

# News Release

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## S&P Global / CIPS UK Services PMI<sup>®</sup>

### Slight reduction in service sector output as lacklustre demand conditions continue in October

#### Key findings

Business activity falls for the third month running

Sharpest decline in new work since November 2022

Cost inflation eases to the lowest for 32 months

UK service providers experienced another reduction in business activity during October, although the downturn was only marginal and slightly less marked than in September. Survey respondents typically cited cost of living pressures, high interest rates and weak consumer confidence as factors holding back customer demand.

Job shedding continued in October, reflecting lower new orders and uncertainty about the business outlook. The degree of optimism among services companies regarding year ahead growth prospects was the lowest in 2023 so far.

At 49.5 in October, the headline seasonally adjusted S&P Global / CIPS UK Services PMI<sup>®</sup> Business Activity Index was up fractionally from 49.3 in September and above the earlier 'flash' reading of 49.2. However, it remained below the crucial 50.0 no-change threshold for the third month running. Lower volumes of service sector output in recent months contrast with moderate growth earlier this year (the index averaged 53.3 during the first half of 2023).

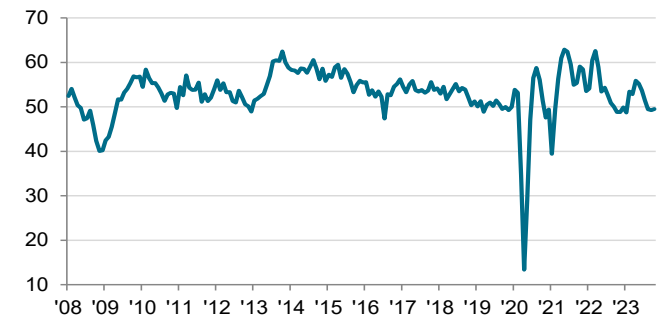
The marginal decline in business activity during October was often attributed to a lack of new business opportunities amid unfavourable domestic economic conditions and squeezed household budgets. Although only modest, the latest reduction in total new work was the fastest recorded since November 2022.

Pockets of growth in international markets helped to lift new export orders in October. Higher levels of new work from abroad have been recorded in ten of the past eleven months, with the latest upturn typically linked to rising demand from clients in the US and Middle East.

Volumes of unfinished work decreased for the fifth month running during October, which suggested that service providers had sufficient capacity to complete new and existing workloads. Employment numbers meanwhile decreased slightly, but at a slower pace than in September.

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 October 2023.

There were again several reports citing redundancies and the non-replacement of leavers due to weak sales and worries about the demand outlook.

The proportion of service providers expecting a rise in business activity over the year ahead (44%) continued to exceed those forecasting a reduction (12%). However, the degree of optimism signalled by the respective index was the lowest since December 2022. Growth expectations were often linked to long-term business expansion plans, forthcoming product launches and hopes of a gradual turnaround in market conditions. Those predicting a decline in activity often commented on the impact of reduced disposable consumer income and relatively weak overall business investment patterns across the UK economy.

Finally, input cost inflation remained on a downward trend in October, having now eased in four of the past five months. Although still sharp and above the long-run survey average, the latest overall increase in business expenses was the least marked since February 2021. Service providers mostly noted the inflationary impact of rising wages, fuel costs and food prices. This was partly offset by falling raw material costs as suppliers faced pressures to pass on lower commodity prices.

Average prices charged by service sector firms meanwhile increased at a robust pace in October. The latest increase was the fastest for three months, but still much slower than typically seen during the first half of 2023. Some survey respondents commented on fuel surcharges, while others linked rising output prices to persistently strong wage inflation.

## Comment

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

"A shallow downturn in UK service sector activity persisted in October as businesses struggled to make headway against a backdrop of worsening domestic economic conditions and stretched household budgets.

"Forward-looking survey indicators suggested that service providers will continue to skirt with recession. The degree of optimism towards the business outlook was the lowest in 2023 so far, despite relief that interest hikes have taken a pause this autumn.

"New orders meanwhile decreased to the greatest extent since November 2022 as cost of living pressures and elevated interest rates hit consumer spending. Survey respondents also noted that weak business investment patterns and a wait-and-see approach to new projects remained constraints on order books. A return to rising export sales was a positive development in October, with strong demand from clients in the US and Middle East cited as long-term growth drivers.

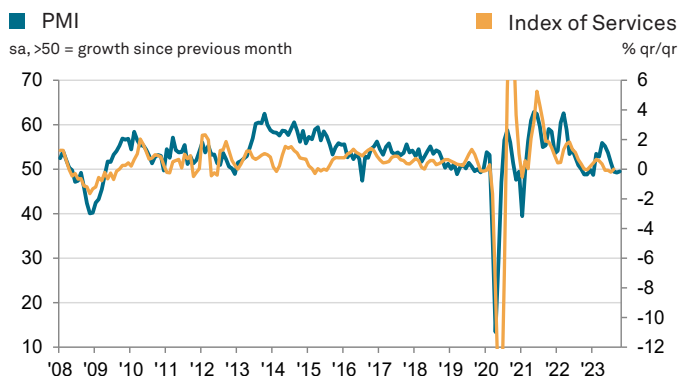
"Encouragingly, input cost inflation softened to the lowest for more than two-and-a-half years in October as falling raw material prices and supplier discounting helped to constrain pressures on business expenses. Higher wages and fuel bills were still passed on to clients, which resulted in the strongest increase in average prices charged inflation for three months."

