

Market sensitive information

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S&P Global Flash UK PMI[®]

Fastest decline in UK private sector employment for nearly four years, despite marginal upturn in output

Key findings, December:

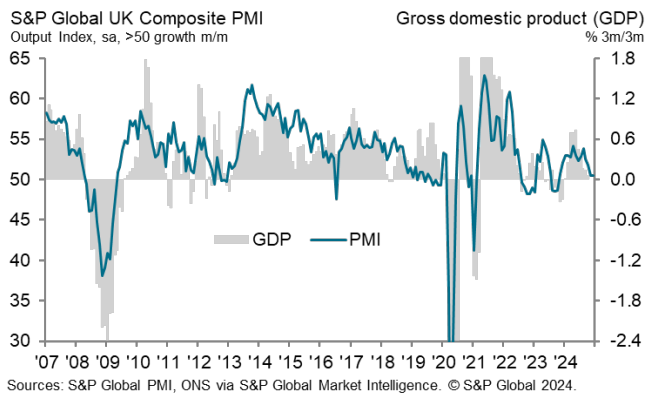
Flash UK PMI Composite Output Index⁽¹⁾: 50.5 (Nov: 50.5). Unchanged.

Flash UK Services PMI Business Activity Index⁽²⁾: 51.4 (Nov: 50.4). 2-month high.

Flash UK Manufacturing Output Index⁽³⁾: 45.7 (Nov: 48.3). 11-month low.

Flash UK Manufacturing PMI⁽⁴⁾: 47.3 (Nov: 48.0). 11-month low.

Data were collected 05-12 December



December data pointed to another marginal increase in UK private sector output, with rising business activity across the service economy helping to offset an accelerated downturn in manufacturing production. However, total new orders decreased for the first time in 13 months amid widespread reports of weaker business and consumer spending patterns.

A combination of softer demand, rising employment costs, and squeezed margins contributed to a further reduction in private sector headcounts at the end of 2024. The latest decline in workforce numbers was the steepest since January 2021.

The headline seasonally adjusted **S&P Global Flash UK PMI Composite Output Index** posted 50.5 in December. This was unchanged from November's 13-month low and signalled only a marginal expansion of private sector output. Moreover, the rate of business activity expansion remained much weaker than seen in the first

half of the year (average index reading of 53.0).

Divergent trends were recorded in the manufacturing and service sectors in December. The former posted a second consecutive monthly reduction in production volumes (index at 45.7), with the rate of decline accelerating to its fastest since January. In contrast, the latest survey indicated a modest rise in service sector output (51.4) and the rate of growth picked up slightly from November's 13-month low.

Survey respondents widely commented on growth headwinds from fragile consumer confidence, tighter corporate budgets, and cutbacks to non-essential spending. December data signalled a slight decline in total new work across the private sector economy, which ended a 12-month period of expansion. This was led by a steep and accelerated decrease in new orders in the manufacturing sector. Goods producers often noted customer destocking and the impact of weaker demand from European clients, which led to the fastest reduction in overall export sales since October 2023.

Volumes of unfinished work fell for the twentieth consecutive month in December and at the sharpest rate since November 2023. Reduced backlogs were typically attributed to a lack of pressure on business capacity, with declines recorded in both the manufacturing and service sectors.

December data indicated a fall in total staffing numbers for the third month in a row. Moreover, the rate of job shedding across the private sector economy was the fastest for almost four years. Service providers recorded a particularly steep decline in employment at the end of 2024, which was mainly linked to the non-replacement of voluntary leavers in response to rising employment costs. Some firms also noted that forthcoming increases in employers' National Insurance contributions had encouraged cutbacks to working hours and longer-term efforts to restructure workforces.

Rising salary payments and elevated domestic inflationary pressures continued to push up cost burdens across the private sector in December. Measured overall, the rate of input price inflation accelerated for the second month running to its strongest since April. Manufacturers recorded the steepest rise in purchasing prices since January 2023.

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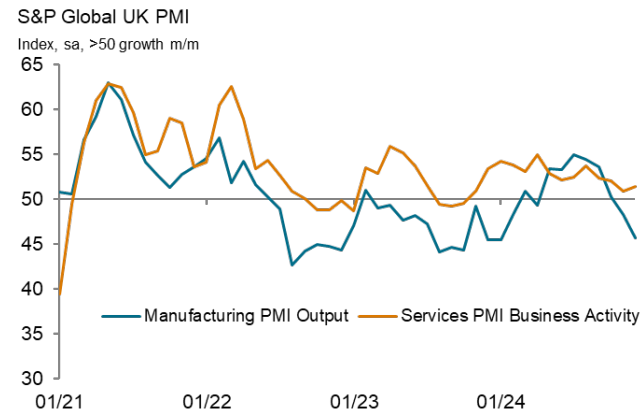
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Anecdotal evidence cited rising transport costs and raw material prices, as well as the pass through of higher employment costs by suppliers.

Average prices charged by private sector firms meanwhile increased at the steepest pace for nine months, led by a robust and accelerated rise in the service economy. Survey respondents commented on the need to alleviate pressure on margins from higher salary payments, as well as general business overheads and greater prices paid for fuel and raw materials.

Finally, business activity expectations for the year ahead moderated for the fifth successive month in December. The latest survey pointed to the lowest degree of business optimism since December 2022, largely due to an ongoing slide in service sector confidence. Some firms noted positivity linked to long-term business investment plans and forthcoming new product launches. However, there were also many reports citing concerns about the impact of tax raising measures announced in the Autumn Budget.

Service providers widely commented on rising costs due to increased employers' National Insurance contributions and a subsequent need to adopt a more cautious approach to business expansion plans. Competitive threats, challenging export conditions and persistently subdued demand in parts of the economy such as the automotive sector were also reported as likely growth headwinds over the course of 2025.



Sources: S&P Global PMI. © S&P Global 2024.

Commenting on the flash PMI data, **Chris Williamson, Chief Business Economist at S&P Global Market Intelligence** said:

"Businesses are reporting a triple whammy of gloomy news as 2024 comes to a close, with economic growth stalled, employment slumping and inflation back on the rise.

"Economic growth momentum has been lost since the robust expansion seen earlier in the year, as businesses and households have responded negatively to the new Labour government's downbeat rhetoric and policies. Business confidence has sunk to a two-year low as companies weigh up a tougher outlook for sales alongside rising costs, notably for staff as a result of changes announced in the Budget. The survey's price gauges are indicating that inflation is turning higher again.

"Firms are responding to the increase in National Insurance contributions and new regulations around staffing with a marked pull-back in hiring, causing employment to fall in December at the fastest rate since the global financial crisis in 2009 if the pandemic is excluded.

"While the December PMI is indicative of the economy more or less stalled in the fourth quarter, the loss of confidence and increased culling of jobs hints at worse to come as we head into the new year. Policymakers at the Bank of England may be cautious about cutting interest rates, however, given the resurgence of inflation being signalled, adding further to downturn risks in 2025."

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Notes to editors

Final December data are published on 2 January for manufacturing and 6 January for services and composite indicators.

The S&P Global Flash UK Composite PMI[®] is compiled by S&P Global from responses to questionnaires sent to survey panels of around 650 manufacturers and 650 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.

Services: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

A diffusion index is calculated for each manufacturing and services 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.

Composite indices for are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the 'Composite PMI' but is not

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comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers' Index™ (PMI®). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

Composite Output Index = 0.2 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.1 (absolute difference 0.4)

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@spglobal.com.

Notes

1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"
4. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.

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