

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

### UK private sector downturn eases in December, but employment slips into decline

#### Key findings:

Flash UK PMI Composite Output Index<sup>(1)</sup> at 49.0 (Nov: 48.2). 3-month high.

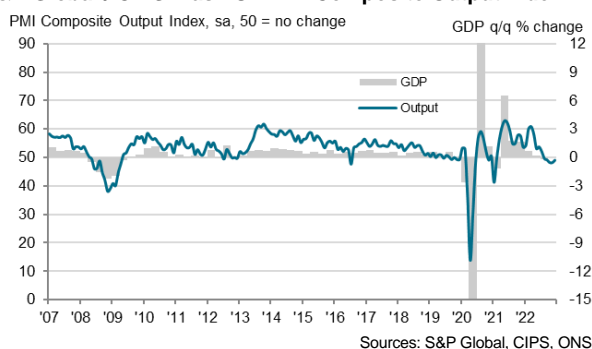
Flash UK Services PMI Business Activity Index<sup>(2)</sup> at 50.0 (Nov: 48.8). 3-month high.

Flash UK Manufacturing Output Index<sup>(3)</sup> at 43.9 (Nov: 44.7). 4-month low.

Flash UK Manufacturing PMI<sup>(4)</sup> at 44.7 (Nov: 46.5). 31-month low.

Data were collected 6-14 December

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



Latest PMI data pointed to a contraction of UK private sector output for the fifth month running in December amid a further deterioration in client demand. That said, the falls in business activity and new orders were the least severe since September. Nevertheless, companies took a more cautious stance with regards to staffing levels, with overall employment falling for the first time since early 2021.

Although business confidence regarding output over the next year improved to its highest in four months, it remained historically subdued amid recessionary fears, intense cost pressures and concerns over further falls in client spending.

At 49.0 in December, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** posted below the neutral 50.0 value to signal a fifth successive monthly fall in private sector business activity. That said, the reading was up from 48.2 in November to indicate a marginal rate of contraction that was the softest for three months.

The higher headline index reading was supported by a stabilisation of **service sector activity** (index at 50.0), following two months of decline. This helped to offset a further drop in **manufacturing production**, which fell at the sharpest pace since August (43.9). According to goods producers, output fell due to reduced intakes of new work, though input shortages also weighed on performance.

Anecdotal evidence indicated that a weaker overall economic climate and a sustained squeeze on client budgets amid the cost of living crisis and tighter financial conditions had dampened output. Total **new business** fell for the fifth month in a row, though in line with the trend for output, the rate of decline was the softest seen since September. While companies across both the manufacturing and service sectors registered sustained falls in new work, the latter registered a much weaker rate of contraction than the former.

External demand conditions also remained subdued in December, with overall **new export orders** falling for the sixth month running. Although the rate of decline eased to the weakest since September, it was nonetheless marked overall. In the manufacturing sector, a softer but still sharp fall in export sales was recorded, with firms often attributing this to weaker global demand conditions and Brexit. Services companies registered only a mild fall in export business, however, as some firms benefitted from new product launches and improved sales in regions such as Europe.

December survey data pointed to a renewed fall in **employment** across the UK private sector. Though only marginal, it marked the first reduction in headcounts since February 2021. There were numerous reports of firms choosing not to replace voluntary leavers due to concerns over the economic outlook, lower intakes of new work and efforts to control costs. Difficulties finding new or replacement staff were also cited by some businesses.

The drop in workforce numbers was driven by a solid and accelerated fall in manufacturing headcounts, which was the quickest seen since October 2020. In the service sector, employment stagnated having risen in each of the prior 21 months.

At the same time, weaker pipelines of new work meant that

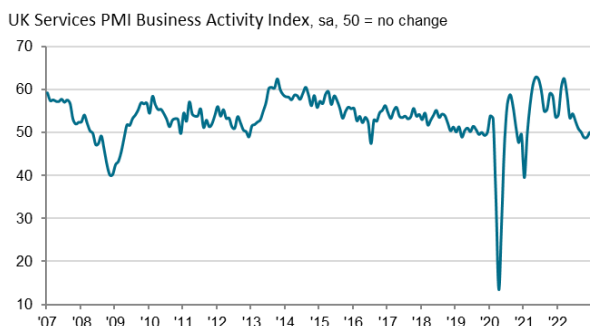
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firms had more capacity to work through backlogs. Notably, the level of **outstanding business** fell at a solid rate that was the quickest seen since February 2021. An especially sharp drop in backlogs at manufacturers (quickest since April 2020) was accompanied by a renewed fall in unfinished workloads at service providers.

The rate of **input cost inflation** remained substantial in December, despite the pace of increase softening noticeably to a 19-month low. Higher energy and staff costs were widely reported, while firms also commented that a weaker exchange rate and greater transport and food costs had pushed up expenses. Services companies continued to record a much sharper rate of increase in costs than goods producers, despite both sectors seeing rates of inflation ease on the month. **Prices charged** meanwhile rose at the softest pace since August 2021, with a number of firms commenting on the need to remain as competitive as possible amid a weak demand environment.

**Optimism** around the 12-month outlook for business activity picked up slightly to a four-month high in December, but remained subdued in the context of historical data. Firms often anticipated that weaker economic conditions, intense cost pressures and higher interest rates would translate into further falls in spending and dampen output over the next year. Manufacturers remained more upbeat than service sector firms at the end of 2022, though both sectors saw relative improvements in confidence compared to November.

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



Sources: S&P Global, CIPS.

## 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:

*“The December data add to the likelihood that the UK is in recession, with the PMI indicating a 0.3% GDP contraction in the fourth quarter after the 0.2% decline seen in the three months to September.*

*“For now, the downturn looks to be relatively mild, and the easing in the rate of decline in December is encouraging news, as is the further marked cooling of inflationary pressures. However, the fact that the downturn has moderated compared to the turmoil created in the immediate aftermath of the botched “mini budget”, most notably in financial services, is no real cause for cheer. It is especially worrying to see business confidence and order book indicators remain so low by historical standards, with both of these key gauges signalling heightened degrees of economic stress.*

*“Hence it’s no surprise to see that businesses are battering down the hatches, most notably by reducing headcounts, in a sign that the downturn not only has further to run but could yet accelerate again, especially given December’s further hike to interest rates.”*

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

*“Customers were tightening their belts all round in December as new order levels continued to fall in manufacturing and services industries, and for the first time since February 2021 the UK’s stricken economy affected job creation, especially across the UK’s manufacturing sector.*

*“The manufacturing sector suffered another sharp drop in output that was the fastest since August as weak demand and damaged supply chains affected the delivery of raw materials and items such as electronic components. Without a strong economic wind behind them manufacturers started to doubt the need for their current headcounts and shed jobs at a quicker pace.*

*“Service sector activity evened out after their patchy performance over the last couple of months and performed better in December but were still blighted by high costs.*

*“The sustained rise in price pressures will pour fuel on the fire of squeezed business margins, hot on the heels of another interest rate rise making borrowing more difficult. The rise in optimism may be a small light on the horizon, but remains at a historically low level, supply chain managers believe there is little room for manoeuvre for private sector businesses.”*

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## Note to Editors

Final December data are published on 3 January for manufacturing and 5 January 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](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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