

News Release

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S&P Global / CIPS UK Services PMI[®]

Weakest service sector performance for six months

Key findings

Business activity and new order growth continue to ease

Fastest fall in backlogs of work since February 2021

Input cost inflation picks up from June's 25-month low

UK service providers experienced another period of subdued business conditions during July, with activity levels and new work expanding at much slower rates than in the previous month. Pressure on operating capacity subsequently showed signs of easing as backlogs of work declined at the fastest pace for nearly two-and-a-half years.

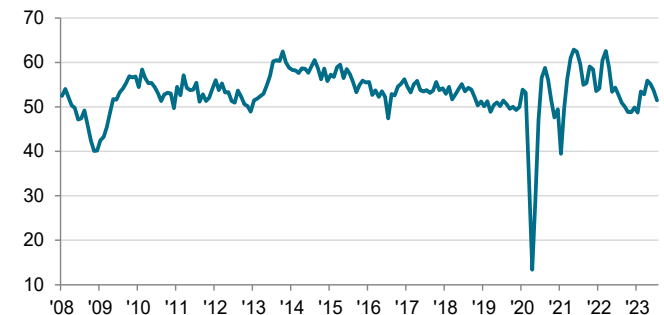
Strong rises in input costs persisted during July, largely driven by higher wages. Moreover, the overall rate of input price inflation edged up since June and remained historically elevated. Prices charged inflation nonetheless eased to its lowest since March, with some firms citing discounting due to competition for new work and others noting lower fuel costs.

At 51.5 in July, the headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index was down from 53.7 in June and the lowest in the current phase of expansion that began in February. The index has signalled a loss of momentum for business activity growth in each of the past three months. Companies reporting a rise in output typically linked this to resilient household spending on travel and leisure services. However, many survey respondents also commented on headwinds from subdued business and consumer confidence, which resulted in slower progress with converting sales opportunities.

New order volumes increased only marginally in July and the speed of expansion was the weakest for six months. Service providers often suggested that rising interest rates were a factor leading to fragile customer demand, while others cited pressure on budgets from elevated inflation. Where growth was reported, some firms attributed it to rising export sales, driven by US clients.

Sustained rises in business activity and new work supported another upturn in staffing numbers across the service economy in July. However, the rate of job creation eased from June's nine-month high amid some reports that hiring freezes

S&P Global / CIPS UK Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global PMI, CIPS.
Data were collected 12-27 July 2023.

had delayed the replacement of departing staff.

July data suggested that business capacity was sufficient to allow firms to reduce their backlogs of work for the second month running. Moreover, the latest fall in unfinished business was the fastest since February 2021.

Meanwhile, another strong rise in average cost burdens was reported by service sector companies during July. The rate of inflation picked up slightly from June's 25-month low and remained far higher than the long-run survey average. Survey respondents indicated that higher wages and ongoing supply chain price hikes had more than offset the impact of lower fuel costs.

The latest survey highlighted another round of robust prices charged inflation as service providers sought to pass on higher business expenses to customers. That said, the increase in average prices charged was among the weakest seen since the summer of 2021, with some firms commenting on pressure from clients to offer price discounts.

Finally, latest data still signalled positive expectations for business activity during the year ahead. Around 48% of the survey panel forecast a rise in output levels, while only 12% predict a decline. The respective index was nonetheless down slightly in comparison to the previous month and signalled the lowest degree of optimism since January. A number of service providers commented on concerns about squeezed disposable income among UK households as well as worries about the impact of higher interest rates on customer demand.

Comment

Tim Moore, Economics Director at S&P Global Market Intelligence, which compiles the survey:

"The loss of momentum signalled by service providers in July suggests that the UK economy is set to flatline at best in the coming months as higher borrowing costs take a bigger toll on consumer spending and business confidence. Service sector companies saw the weakest rise in new work for six months, while job creation slipped as some firms responded to softer market conditions by putting the brakes on hiring.

"There were sporadic reports that subdued demand had led to more competitive pricing and the pass through of lower fuel costs, which contributed to a slowdown in output charge inflation to its second-lowest since August 2021. However, there was no let-up in pressure on business expenses as the rate of input cost inflation was virtually unchanged from that seen on average in the second quarter of 2023.

"Survey respondents widely commented on strong cost pressures due to higher salary payments in July, which will add to concerns among policymakers that sticky inflation and stagnant growth will prove a persistent challenge for the UK economy during the second half of the year."

