News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 GMT (0930 UTC) 23 November 2022

S&P Global / CIPS Flash United Kingdom PMI®

Sharpest fall in new orders since January 2021 as cost of living pressures continue to hit the UK economy

Key findings:

Flash UK PMI Composite Output Index[1] at 48.3 (Oct: 48.2). 2-month high.

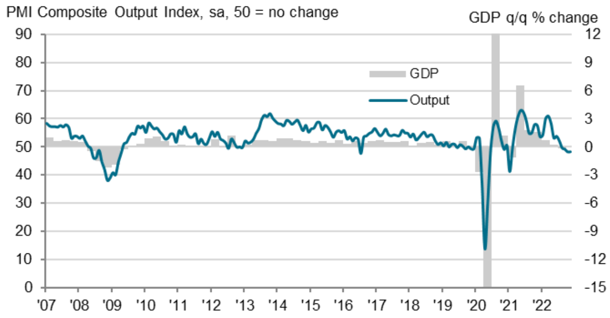
Flash UK Services PMI Business Activity Index[2] at 48.8 (Oct: 48.8). Unchanged.

Flash UK Manufacturing Output Index[3] at 45.4 (Oct: 45.0). 4-month high.

Flash UK Manufacturing PMI[4] at 46.2 (Oct: 46.2). Unchanged.

Data were collected 11-21 November

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



Sources: S&P Global, CIPS, ONS.

UK private sector firms signalled another reduction in business activity during November, which stretched the current period of decline to four months. New orders meanwhile decreased at the fastest pace for almost two years as squeezed client budgets continued to hit demand in both the manufacturing and service sectors.

On a more positive note, business expectations for the year ahead rebounded from the 30-month low seen in October. Many survey respondents commented on recession worries and increasingly challenging economic conditions, but there were fewer comments citing domestic political uncertainty.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** posted 48.3 in November, up only fractionally from 48.2 in October and signalling a further modest fall in private sector business activity. The index has now registered below the crucial 50.0 no-change value for four consecutive months.

Manufacturing production (index at 45.4) continued to decline at a faster pace than **service sector activity** (48.8). That said, the latest drop in manufacturing output was the least marked since July. A number of firms noted that fewer instances of supply shortages had helped to support production volumes during November.

Companies reporting a downturn in business activity typically cited cutbacks to non-essential client spending in response to rising costs and weaker economic conditions. Overall volumes of **new work** decreased for the fourth month in a row and the rate of decline accelerated to its fastest since January 2021. Survey respondents often commented on subdued business and consumer confidence, alongside softer customer demand due to cost of living pressures and rising interest rates.

Lower volumes of **new business from abroad** contributed to the deterioration in order books during November, especially in the manufacturing sector. Latest data pointed to the steepest fall in export sales among manufacturing companies since May 2020. Many survey respondents commented on Brexit-related constraints on export demand in November, in additional to the unfavourable global economic backdrop. Service providers meanwhile signalled only a slight drop in new work from abroad, with some firms reporting a boost from exchange rate depreciation and robust demand from US clients.

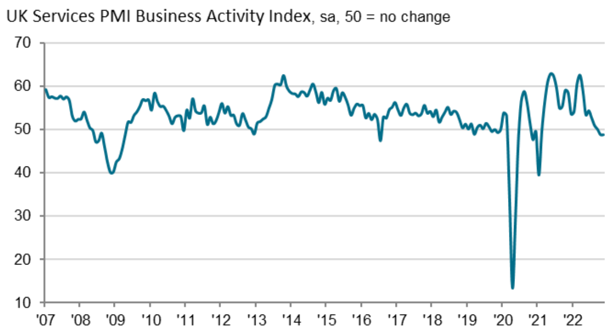
Employment numbers continued to rise in November, although falling volumes of incoming new work contributed to a slower rate of job creation. The latest increase in private sector employment was only marginal and the weakest recorded for 21 months.

