

## MARKET SENSITIVE INFORMATION

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

### UK private sector output growth eases to three-month low in June. Steep rate of prices charged inflation persists in the service economy.

#### Key findings:

Flash UK PMI Composite Output Index<sup>(1)</sup> at 52.8 (May: 54.0). 3-month low.

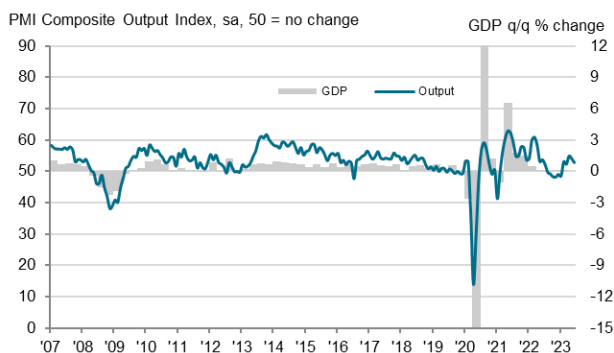
Flash UK Services PMI Business Activity Index<sup>(2)</sup> at 53.7 (May: 55.2). 3-month low.

Flash UK Manufacturing Output Index<sup>(3)</sup> at 47.7 (May: 47.7). Unchanged.

Flash UK Manufacturing PMI<sup>(4)</sup> at 46.2 (May: 47.1). 6-month low.

Data were collected 12-21 June

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



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

Business activity across the UK private sector increased for the fifth consecutive month in June. The latest survey illustrated another solid upturn in the service economy, whereas manufacturers continued to underperform as production volumes declined for the eleventh time in the past twelve months. Overall private sector output growth was the slowest since March, reflecting a much softer rise in new order intakes as some clients curtailed spending.

June data also highlighted contrasting inflationary pressures in the manufacturing and service sectors. Manufacturing companies signalled an outright reduction in factory gate charges for the first time in more than seven years. Service providers meanwhile recorded a further steep rise in their average prices charged, and the rate of inflation was only slightly softer than in May. There were again widespread reports of higher staff costs, which had been passed on to clients.

At 52.8 in June, down from 54.0 in May, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** signalled only a moderate expansion of private sector business activity. The index has registered in positive territory since February, but the rate of growth eased further from April's recent peak and was softer than the long-run survey average.

**Service providers** indicated another solid increase in business activity during June (index at 53.7), albeit the slowest rate of expansion since March. Some survey respondents noted a loss of momentum for consumer spending, while others cited weaker demand from clients in the construction and real estate sectors. Where growth was reported, this was often linked to resilient demand for business and financial services.

Output levels in the **manufacturing sector** decreased moderately during June and the rate of contraction was unchanged since May. Production cutbacks were attributed to falling new orders amid subdued underlying demand and a headwind from customer destocking.

**Total new work** across the UK private sector increased only slightly in June, with the rate of expansion easing further from April's 13-month peak. The latest rise in new orders was the slowest in the current five-month period of growth. Service providers reported a solid overall upturn in new orders, despite many noting that cost of living pressures and higher interest rates had curtailed demand. In contrast, manufacturers experienced a steep and accelerated fall in new work, with survey respondents citing weak market conditions at home and abroad.

Despite softer rates of output and new business growth across the private sector economy, latest survey data signalled continued strength in the labour market. **Job creation** was recorded for the third month running and the pace of staff hiring was the fastest seen since September 2022. Higher levels of employment reflected another marked rise in service sector recruitment, which was mostly attributed to projected sales growth and efforts to boost business capacity.

Supply conditions improved again in June, as signalled by a reduction in **vendor lead times** across the manufacturing sector for the fifth successive month. Fewer

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instances of supply shortages encouraged firms to reduce their inventories, with **stocks of purchases** decreasing at the steepest pace since May 2020. However, weaker-than-expected demand meant that manufacturers' **stocks of finished goods** increased to the greatest extent since November 2022.

A combination of lower demand and improving supply conditions led to a steep decline in manufacturers' **average cost burdens** during June. The decrease in manufacturing input costs was the fastest since February 2016. Around 26% of the survey panel reported lower purchasing costs in June, while only 11% signalled a rise.

The number of service providers reporting higher business expenses (38%) continued to exceed those indicating a decline (3%) by a wide margin. This was overwhelmingly linked to rising staff wages. However, some firms noted a drop in input prices due to falling fuel and energy bills. Measured overall, the rate of service sector cost inflation was the lowest for 25 months, but remained steeper than at any other time since the summer of 2008.