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

"October brought the lowest levels of optimism this year so far as drained customer confidence affected new order levels which fell again for the third consecutive month.

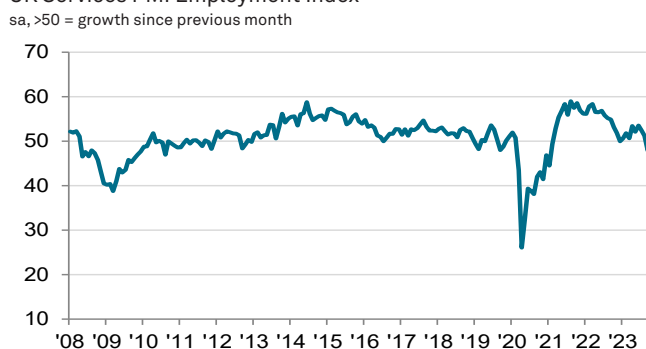
"Service providers were unable to shake off the malaise creeping over their sector and the UK economy as a whole as companies and consumers alike remained concerned about the high costs of living and operating and reduced their spending.

"Employment levels remained in contraction for the second month. The challenges appearing over the horizon are maintaining a chokehold on firms preventing them from expanding their operations until the fog of indecision around where the opportunities lie in the coming months lifts."



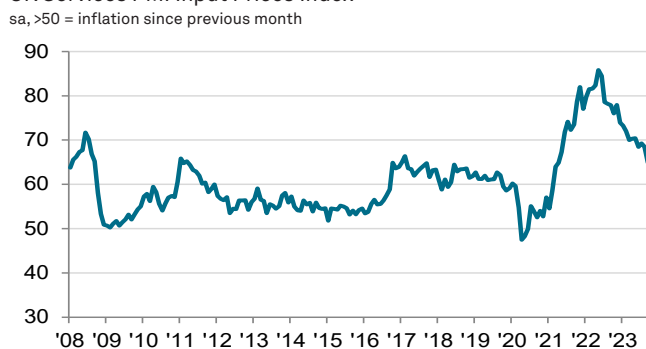
Sources: S&P Global PMI, ONS.

### UK Services PMI Employment Index



Sources: S&P Global PMI, CIPS.

### UK Services PMI Input Prices Index



Sources: S&P Global PMI, CIPS.

# S&P Global / CIPS UK Composite PMI®

## Input cost inflation lowest since January 2021

The final seasonally adjusted S&P Global / CIPS UK Composite PMI\* registered 48.7 in October, up fractionally from an eight-month low of 48.5 in September. However, the latest reading was still below the neutral 50.0 value and signalled a reduction in UK private sector output for the third consecutive month.

Manufacturing production once again decreased more quickly than service sector activity. A similar pattern was seen for new orders, with goods producers recording a much steeper drop in sales volumes than service providers.

Private sector employment fell for the second month running in October. Although only modest, the rate of job shedding was the second-fastest since January 2021.

Business expenses at private sector companies increased at the slowest pace for 33 months in October. Rising wages more than offset falling raw material prices, according to survey respondents. There were divergent trends for prices charged, with manufacturers cutting their output charges, while service providers signalled another robust rise.

\*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@spglobal.com](mailto:economics@spglobal.com).

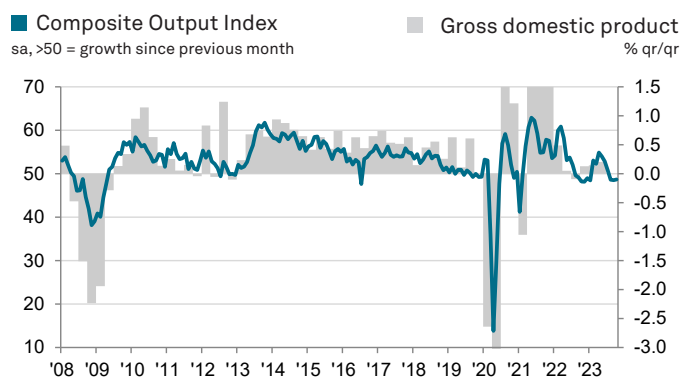
### Flash vs. final data

Flash services data were calculated from 73% 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.

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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](http://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. [www.spglobal.com/marketintelligence/en/mi/products/pmi](http://www.spglobal.com/marketintelligence/en/mi/products/pmi)