

MARKET SENSITIVE INFORMATION

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S&P Global Flash United Kingdom PMI®

Revival in manufacturing production supports output growth in May

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 52.8 (Apr: 54.1). 2-month low.

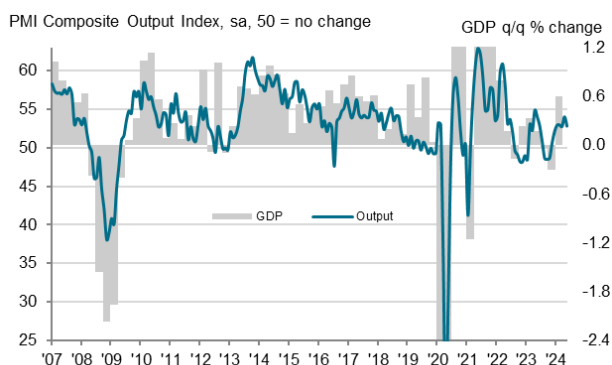
Flash UK Services PMI Business Activity Index⁽²⁾ at 52.9 (Apr: 55.0). 6-month low.

Flash UK Manufacturing Output Index⁽³⁾ at 52.7 (Apr: 49.4). 25-month high.

Flash UK Manufacturing PMI⁽⁴⁾ at 51.3 (Apr: 49.1). 22-month high.

Data were collected 9-21 May

S&P Global Flash UK PMI Composite Output Index



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

UK private sector activity registered a solid expansion in May as a resurgence in manufacturing production supplemented a further, albeit slower, upturn in services output. Business activity growth was again accompanied by a rise in new order volumes and an uptick in export sales, but ongoing hiring challenges meant that the rate of job creation remained only marginal.

At the same time, UK businesses reported the softest increase in average selling prices for over three years in May, partly linked to a slowdown in input cost inflation after April's steep rise. Survey respondents highlighted a softening of labour cost pressures following the increase in the National Living Wage, with services firms especially seeing a drop in input price inflation.

At 52.8 in May, down from 54.1 in April, the headline seasonally adjusted **S&P Global Flash UK PMI Composite Output Index** signalled a solid increase in

private sector activity, albeit one that was less marked than April's one-year high.

Supporting the expansion was a strong rebound in **manufacturing production** in May. The upturn was the second recorded in three months after a prolonged spell of decline, with the latest data marking the fastest rate of growth since April 2022. Higher output was often linked to stronger client demand and emerging signs of a recovery in both export sales and inventory purchases.

Manufacturers joined **service providers** in growth territory as the latter experienced a further increase in activity amid reports of rising business and consumer spending. Although solid overall, the pace of growth eased to the softest seen for six months, as some firms highlighted cost-of-living pressures and greater economic uncertainty.

New business volumes across the private sector rose for the sixth consecutive month in May. However, the rate of growth slowed to its weakest in the year-to-date and was relatively modest. Notably, services and manufacturing recorded equally moderate uplifts in new orders, ending a period of divergent trends between the two sectors. The rise in new business was helped by a second successive increase in **export orders**, after April marked the first expansion in almost a year. Although the upturn was again concentrated on the services side, some manufacturers noted a stabilisation of new orders from European and other foreign markets.

Despite sustained output growth, the flash survey results continued to signal a relatively subdued labour market in May. Although **employment** levels picked for the fifth straight month, they did so at a marginal rate and to a lesser extent than that of new business. Some firms continued to signal delays with hiring staff due to candidate shortages and cost considerations. That said, a pick-up in manufacturing orders supported labour demand at some units, leading to the softest drop in headcounts across the sector for 20 months.

May survey data provided signs of a slowdown in inflationary pressures at private sector companies. **Input price inflation** dropped to its lowest level in seven months, reflecting softer rises in input costs across both sectors. Service providers experienced their weakest cost pressures in over three years, which partly reflected a reduced impact from the higher National Living Wage that

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was introduced in April. That said, the uplift in input prices remained much faster than for manufacturing companies.