Total private sector input cost inflation was the softest since February 2021, but **prices charged inflation** eased only slightly in June. A fractional decline in manufacturing output charges was more than offset by another sharp rise in prices charged by service sector companies. Around 25% of all service providers reported a rise in their output charges in June, while only 4% noted a fall. Reports from survey respondents suggested that strong wage pressures remained by far the biggest factor leading to higher average prices charged across the service economy.

Looking ahead, private sector firms remain optimistic about their **prospects for output growth** during the next 12 months. The degree of confidence slipped to its lowest since January, but was still higher than the long-run survey average. Relatively upbeat expectations were recorded in both the manufacturing and service sectors, despite some reports citing concerns about the impact of higher interest rates and softer customer demand due to housing market weakness. Survey respondents typically noted resilient market conditions and positive sentiment regarding their long-term business expansion plans.

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

*“June's flash PMI survey indicates that the UK economy has lost momentum again after a brief growth spurt in the spring, and looks set to weaken further in the months ahead.”*

*“Most notably, consumer spending on services, which was a core growth driver in the spring, is now showing signs of faltering as the reality of higher interest rates, the increased cost of living and gloom about the outlook sets in and overrides the brief boost to spending enjoyed from*

*the pandemic tailwind. The manufacturing sector meanwhile continues to report recessionary conditions.*

*“One notable area of resilience in the economy is the labour market, with jobs growth accelerating in June as companies in the service sector continue to fill vacancies. While falling backlogs of work suggest this hiring trend could also fade in the coming months as the economy weakens, for now it is generating higher wage growth, in turn feeding through to still-elevated inflation pressures in the service sector. As such, the survey's price gauges point to consumer price inflation remaining well above the Bank of England's target into 2024, which will add to the case for further interest rate hikes.*

*“Thus, while the June survey reveals the economy to be cooling as a result of higher interest rates, the stubbornly elevated price growth in the service sector suggests the Bank of England will consider its fight against inflation as still a work in progress. However, such rate hikes will clearly add further to the likelihood of a recession later in the year, which is looking increasingly inevitable as collateral damage in the fight against inflation.”*

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

*“Inflationary rises were softer for the UK's makers than service providers in private sector business last month as prices for raw materials fell and delivery times improved for the fifth month in a row. Materials became more plentiful as the supply chain difficulties of the last two years eased still further and significant disruption was left in the past resulting in the fastest fall in costs since February 2016.*

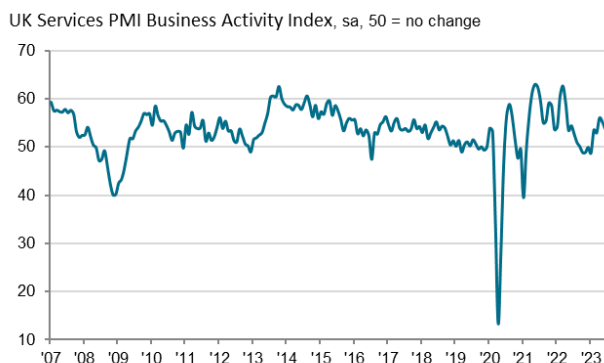
*“The service sector experienced the opposite effect. Wage demands contributed to another upward spiral in the costs of doing business. Almost 40% of service providers experienced higher business expenses in June as rising salary payments more than offset falling fuel and energy bills.*

*“The gulf between the two sectors became even wider in terms of job creation. While job hiring amongst service companies gathered pace, the decline in jobs amongst manufacturers became more entrenched.*

*“Recent interest rate rises will also add more stress on business investment. In the manufacturing sector, new orders fell again for another month, marking a year of shrinking workflows. Customer spending in the second half of 2023 is likely to shrink further as concerns over the UK economy gather pace with stretched affordability rates amongst consumers and businesses alike.”*

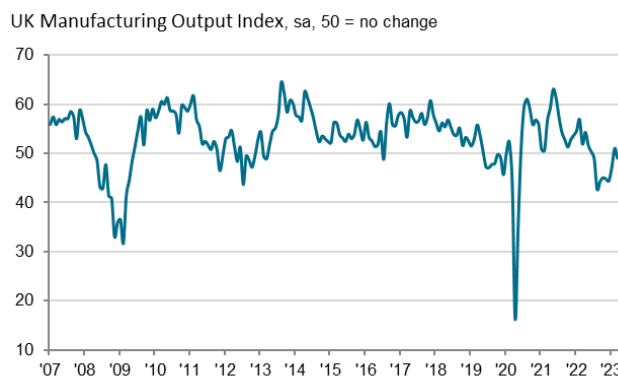
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## S&P Global / CIPS Flash UK Services PMI Business Activity Index



Sources: S&P Global PMI, CIPS.

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



Sources: S&P Global PMI, CIPS.

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## Note to Editors

Final June data are published on 3 July for manufacturing and 5 July 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)

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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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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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