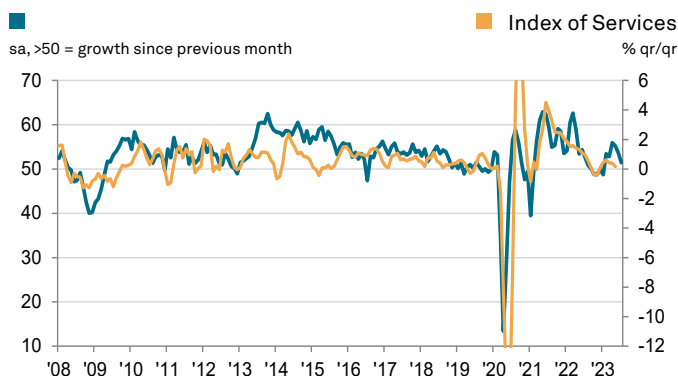
Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply (CIPS), said:

"The wind was knocked out of the sails of the service sector in July with the slowest rise in overall output since January and a dramatically reduced expansion of new orders which was recorded as the lowest for six months.

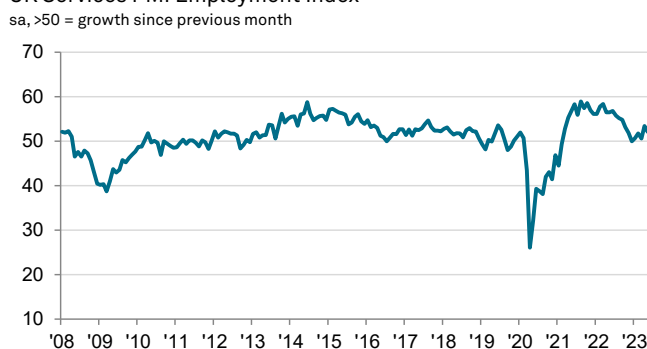
"The driver of this poor result as the sector headed into a period of inertia was the underlying weaknesses in the UK economy. In response to interest rate hikes through the summer, businesses were re-thinking their investment plans and focussing on paying higher wage bills and keeping up with their brutal businesses costs instead of expanding their portfolio of products.

"In turn, job creation numbers were starting to soften as firms remained at peak capacity within their cost restraints and increases in workforces were sometimes delayed given the conversations around a likely recession towards the end of the year.

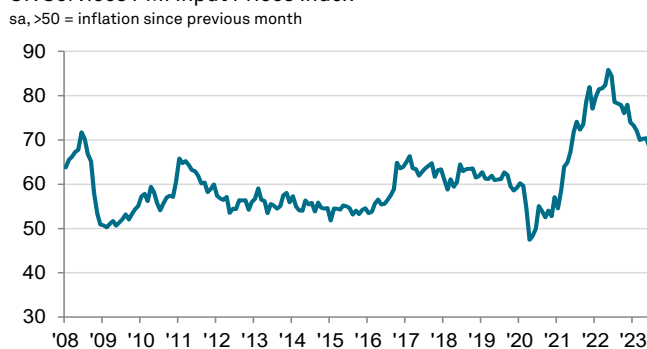
"Weak demand meant that the rate of increase in prices charged fell to its second lowest since August 2021 as firms competed with each other to attract a dwindling number of customers confident enough to spend any pandemic-accumulated funds."



UK Services PMI Employment Index



UK Services PMI Input Prices Index



S&P Global / CIPS UK Composite PMI®

Marginal increase in private sector activity during July

At 50.8 in July, down from 52.8 in June, the seasonally adjusted S&P Global / CIPS UK Composite PMI* registered above the neutral 50.0 threshold for the sixth consecutive month. However, the latest reading signalled only a marginal rise in private sector output and the rate of expansion was the weakest seen over this period.

A modest upturn in service sector activity contrasted with another reduction in manufacturing output. Moreover, the latest downturn in factory production was the fastest since January.

July data pointed to an outright reduction in new business volumes received the UK private sector firms. This ended a five-month period of growth and was driven by a steep decline in manufacturing order books.

Inflationary pressures continued to dissipate in the manufacturing sector, whereas strong rises in input costs and prices charged persisted in the service economy. Measured overall, output price inflation across the private sector was the lowest for 27 months in July.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Survey methodology

The S&P Global / CIPS UK Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in July 1996.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey 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.

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

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

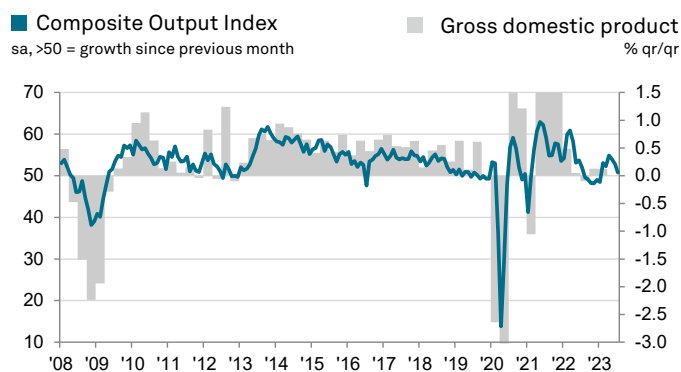
Flash vs. final data

Flash services data were calculated from 80% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.2 (0.7 in absolute terms).

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Sources: S&P Global, CIPS, ONS.

Contact

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761576
trudy.salandiak@cips.org

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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 over 60,000 members in 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

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