Amid the softer rise in input costs, private sector firms increased their selling prices to a weaker extent for the third month running in May, leading **prices charged inflation** to fall to its lowest level since February 2021. The cooldown was solely driven by the service sector, where some panellists indicated greater efforts to stimulate new work intakes amid competitive pressures. In contrast, goods producers raised their factory gate prices at the sharpest rate in a year, which firms mainly attributed to the pass-through of higher salary payments and material prices to clients.

Business activity forecasts for the next 12 months remained strong in May, though there were differing trends across the two main sectors. The degree of optimism among manufacturing firms soared to the highest level since February 2022, as rising customer orders supported greater confidence towards market conditions and business expansion plans. At the same time, optimism among services companies dipped to a four-month low, as robust confidence towards new business pipelines and customer spending was slightly offset by reports of uncertainty surrounding future interest rate decisions and the upcoming general election.

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

“The flash PMI survey data for May signalled a further expansion of UK business activity, suggesting the economy continues to recover from the mild recession seen late last year. The survey data are consistent with GDP rising by around 0.3% in the second quarter, with an encouraging revival of manufacturing accompanied by sustained, but slower, service sector growth.”

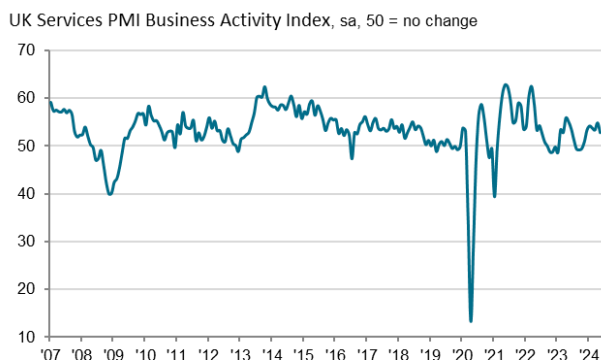
“The survey also brings welcome news of a cooling in service sector inflation, which is needed to open the door for the Bank of England to start cutting interest rates. A temporary surge in wage-related cost growth seen in April is showing signs of fading in May. Firms are also reporting that strong competition is limiting their scope to raise prices, especially in the face of weakened demand due to the elevated cost of living.”

“With companies now reporting the slowest price growth in over three years, and headline inflation falling close to target, the PMI data support the view that the Bank of England will start cutting interest rates in August providing the data continue to move in the right direction over the summer.”

“Such speculation of rate cuts has already fed through to improved business confidence, with optimism for the year ahead lifting higher in May, adding to hopes that the battle against inflation can be won without the UK having suffered a serious recession.”

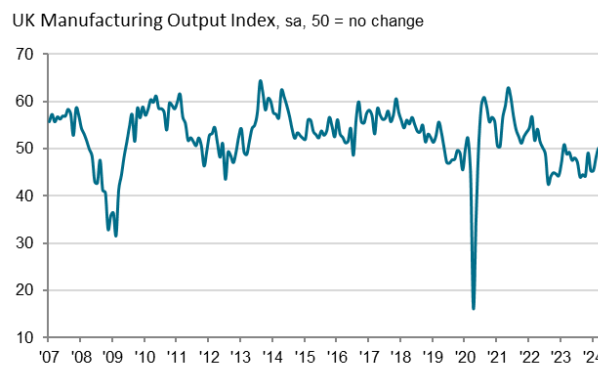
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S&P Global Flash UK Services PMI Business Activity Index



Source: S&P Global PMI.

S&P Global Flash UK Manufacturing Output Index



Source: S&P Global PMI.

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Note to Editors

Final May data are published on 3 June for manufacturing and 5 June for services and composite indicators.

The S&P Global 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 = 0.2 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.1 (absolute difference 0.4)

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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@spglobal.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.

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