

# LLOYDS BANK



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## **LLOYDS BANK ENGLAND AND WALES REGIONAL PMI®: ECONOMY SEES SEVERE SLOWDOWN AT START OF THIRD QUARTER**

- Output drops in England for first time in over three-and-a-half years
- Most UK regions see contractions in business activity; largest fall in London
- East of England and East Midlands defy broader downturn
- New orders decrease and employment fall as uncertainty hits demand
- Cost pressures build on the back of a weaker sterling

Businesses in England and Wales reported a decrease in output in July for the first time since 2012, according to the latest Lloyds Bank Regional PMI survey.

Uncertainty in the aftermath of the EU referendum hit demand, causing new orders to plunge.

The Lloyds Bank Regional PMI, or Purchasing Managers' Index, is the leading economic health-check of UK regions. It is based on responses from businesses in the manufacturing and service sectors about the value of goods and services produced during July compared with a month earlier.

England's PMI dropped from 52.5 in June to 47.4, its lowest since April 2009. A reading below 50 signifies contraction, and the greater the divergence from the 50 mark, the greater the rate of decline.

The largest decreases in business activity were in London (44.4), the South East (45.5) and the North East (46.0). Only the East of England (51.0) and the East Midlands (50.9) maintained positive output growth, though rates of expansion slowed.

Wales' economy showed some degree of resilience, with the PMI registering 49.9 and thereby signalling virtually no change in the level of business activity from the month before.

The broader downturn reflected a big drop in new orders that was the largest seen since early 2009, but not at the same levels seen at the height of the financial crisis.

Meanwhile, July saw the end of a strong run of employment growth stretching back to the start of 2013 but with only a minimal impact on the labour market and modest job losses recorded.

Adding to the overall picture, the survey showed businesses' costs pressures rising on the back of a weaker sterling.

**Tim Hinton, Managing Director, Mid-Markets and SME Banking, Lloyds Banking Group said:** *"As expected, business activity has slowed on the back of the EU Referendum result. Whilst the impact has been felt across the UK, companies in the South East and London*

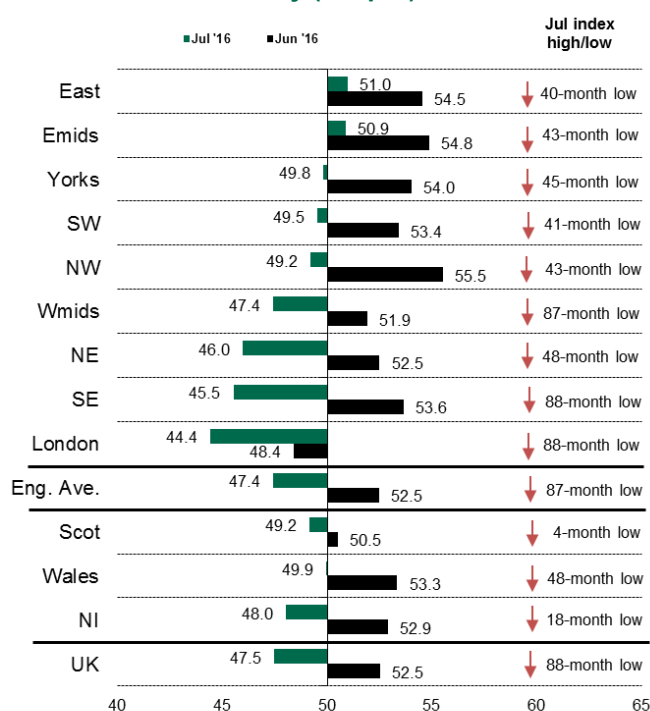
were hit particularly hard, with PMI at the lowest point since 2009 and output contracting for the first time since 2012.

“While a weaker pound is benefiting UK exporters, it has also increased costs for businesses, putting pressure on inflation.

“UK firms will likely face challenges in the short-term but the Bank of England’s decision to cut interest rates could help crystallise important investment decisions and in turn support the economy.”

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### PMI Business Activity (Output) Index



Numbers relate to monthly seasonally adjusted diffusion indexes. An index reading above 50 signals an increase on the previous month. A reading below 50 signals a decline. The greater the divergence from 50, the greater the rate of change indicated.

### Heat map, July 2016



Compiled by Markit for Lloyds Bank Commercial Banking, this report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 1200 private manufacturing and services companies. The panel is carefully selected to accurately replicate the true structure of the private sector economy.

England’s Regional PMI® surveys are based on data compiled in July 2016. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the ‘Report’ shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the ‘diffusion’ index. This index is the sum of the positive responses plus a half of those responding ‘the same’. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. The headline index for the English regions was first compiled in January 2001.

**The Wales PMI®** features original survey data collected in July 2016 from a representative panel of companies based in Wales and operating in both manufacturing and service sectors. The headline index for Wales was first compiled in January 2001.

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. 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.

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Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support and advice to its clients.

Lloyds Bank Commercial Banking offers a broad range of finance beyond just term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide bespoke financial services and solutions including tailored cash management, international trade, treasury and risk management services.

Its heritage means it has an unrivalled understanding of business needs and a proven track record of supporting businesses across the sectors and regions. Taking a relationship approach, it provides support to its clients throughout the economic cycle.

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\*If you would like to receive information on the Bank of Scotland monthly Scottish *Purchasing Managers' Index® (PMI®)* please contact Mairi Gordon on 07825 377 384 or [mairi.gordon@lloydsbanking.com](mailto:mairi.gordon@lloydsbanking.com).

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