News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 23 September 2022

S&P Global / CIPS Flash United Kingdom PMI®

UK business activity declines at quickest rate since January 2021, as cost pressures remain high and demand wanes

Key findings:

Flash UK PMI Composite Output Index(1) at 48.4 (Aug: 49.6). 20-month low.

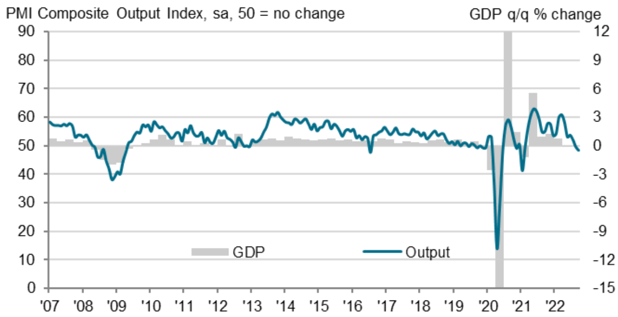
Flash UK Services PMI Business Activity Index(2) at 49.2 (Aug: 50.9). 20-month low.

Flash UK Manufacturing Output Index(3) at 44.4 (Aug: 42.7). 2-month high.

Flash UK Manufacturing PMI(4) at 48.5 (Aug: 47.3). 2-month high.

Data were collected 12-21 September

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



Sources: S&P Global, CIPS, ONS.

The latest UK Flash PMI® data, compiled by S&P Global on behalf of CIPS, pointed to a further decline in UK private sector output during September. Though modest, the rate of contraction was the quickest seen since January 2021, with businesses often commenting on the negative impacts of high costs and a weaker economic outlook on client spending and output.

Employment remained a bright spot, which continued to rise strongly overall in September, despite the rate of job creation being unchanged from August's 17-month low. However, signs of spare capacity became increasingly apparent, with backlogs of work falling at a quicker pace. Although both input costs and output charges rose at softer rates, the increases were still among the steepest seen in the survey's history.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** slipped from 49.6 in August to 48.4 in September, to indicate a reduction in UK private sector business activity for the second month in a row. Although this signalled only a mild rate of contraction, the September reading was the lowest seen since the start of 2021.

Sector data showed that a renewed fall in **service sector** activity (index: 49.2) was the principal driver of the lower headline figure. This marked the first drop in services activity since February 2021, though the rate of decline was only marginal. There were a number of reports that a slowdown in sales amid the cost of living crisis and rising economic uncertainty had weighed on activity levels in September.

At the same time, **manufacturers** registered a slightly softer, but nonetheless sharp, drop in production (manufacturing output index: 44.4). Firms often mentioned reducing output volumes due to weaker intakes of new business, though there were also reports that input shortages, particularly electronics, had constrained production at some units.

Demand conditions overall also weakened for the second successive month in September, with total **new work** placed with UK private sector firms falling at the quickest pace for 20 months. New business across the service economy fell for the first time in just over a year-and-a-half, albeit marginally, while manufacturers registered a further marked drop in sales that was the second-fastest since May 2020.

Export orders meanwhile fell at a sharp and accelerated rate, with goods producers noting the sharpest drop in foreign demand for 28 months and services companies signalling the first reduction since December 2021.

UK private sector **employment** increased again in September. The rate of expansion was solid overall, but was unchanged on August's 17-month low. The service sector remained a key driver of jobs growth, though the latest upturn in payroll numbers was the softest seen since March 2021. While manufacturers noted a slightly quicker rise in staffing levels, the rate of job creation was only modest overall. Where higher employment was reported, this was often linked to efforts to fill vacancies and build capacity. However, a further decline in new work meant that **outstanding business** fell for the second month in a row as signs of spare capacity became more apparent.

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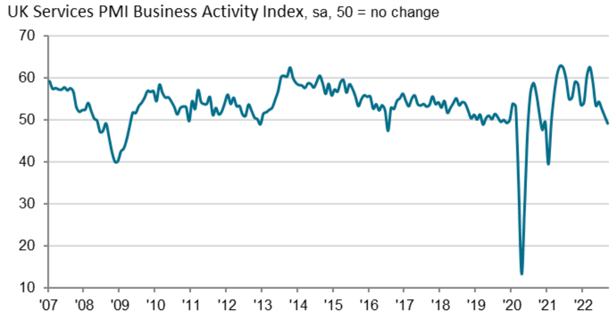
Backlogs fell across both the manufacturing and service sector, with the former seeing by far the steeper rate of depletion.

