

MARKET SENSITIVE INFORMATION

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S&P Global / CIPS Flash United Kingdom PMI®

UK private sector growth slumps to its weakest since the winter 2021 lockdown as cost of living crisis hits customer demand in May

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 51.8 (Apr: 58.2). 15-month low.

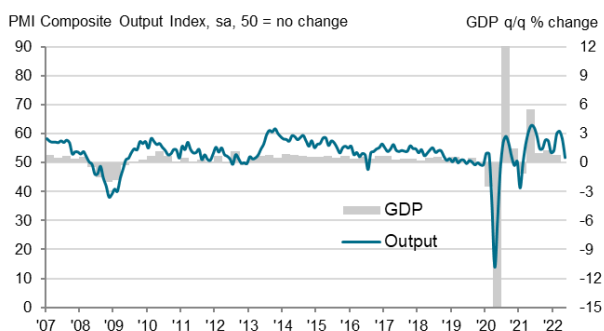
Flash UK Services PMI Business Activity Index⁽²⁾ at 51.8 (Apr: 58.9). 15-month low.

Flash UK Manufacturing Output Index⁽³⁾ at 51.8 (Apr: 54.3). 2-month low.

Flash UK Manufacturing PMI⁽⁴⁾ at 54.6 (Apr: 55.8). 16-month low.

Data were collected 12-20 May

S&P Global / CIPS Flash UK PMI Composite Output Index



Sources: S&P Global, CIPS, Office for National Statistics

UK private sector firms signalled a sharp slowdown in business activity growth during May as escalating inflationary pressures and heightened geopolitical uncertainty acted as constraints on customer demand.

Latest data indicated the fastest rise in operating expenses since this index began in January 1998, led by a rapid acceleration in input cost inflation across the service economy. Concerns about squeezed margins and weaker order books resulted in a considerable drop in business expectations for the year ahead. This index signalled the lowest private sector growth projections since May 2020.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 51.8 in May, down sharply from 58.2 in April, to signal the slowest rise in business activity since the current phase of recovery began in March 2021. Moreover, the month-on-month loss of momentum in May (-6.4 index points) was the fourth-largest

on record and exceeded anything seen prior to the pandemic.

Service providers signalled the greatest loss of momentum in May (index at 51.8, down from 58.9 in April), with survey respondents often noting that economic and geopolitical uncertainty had contributed to a slowdown in client demand. However, many businesses in the travel, leisure and events sector still commented on strong growth conditions due to a rapid recovery from pandemic restrictions.

Manufacturing output (index at 51.8, down from 54.3 in April) mirrored the marginal growth trend seen in the service sector, although this represented a more modest loss of momentum relative to the prior month. The latest increase in production volumes was the joint-weakest since October 2021. Goods producers typically commented on growth headwinds due to supply chain disruption, the war in Ukraine and rising inflation.

May data indicated a slowdown in **new order growth** across the UK private sector for the third consecutive month. The latest rise in total new business was the weakest since the recovery from COVID-19 lockdowns began in March 2021. Reports from survey respondents suggested that escalating economic uncertainty and the pass through of higher costs to clients had led to softer demand conditions.

Export sales were also a drag on new work. Manufacturers reported the steepest drop in export orders since June 2020. A number of goods producers cited Brexit-related trade frictions as the main factor contributing to lower export sales in May, especially in relation to new customs rules, extra documentation requirements and other complexities with EU trade.

Despite a considerable slowdown in new order growth, the latest survey indicated ongoing pressure on business capacity at UK private sector firms. This was signalled by another marginal rise in **backlogs of work**, which extended the current period of expansion to fifteen months.

Rising volumes of unfinished work in the service economy contrasted with a renewed fall in the manufacturing sector. Some goods producers noted that a turnaround in raw material availability, as signalled by a rise in the **suppliers' delivery times index** to its highest since October 2020. Although this index was above the record lows seen last

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summer, the latest reading was still well below the 50.0 no-change threshold (34.0 in May) and therefore pointed to another month of worsening overall supplier performance in the manufacturing sector.

