

# News Release

Embargoed until 0930 BST (0830 UTC) 05 July 2023

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

### Service sector growth loses momentum in June

#### Key findings

Slower increases in business activity and new work

Job creation edges up to a nine-month high

Input cost inflation eases to its lowest since May 2021

June data indicated a sustained upturn in UK service sector output, but the rate of expansion eased to its weakest for three months amid a much softer rise in new orders. In contrast, staffing levels expanded at the fastest pace since last September as improving candidate availability helped to boost recruitment.

Service providers recorded another sharp increase in their average cost burdens. Rising salary payments offset falling energy and transportation bills. However, the latest overall rise in business expenses was the weakest for just over two years. Prices charged by service companies meanwhile increased at the second-slowest pace since August 2021.

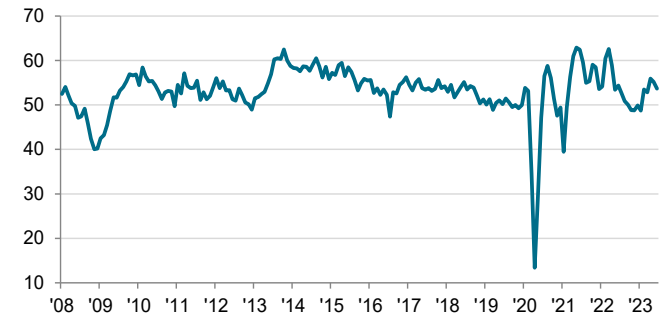
At 53.7 in June, down from 55.2 in May, the headline seasonally adjusted S&P Global / CIPS UK Services PMI<sup>®</sup> Business Activity Index signalled a slowdown in service sector output growth to its weakest since March. The latest index reading marked five months of continuous business expansion across the service economy. Survey respondents typically noted resilient business and consumer spending, despite pressure on budgets from elevated inflationary pressures. However, there were a number of reports citing weak demand from clients in the real estate and construction sectors, largely due to rising interest rates.

Volumes of new work increased moderately in June, but the rate of growth was the slowest since the current period of expansion began in February. Service providers often commented on longer decision-making among clients in response to concerns about the domestic economic outlook and the impact of higher borrowing costs.

Export sales were a reasonably bright spot in June, despite ongoing reports of Brexit-related trade constraints. Total new work from abroad expanded solidly and at the fastest pace for three months. Service providers often commented on higher demand from US and European clients. This partly reflected a

S&P Global / CIPS UK Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 12-28 June 2023.

boost to export sales from the swift recovery in international travel.

Employment numbers increased for the sixth consecutive month in June. The rate of job creation accelerated to its fastest since September 2022. Service providers widely noted that vacancies had become easier to fill. Additional staff recruitment helped to boost business capacity and in turn resulted in an overall reduction in backlogs of work for the first time since January.

June data meanwhile pointed to another steep increase in input costs across the service economy, but the overall rate of inflation eased for the first time in three months and was the slowest since May 2021. Survey respondents overwhelmingly cited higher salary payments as the reason for increased cost burdens.

Prices charged by service providers also increased at a slower pace in June, reflecting weaker cost pressures and some reports citing pressure from clients to offer discounts. Where output charges were increased, this was often attributed to additional labour costs and higher-than-expected inflation across the wider UK economy.

Looking ahead, service providers remain upbeat about their growth prospects. More than four times as many service sector firms (48%) predict a rise in business activity during the next 12 months as those that forecast a reduction (11%). The degree of positive sentiment nonetheless eased for the second month running and was the lowest since January. Survey respondents mostly commented on resilient sales pipelines and expectations of rising customer demand, but there were also a number of reports citing worries about cost of living pressures and the impact of higher interest rates.

## Comment

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

"The service sector showed renewed signs of fragility in June as rising interest rates and concerns about the UK economic outlook took their toll on customer demand. Business activity increased at the slowest pace for three months, while the rate of new order growth eased further from April's recent peak.

"Survey respondents typically cited more cautious decision-making among clients and a loss of momentum for spending on consumer services. Higher borrowing costs were also reported as contributing to more subdued business conditions in June, partly due to weaker spending in the construction and real estate sectors.

"Despite another slowdown in service sector growth, the latest survey indicated that labour market conditions remained relatively strong. Job creation reached a nine-month high as an improvement in candidate availability allowed firms to backfill vacancies and rebuild business capacity.

"Service providers experienced a moderation in overall input price inflation, with business expenses rising at the weakest pace since May 2021. However, cost pressures were still among the strongest seen since the survey began in July 1996 as widespread increases in salary payments offset falling fuel bills and energy prices."

