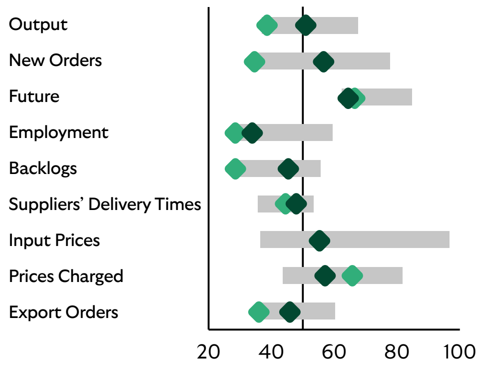
Previous month

Sector snapshot – Manufacturing

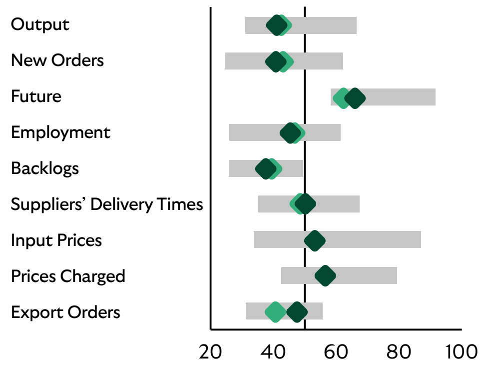
Automobiles & Auto Parts



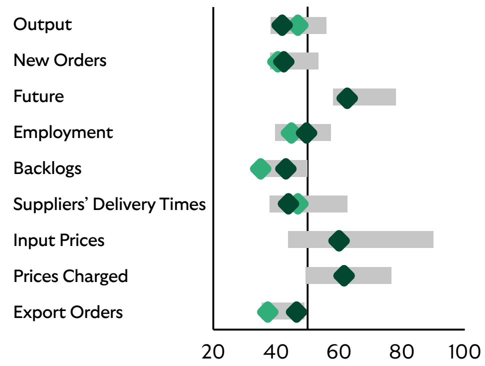
Beverages & Food



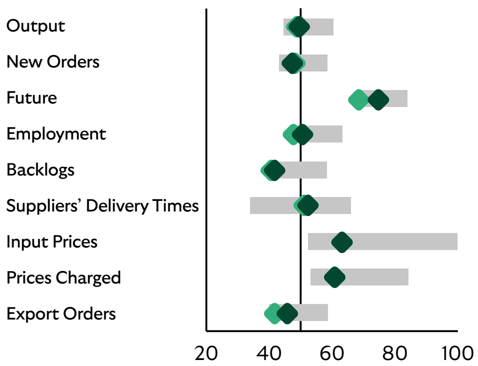
Chemicals



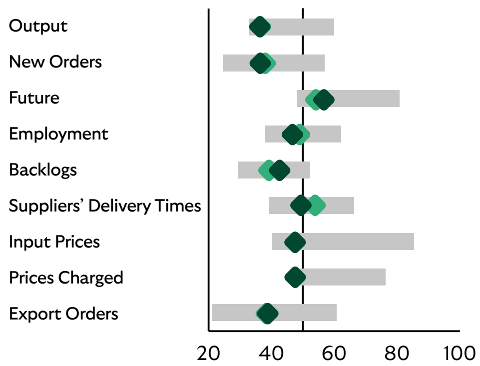
Household Products



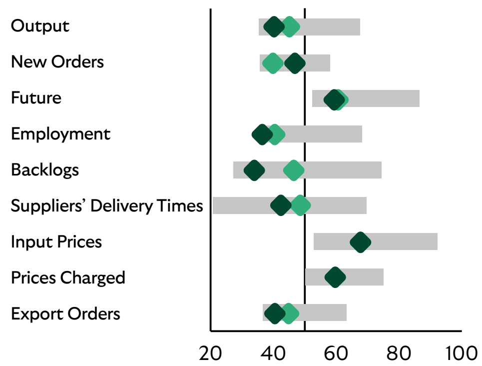
Industrial Goods



Metals & Mining



Technology Equipment



3-year range
Latest
Previous month

Methodology

The Lloyds Bank UK Sector Tracker includes indices compiled from responses to S&P Global's UK manufacturing, services and construction PMI survey panels, covering over 1,400 private sector companies.

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@spglobal.com.

PMI by S&P Global

Fine sector categories

Services

Commercial & Professional Services
Employment Services; Business Support Services; Business Support Supplies; Containers & Packaging; Environmental Services; Commercial Printing; Diversified Industrials Services

Financial Services
Banks; Insurance; Consumer Financial Services; Specialty Financials; Investment Banking & Brokerage Services; Investment Management & Fund Operators; Diversified Investment Services

Healthcare
Healthcare Equipment; Healthcare Supplies; Healthcare & Related Facilities; Managed Care; Other Support Services; Pharmaceuticals; Biotechnology

Real Estate
REITs; Real Estate Development & Operations; Real Estate Services

Software & Services
Computer Services; Software; Internet

Tourism & Recreation
Hotels, Motels & Cruise lines; Restaurants; Casinos & Gaming; Leisure & Recreation

Transportation
Airlines; Air Freight & Courier Services; Marine Transport; Highways & Rail Tracks; Trucking; Transportation Services

Manufacturing

Automobiles & Auto Parts
Auto & Truck Manufacturers; Auto, Truck & Motorcycle Parts; Tires & Rubber Products

Beverages & Food
Brewers, Distillers & Wineries; Non-alcoholic Beverages; Fishing & Farming; Food Processing; Tobacco

Chemicals
Commodity Chemicals, Specialty Chemicals, Diversified Chemicals

Household Products
Household Products; Consumer Electronics; Personal Products; Clothing, Footwear & Accessories; Homebuilding; Construction Supplies & Fittings; Toys & Games; Recreational Products

Industrial Goods
Aerospace & Defence; Industrial Machinery & Equipment; Heavy Machinery & Vehicles; Construction Materials

Metals & Mining
Steel & Aluminium Production; Precious Metals & Minerals Mining; Diversified Metals & Mining

Technology Equipment
Communications Equipment; Semiconductors; Semiconductor Equipment & Testing; Computer Hardware; Office Electronics & Equipment

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