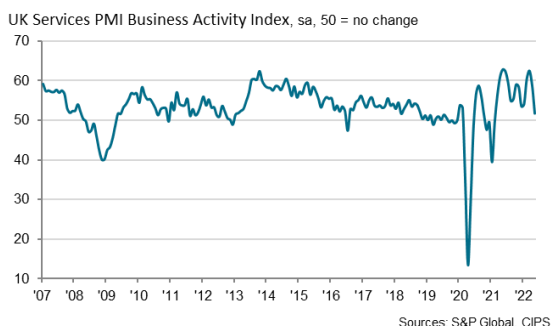
Efforts to boost business capacity and catch up on unfinished work contributed to a robust rise in **employment numbers** at private sector firms in May. That said, the rate of job creation eased slightly since April and was the least marked for 13 months. Some businesses noted that a desire to reduce costs had led to the non-replacement of voluntary leavers.

Average cost burdens increased rapidly in May, with input price inflation at private sector firms hitting a fresh survey record. This was driven by an accelerated rise in cost pressures in the service economy, with this index at its highest level since the survey began in July 1996. Survey respondents overwhelmingly cited higher wage bills, energy costs and fuel prices in May.

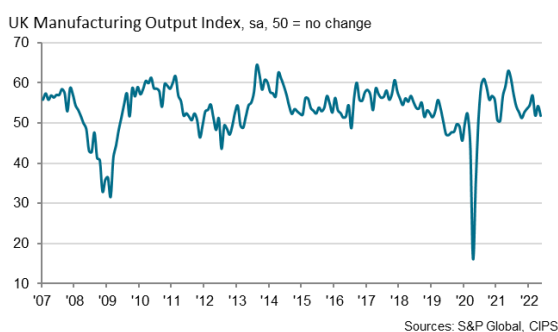
Despite a quicker rise in input costs, latest data highlighted a slight slowdown in **prices charged inflation** from the record high seen in April. There were some reports suggesting that more subdued customer demand had led to squeezed margins and greater caution about passing on rising costs during May.

Finally, **business expectations** eased to the lowest for two years in May amid worries about the global economic outlook and downbeat projections for consumer spending. The latest drop in business optimism was most acute in the service sector, with the month-on-month loss of momentum the greatest since March 2020.

S&P Global / CIPS Flash UK Services PMI Business Activity Index



S&P Global / CIPS Flash UK Manufacturing Output Index



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

“The UK PMI survey data signal a severe slowing in the rate of economic growth in May, with forward-looking indicators hinting that worse is to come. Meanwhile, the inflation picture has worsened as the rate of increase of companies’ costs hit yet another all-time high.

“The survey data therefore point to the economy almost grinding to a halt as inflationary pressure rises to unprecedented levels.

“The tailwind from the reopening of the economy has faded, having been overcome by headwinds of soaring prices, supply delays, labour shortages and increasingly gloomy prospects. Companies cite increasingly cautious moods among households and business customers, linked to the cost-of-living crisis, Brexit, rising interest rates, China’s lockdowns and the war in Ukraine.

“There are some signs that the rate of inflation could soon peak, with companies reporting price resistance from customers, and it is likely that the slowing in demand will help pull prices down in coming months. However, the latest data indicate a heightened risk of the economy falling into recession as the Bank of England fights to control inflation.”

Duncan Brock, Group Director at CIPS, said:

“The disappointing performance of the UK economy contributed to a big pile of concerns for private sector business in May as business optimism dropped like a stone to its lowest level for two years amidst a shortage of skilled staff, weaker orders and worries about the cost of doing business.

“The services sector fared worst with business expectations falling by the most since March 2020 when the pandemic first hit. Even the relative buoyancy in orders for travel and hospitality was not enough to rescue service providers from the sinking feeling that recession is knocking on the door. The fear is that the squeeze on household incomes could potentially starve the sector of further bookings as rising costs in energy, food and fuel dominate consumer thinking.

“For manufacturers it was the continued disruption in supply chains from geo-political tensions such as the War in Ukraine and the highest inflation rises for raw materials for more than 20 years, that had them worried. With production growth the joint lowest since October 2021, it feels the sector is stepping back instead of building on the recovery enjoyed at the beginning of the year.”

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Note to Editors

Final May data are published on 1 June for manufacturing and 7 June for services and composite indicators.

The S&P Global / CIPS 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 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 = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.0 (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@ihsmarkit.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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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. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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