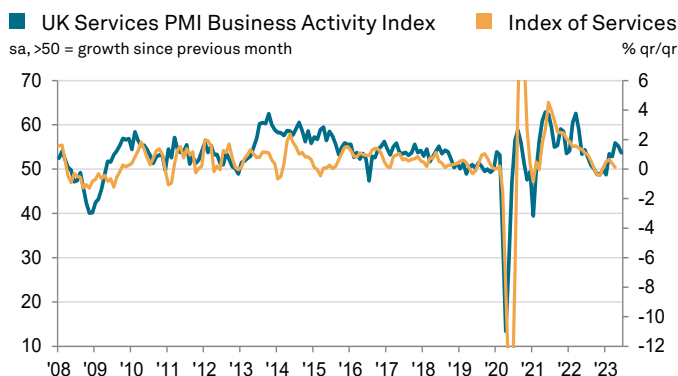
**Dr John Glen, Chief Economist, Chartered Institute of Procurement and Supply (CIPS):**

"Concerns that the engine of growth in the UK economy could be showing signs of slowdown were realised last month with the weakest rise in new orders since January. Though the sector remained in expansion mode, customer appetite to spend had decreased with concerns over interest rates and cost of living rises affecting household budgets.

"This in turn impacted on optimism in the sector which was the lowest for five months and charges to customers rose at the second-lowest levels since August 2021. Given there was more competition for orders, services companies were less driven to fill their coffers and improve their margins, even though their input costs remained at historically high levels.

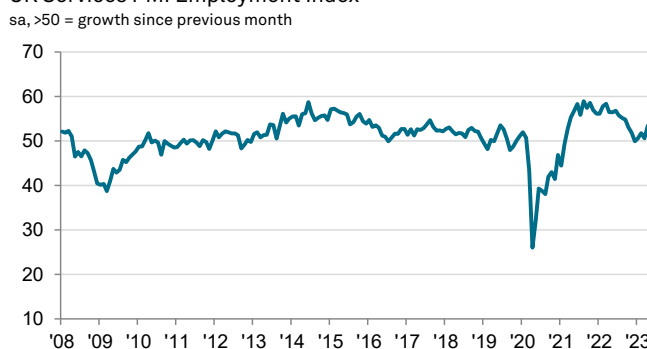
"Salary demands formed the biggest part of their cashflow concerns but with improvements in labour availability, firms were able to hire for skills they were unable to source at the beginning of the year and be in a better position should the marketplace grow stronger.

"With the UK economy still a hair's breadth away from recession, companies will be making modest plans for future business this year rather than for the highs experienced in the last few months."



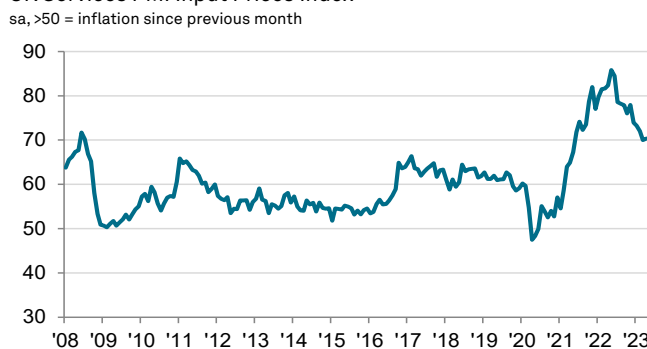
Sources: S&P Global PMI, ONS.

### 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®

## Weakest rise in private sector output since March

The seasonally adjusted S&P Global / CIPS UK Composite PMI\* posted 52.8 in June, to remain above the neutral 50.0 threshold for the fifth consecutive month. However, the latest reading was down from 54.0 in May and signalled the slowest rate of private sector output expansion since March.

A solid increase in service sector activity contrasted with another fall in manufacturing production. Lower volumes of manufacturing output have been recorded in 11 of the past 12 months.

Across the private sector as a whole, new orders expanded only marginally in June. Softer demand and rising employment led to the fastest fall in backlogs of work so far this year.

June data signalled a considerable slowdown in input cost inflation. The latest rise in average cost burdens was the least marked since February 2021. Meanwhile, prices charged by private sector firms increased at the slowest pace for 26 months.

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

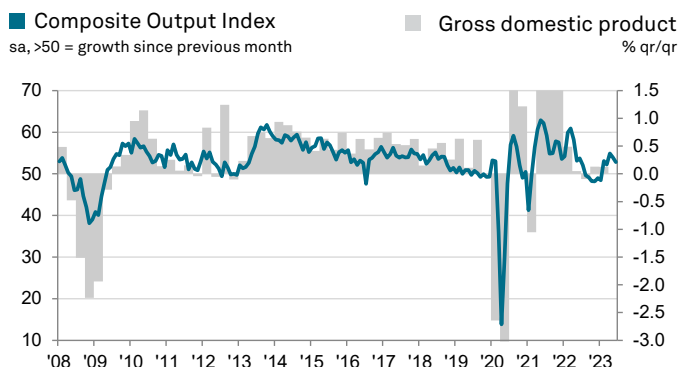
### Flash vs. final data

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.

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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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).