Service providers signalled a modest upturn in staffing levels, but manufacturers indicated the steepest degree of job shedding since October 2020. Manufacturing companies often cited the non-replacement of voluntary leavers due to shortages of new work to replace completed orders. Reflecting this, latest data signalled the fastest decline in **backlogs of work** at manufacturing sector firms since April 2020. In contrast, service providers reported another marginal increase in backlogs, largely due to ongoing staff shortages. .

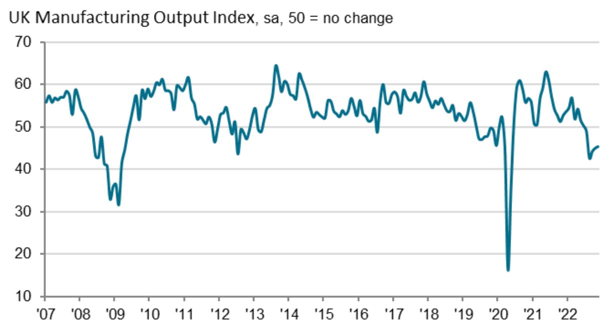
Strong **input cost pressures** continued in November and the overall rate of inflation eased only slight since October. This was mostly driven by surging energy bills and higher wages, alongside rising import prices due to exchange rate depreciation against the US dollar. Service sector businesses signalled a much steeper rate of input cost inflation than manufacturing firms. **Prices charged** by UK private sector companies meanwhile increased at the slowest pace since August 2021, which a number of survey respondents attributed to weaker customer demand and greater competitive pressures.

The index measuring **business activity expectations for the year ahead** increased by 3.2 index points in November and therefore recovered around two-thirds of the loss seen during October (-4.8 index points). Worries about political uncertainty were much less prevalent among the comments provided by survey respondents compared to those seen in October following the UK government's 'mini-Budget'. That said, the latest reading still pointed to the second-lowest degree of business optimism since May 2020, which reflected widespread concerns about the domestic economic outlook, higher borrowing costs and cutbacks to non-essential spending. Business expectations were particularly subdued in the manufacturing sector, with this index falling to its lowest for 31 months in November.

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:

"A further steep fall in business activity in November adds to growing signs that the UK is in recession, with GDP likely to fall for a second consecutive quarter in the closing months of 2022. If pandemic lockdown months are excluded, the PMI for the fourth quarter so far is signalling the steepest economic contraction since the height of the global financial crisis in the first quarter of 2009, consistent with the economy contracting at a quarterly rate of 0.4%. Forward-looking indicators, notably an increasingly steep drop in demand for goods and services, suggest the downturn will deepen as we head into the new year.

"While the recent change of government has resulted in improved business confidence, the business mood remains among the gloomiest seen over the past quarter century amid the numerous headwinds, which include the cost of living crisis, the Ukraine war, steepening export losses (often linked to Brexit), higher borrowing costs, fiscal tightening and heightened political uncertainty.

"Price pressures meanwhile remain elevated but show further signs of cooling, often linked to weakened demand, which – combined with the growing recession signals – suggest that the Bank of England may start to make less aggressive interest rate hikes in the coming months."

Dr John Glen, CIPS Chief Economist said:

"There was a barely discernible light at the end of the tunnel for private sector businesses in November as they remained in contraction for the fourth month in a row as a result of higher inflation, borrowing costs and energy bills.

"The survey pointed to some deeply concerning developments such as the quickest fall in new orders since January 2021 and the fastest decline in manufacturing export orders since 2009 outside the pandemic years. The covid veil, now almost completely lifted, has revealed the challenges still faced by exporters struggling with customs and paperwork challenges and other Brexit constraints putting off overseas customers.

"Weaker order levels were bad timing particularly for manufacturers given that supply restrictions eased a little more so this should have been a better month. In a shrinking marketplace, operating capacity continued to contract, and the sector lost more jobs.

"Services providers were more optimistic than the UK's makers, even with recession, the war in Ukraine and inflation continuing to throttle customer demand. Perhaps the return of more stability in the UK political landscape had businesses hoping this is the start of some sustainable improvements ahead."

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Note to Editors

Final November data are published on 1 December for manufacturing and 5 December 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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About CIPS

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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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