

UK transportation sector leads the pack in output growth

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The number of UK sectors with growing output hit an eight-month high in January, according to the latest Lloyds Bank UK Sector Tracker, as businesses benefitted from higher demand.

In January, eight of the 14 sectors monitored by the Tracker reported output growth. This was two more than in December 2023 (six), and a stronger start to the year than last January (seven sectors reporting output growth).

Transportation, which includes hauliers, airlines and rail operators, saw output grow at the fastest rate of any sector monitored (60.4 in January vs 49.1 in December).

This was driven by the sharpest rise in new business in the sector for more than two years (58.5 vs. 48.4), reflecting demand for logistics services, and rail and air travel, amid a wider uptick in economic activity. A reading on the Tracker above 50.0 indicates expansion, while a reading below 50.0 indicates contraction.

Professional & commercial services, which includes legal and recruitment firms, also saw output expand (54.1 vs. 48.1) on the back of a renewed rise in demand (50.4 vs. 47.4).

In contrast, food and drink manufacturers saw the sharpest fall in output (44.6 in January vs. 47.8 in December). Firms reduced production capacity as new order volumes plateaued for the first time since August 2023 (50.0 vs. 54.9).

In January, the Tracker's measure of demand across the economy, which charts changes in volumes of new orders, rose at the fastest pace since May 2023 (52.2 in January vs. 51.8 in December). This came as the number of firms that said inflation was damaging sales fell to a 25-month low (1.90 times the long-run average in January vs. 4.24 times in December).

The financial services sector - which includes banks, insurers, and investment services firms - saw volumes of new business rise in January (57.7 vs. 57.4), as firms indicated an improvement in client confidence and hopes of improving economic conditions in 2024.

Nikesh Sawjani, Senior UK Economist at Lloyds Bank Commercial Banking, said: "This data provides further evidence of green shoots across the economy, albeit amid still challenging and volatile conditions. It also aligns with the picture of strengthening business confidence reported by the latest Lloyds Bank Business Barometer, which recorded January as the strongest start to a year for UK business optimism since 2016."

Victoria Whitehead, Head of Infrastructure and Transport at Lloyds Bank Commercial Banking, said: "The UK's transportation sector, including both passenger transport as well as haulage and logistics, is a useful bellwether for the country's wider economic performance, so this strong rise in activity is a positive sign that underlying economic headwinds could be easing.

"However, firms will have to ensure that they are equipped to fully capitalise on any continuation of this trend, particularly given the sustained period of declining demand and activity that the wider sector has weathered as well as the challenges of the transition to Net Zero."

Summary of sector performance in January:

Output growth: Transportation (60.4), financial services (59.0), software services (59.0), real estate (56.5), professional services (54.1), commercial and healthcare (52.6), metals and mining (51.9), and household products manufacturing (51.6).

Output contraction: Tourism and recreation (49.0), automobiles and auto parts manufacturing (48.6), chemicals manufacturing (47.6), industrial goods manufacturing (47.2), technology equipment manufacturing (47.2) and food and drink manufacturing (44.6).

Demand growth: Real estate (63.6), software and services (59.7), transportation (58.5), financial services (57.7), metals and mining (52.9), tourism and recreation (51.7), commercial & professional services (50.4).

Demand contraction: Healthcare (49.6), chemicals manufacturing (49.3), industrial goods manufacturing (48.7), household products manufacturing (47.7), technology equipment manufacturing (45.9) and

automobiles and auto parts manufacturing (40.4).