

## MARKET SENSITIVE INFORMATION

Embargoed until 0930 BST (0830 UTC) 22 September 2023

# S&P Global / CIPS Flash United Kingdom PMI®

## Steeper downturn in service sector activity weighs on UK economy

### Key findings:

Flash UK PMI Composite Output Index<sup>(1)</sup> at 46.8 (Aug: 48.6). 32-month low.

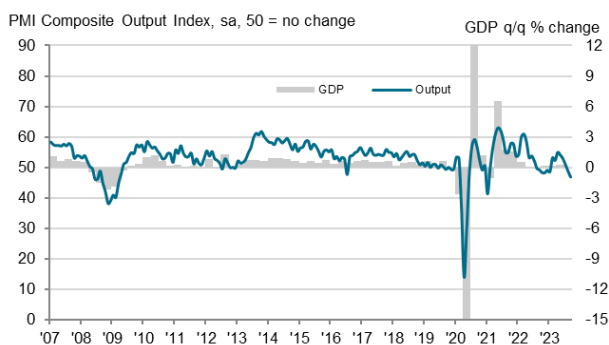
Flash UK Services PMI Business Activity Index<sup>(2)</sup> at 47.2 (Aug: 49.5). 32-month low.

Flash UK Manufacturing Output Index<sup>(3)</sup> at 44.6 (Aug: 44.1). 2-month high.

Flash UK Manufacturing PMI<sup>(4)</sup> at 44.2 (Aug: 43.0). 2-month high.

Data were collected 12-20 September

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



Sources: S&P Global PMI, CIPS, ONS via S&P Global Market Intelligence.

September data pointed to a reduction in UK private sector output for the second month running. Moreover, the rate of decline accelerated to its fastest since January 2021. The loss of momentum reflected a steeper drop in service sector activity than seen during August, which more than offset a slower decrease in manufacturing production.

Input price inflation meanwhile saw its largest monthly fall so far in 2023, despite widespread reports citing pressure on costs from higher fuel bills. A combination of weak demand and lower cost inflation contributed to the slowest increase in average prices charged by private sector companies since February 2021.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 46.8 in September, down from 48.6 in August, to signal the fastest reduction in output since the lockdown period in January 2021. Aside from pandemic disruptions, the latest drop in private sector business activity was the steepest since

March 2009. Weaker demand due to cost-of-living pressures and higher borrowing costs were cited by survey respondents, alongside cutbacks to spending among clients in the real estate and construction sectors. Some manufacturers suggested that customer destocking had acted as a brake on their output requirements.

**Manufacturing** production continued to decrease more quickly than **service sector** output, but the gap narrowed considerably in September. Service providers recorded a fall in business activity for the second month running and the rate of decline was the fastest since January 2021.

**Total new work** across the private sector economy decreased for the third consecutive month in September, although the rate of decline moderated fractionally since August amid a slower drop in manufacturing order books. In contrast, service providers reported the steepest fall in new work since November 2022. Subdued business and consumer demand was attributed to elevated economic uncertainty, rising interest rates, and constraints on non-essential spending. Service sector firms also indicated a sales headwind from a renewed downturn in export orders.

Lower demand and fewer supply chain bottlenecks allowed businesses to reduce their **backlogs of work** in September. Volumes of unfinished business across the private sector economy have decreased in each month since May. That said, a number of firms continued to cite staff shortages and recruitment difficulties as factors that had limited their business capacity. Manufacturers reported a particularly steep decline in backlogs of work, with the rate of contraction the fastest since February 2009.

The latest survey highlighted an abrupt turnaround in private sector **employment numbers**, thereby ending a five-month period of growth. Aside from the pandemic lockdown months, the rate of job shedding was the fastest since October 2009. Solid declines in staffing levels were seen in both the manufacturing and service sectors, with the respective index for the latter posting in negative territory for the first time in 2023 to date. Survey respondents mostly suggested that budget constraints had encouraged the non-replacement of voluntary leavers and restructuring efforts. However, many still noted resilient demand for graduates, apprentices and entry level staff.

