News Release

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S&P Global / CIPS UK Services PMI®

Business activity falls for the first time since January

Key findings

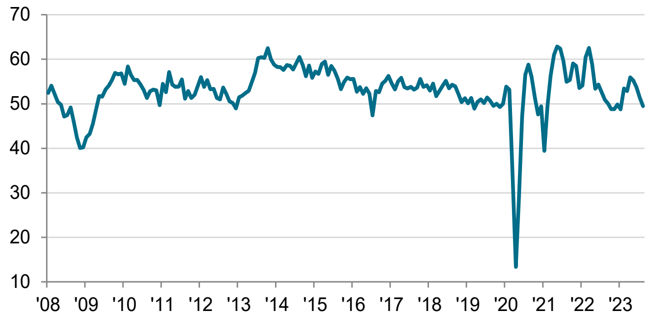
Marginal declines in output and new work

Sharpest reduction in backlogs since June 2020

Prices charged inflation eases to a two-year low

S&P Global / CIPS UK Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI, CIPS.

Data were collected 10-29 August 2023.

UK service providers experienced a renewed downturn in business activity during August. Survey respondents mostly cited weaker business and consumer spending, combined with the impact of higher borrowing costs on client demand. A lack of new work to replace completed projects resulted in the fastest decline in backlogs for just over three years.

Higher wages continued to push up business expenses, but the overall rate of input price inflation was the joint-lowest since May 2021. Softer cost pressures and greater competition for new work contributed to the weakest rise in prices charged by service providers for two years in August.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index registered 49.5 in August, down from 51.5 in July and the lowest since January. Any figure below 50.0 indicates an overall reduction in service sector output. The latest index reading signalled a marginal decline in business activity, which contrasted with a solid pace of expansion throughout the second quarter of 2023.

Lower output reflected a return to falling sales volumes in August, as signalled by a marginal decline in new work for the first time since January. Service providers typically noted caution among clients and fewer new business opportunities, linked to rising interest rates, squeezed disposable incomes and worries about the economic outlook.

New export orders increased in August, but the rate of growth was only marginal and the weakest since December 2022. Brexit-related trade difficulties were again cited by survey respondents as a constraint on sales to EU clients, alongside weak global demand.

Subdued business conditions put a brake on staff hiring across the service economy, with the latest rise in employment the slowest since March. Job creation was attributed to long-term business expansion plans, although some firms noted that cost pressures had led to the non-replacement of departing staff.

A combination of rising employment and falling volumes of incoming new orders in August led to a sharp reduction in backlogs of work. Lower levels of unfinished business have now been recorded for three months in a row, and the latest fall was the steepest since June 2020. Some service providers commented on excess capacity in the wake of decreasing customer demand.

Meanwhile, the latest survey data indicated another round of historically strong cost inflation across the service sector. This reflected rising salary payments, as well as higher fuel prices and elevated energy bills, according to survey respondents. Some firms noted falling raw material costs, driven by improving availability among suppliers. Measured overall, the rate of input cost inflation was the joint-lowest for 27 months (equalling that seen in June).

Softer cost pressures and a weaker pipeline of new business encouraged more competitive pricing strategies in August. The overall rate of prices charged inflation across the service economy eased for the fourth month in a row and was the lowest since August 2021.

Looking ahead, service sector companies remained optimistic about their growth prospects. Around 48% of the survey panel predict an upturn in output during the next 12 months, while only 12% expect a decline. The degree of confidence nonetheless eased fractionally since July and was the lowest for seven months. Anecdotal evidence suggested that concerns about the negative impact of rising interest rates on customer demand had acted as a constraint on business activity expectations.

Comment

Tim Moore, Economics Director at S&P Global Market Intelligence, which compiles the survey:

"Service providers saw customer spending reverse course during August as higher borrowing costs, subdued business confidence, and stretched household finances all acted to curtail sales opportunities.

"After a modest recovery over the past six months, service sector businesses are now clearly feeling the impact of rising interest rates on client demand. Worries about the broader business climate also dampened spending in August, with firms suggesting that faltering UK economic growth and sticky inflation were weighing on the outlook.

"Adding to signs of reduced pressure on business capacity, the latest survey indicated that backlogs of work decreased at the fastest pace for over three years. Service providers appear to have gently put the brake on staff hiring, with job creation easing to its lowest since March.

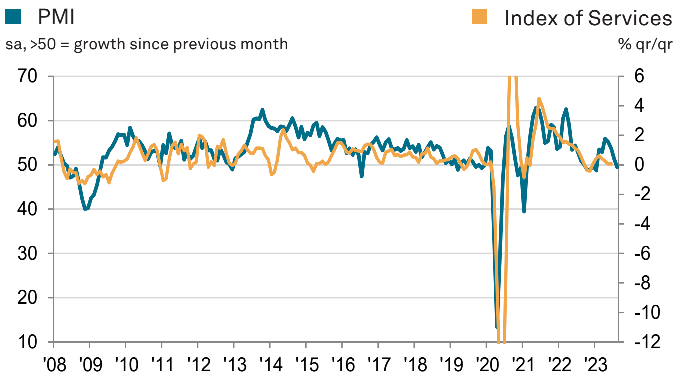
"Key data to watch in the coming months will be the extent to which weaker employment trends and softer demand translate into falling domestic inflation. August's survey data provided a signal that heightened competitive pressures have helped to push down output charge inflation across the service economy, as the latest round of price hikes was the slowest seen for two years."

Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply (CIPS), said:

"August painted a concerning picture of the services sector as the cooling economic effects of higher interest rates started to impact on spending and confidence, reducing the number of new orders at the fastest rate since last December.

"This combined with punishing costs of living and doing business, mainly due to higher energy bills, fuel prices and salary inflation, meant supply chain managers voiced their disquiet at the direction of travel for the service sector which fell into contraction this month.

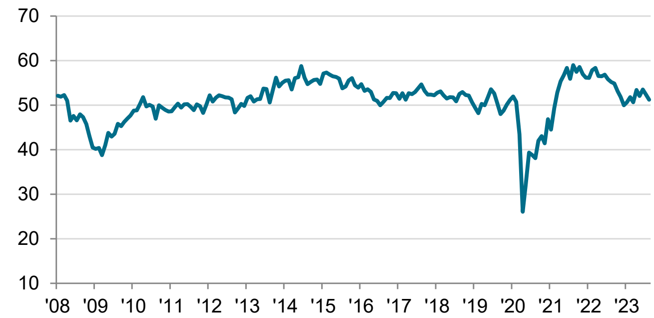
"Though the sector's shrinkage was marginal, the hesitation to commit is likely to be the landscape for the next few months as the UK economy becomes a riskier environment for domestic and overseas business alike and competition amongst service providers intensifies. Capacity opened up at the greatest level for three years as backlogs declined, so staff hiring was more muted, reducing job seeker opportunities as prospects for the UK economy become colder."



Sources: S&P Global PMI, ONS.

UK Services PMI Employment Index

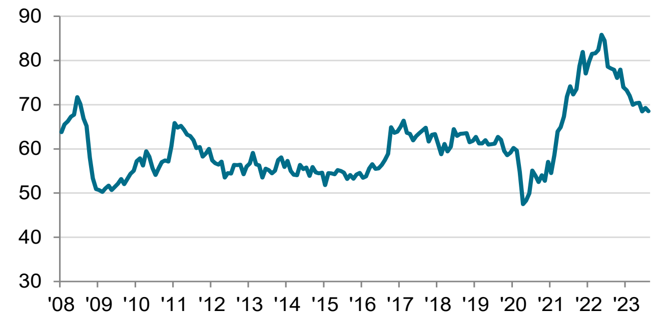
sa, >50 = growth since previous month



Sources: S&P Global PMI, CIPS.

UK Services PMI Input Prices Index

sa, >50 = inflation since previous month



Sources: S&P Global PMI, CIPS.

S&P Global / CIPS UK Composite PMI®

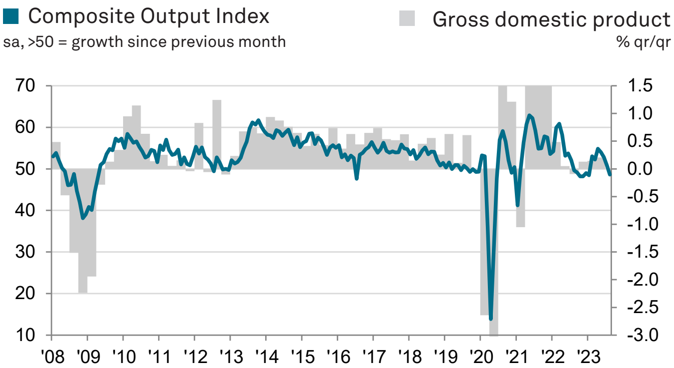
Private sector output declines in August

The seasonally adjusted S&P Global / CIPS UK Composite PMI* posted 48.6 in August, down from 50.8 in July and below the crucial 50.0 no-change value for the first time since January. As a result, the latest reading signalled a marginal reduction in private sector output. The index was considerably weaker than the 12-month high seen in April (54.9).

Reduced volumes of business activity were recorded in both the manufacturing and service sectors during August, with the former posting a much the faster rate of decline.

Total new work decreased for the second month running and at the sharpest rate since November 2022. Manufacturers experienced a rapid fall in new orders that was the fastest for 39 months.

On a more positive note, input cost inflation resumed its downward trend in August. The latest increase in average cost burdens across the private sector economy was the slowest for two-and-a-half years. Similarly, the rate of prices charged inflation dipped to its lowest since February 2021.



Sources: S&P Global, CIPS, ONS.

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*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Survey methodology

The S&P Global / CIPS UK Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in July 1996.

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 headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Flash vs. final data

Flash services data were calculated from 80% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.2 (0.7 in absolute terms).

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About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of over 60,000 members in 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.
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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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