Latest data pointed to a further mild easing of inflationary pressure across the UK private sector at the end of the third quarter. The rate of **input cost inflation** moderated to a one-year low, but nevertheless remained among the sharpest seen since the series began in January 1998. Sector data highlighted that while manufacturers saw a quicker rise in input prices, this was largely offset by a softer rate of inflation across the service economy. Cost increases were blamed on a variety of factors, with higher energy, fuel, staff, transportation and material expenses and a weaker exchange rate cited frequently by panellists.

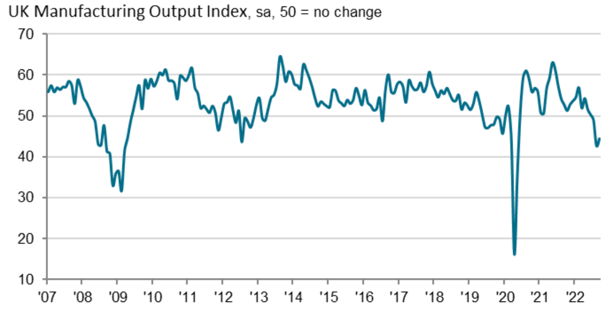
Average **output charges** followed a similar trend to input costs, with the rate of inflation easing to an eight-month low but remaining sharp by historical standards. While a number of companies commented on the pass-through of higher input costs to clients to help ease pressure on margins, there were some firms that were reluctant to hike their charges due to relatively subdued demand conditions and efforts to stimulate sales.

Looking ahead, UK private sector firms expressed reduced **optimism** towards the 12-month outlook for business activity in September. The overall level of positive sentiment was the lowest seen since May 2020. Fears of a UK recession, reduced consumer spending, rising costs and interest rate hikes all weighed on company projections for the year-ahead. Expectations in the manufacturing and service sector hit 29- and 28-month lows respectively, with the latter expressing the weaker degree of optimism overall.

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



S&P Global / CIPS Flash UK Manufacturing Output Index



Sources: S&P Global, CIPS.

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

"UK economic woes deepened in September as falling business activity indicates that the economy is likely in recession. Companies report that the rising cost of living, linked to the energy crisis, and growing concerns about the outlook are subduing demand and hitting output levels to an extent not seen since 2009, barring the pandemic lockdowns and initial 2016 Brexit referendum shock.

"Forward-looking indicators meanwhile deteriorated further in September. Both the new orders and future expectations gauges have descended to levels which have rarely been weaker in the past, and are consistent with a deepening downturn as we head into the fourth quarter.

"Inflationary pressures continue to run higher than at any time in over two decades of survey history prior to the pandemic. Renewed supply constraints, soaring energy prices and rising import costs associated with the weakened pound are adding to cost pressures, meaning the overall rate of inflation signalled will remain of great concern to policymakers at the Bank of England. However, the detrimental impact of tightening policy into a recession is becoming increasingly apparent, with the downturn likely to intensify as we head into winter."

Dr John Glen, CIPS Chief Economist said:

"Business activity across the UK private sector fell at the fastest pace since January 2021 in September, with the headline index posting in contraction territory for the second month in a row. Nerves about the strength of the UK economy impacted on new client wins as customers affected by cost of living pressures scaled back spend. Costs and prices charged remained elevated, and even with rates of inflation moderating since August, they were among the highest since the survey began in 1998.

"Services was the main driver of this weaker performance, registering the first fall in activity since February 2021 as the heat out of hospitality and holiday sales started to dissipate. Manufacturing output nosedived again this month, and though the fall was less severe than in August, supply chain disruption remained with some components remaining in short supply holding back recovery.

"These difficulties all combined to drag down business sentiment, with the overall level of optimism about the year ahead hitting the lowest since the start of the pandemic in May 2020. The highest rise in interest rates for 14 years also means borrowing costs are now the highest since 2008, so there's too little in the reserves to make private sector businesses look on the bright side as UK recession fears grow."

-Ends-

PMI by S&P Global

CIPS Chartered Institute of Procurement & Supply

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Note to Editors

Final September data are published on 3 October for manufacturing and 5 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.

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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 200,000 in over 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. www.cips.org

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 .