Private sector firms remain upbeat about their

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**expectations for business activity** during the next 12 months, but the overall degree of confidence resumed its downward trend in September. The latest survey indicated the lowest level of optimism regarding future workloads since December 2022, with weakening sentiment seen in both the manufacturing and service sectors. Those expecting activity growth mostly commented on investment plans and new product launches in support of long-term business expansion. However, there were also many reports citing concerns about the broader economic outlook, ongoing domestic political uncertainty, and a negative impact on demand from higher borrowing costs.

Nonetheless, there were encouraging signals in relation to domestic inflation trends, according to the survey's measures of input costs and prices charged. September data pointed to the slowest rise in **private sector business expenses** since January 2021, although the index was still historically elevated. Higher fuel bills and strong wage pressures were still widely reported, but this was counterbalanced by the pass through of falling commodity prices by suppliers of raw materials.

Finally, average **prices charged by private sector companies** increased at a robust pace in September. This was driven by the service sector and mostly linked to higher operating costs, especially salary payments. However, the overall rate of prices charged inflation was the weakest for over two-and-a-half years. A number of survey respondents commented on greater competition for new work and the moderating impact of falling demand on pricing strategies.

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

*"The disappointing PMI survey results for September mean a recession is looking increasingly likely in the UK. The steep fall in output signalled by the flash PMI data is consistent with GDP contracting at a quarterly rate of over 0.4%, with a broad-based downturn gathering momentum to hint at few hopes of any imminent improvement."*

*"Underscoring the severity of the UK's deteriorating situation, September's downturn is the steepest since the height of the global financial crisis in early 2009 barring only the pandemic lockdown months."*

*"The survey had warned that a revival of growth in the second quarter looked unsustainable, and the third quarter is indeed seeing a mounting toll on the economy from the reality of the increased cost of living and the recent rapid rise in interest rates."*

*"Despite higher fuel prices during the month, firms' costs grew at a sharply reduced rate overall which, combined with collapsing pricing power amid weak demand, looks set to take further pressure off inflation in the coming months."*

*"A major concern in the inflation outlook has been wage growth, but with the survey now signalling the sharpest fall in employment since 2009, wage bargaining power is being eroded rapidly."*

*"With the Bank of England having had sight of the survey data prior to its latest policy decision, the worrying signals from the survey of heightened recession risk and cooling inflationary pressures are likely to have added to calls to halt rate hikes."*

**Dr John Glen**, CIPS Chief Economist said:

*"Policymakers are likely to feel concerned at this month's figures which echoed survey records seen in the last economic crash over a decade ago."*

*"Private sector businesses reported that output fell at the sharpest rate since March 2009, outside the lockdown years and inevitably job creation followed suit as headcounts reduced at the fastest level since October 2009. Manufacturers experienced a rapid fall in pipelines of work as their backlogs shrunk at the fastest pace since February 2009."*

*"Businesses felt the impact of subdued market conditions and interest rate hikes and businesses reined back costs and capacity to stay afloat. Salary and fuel costs remained the main drivers of inflation even with a slight improvement in the rate of input cost rises which fell back to January 2021 figures."*

*"This ongoing pressure is leaking the life blood out of private sector business, so many will experience some relief that interest rates have remained the same this month. With more stabilised market conditions, businesses may feel they can continue build on their strong business optimism which surprisingly stayed close to last month's figures."*

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

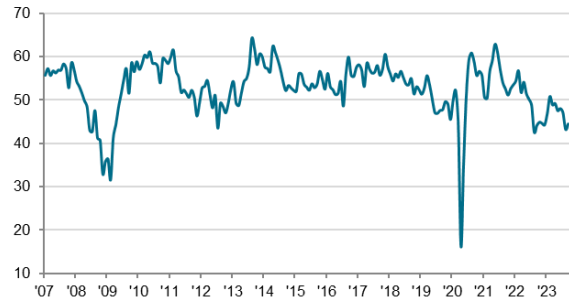
UK Services PMI Business Activity Index, sa, 50 = no change



Sources: S&P Global PMI, CIPS.

## S&P Global / CIPS Flash UK Manufacturing Output Index

UK Manufacturing Output Index, sa, 50 = no change



Sources: S&P Global PMI, CIPS.

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## Note to Editors

Final September data are published on 2 October for manufacturing and 4 October 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.

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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@ihsmarkit.com](mailto: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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