

News Release

Embargoed until 0930 BST (0830 UTC) 05 June 2023

S&P Global / CIPS UK Services PMI[®]

Strong growth signalled by UK service sector in May

Key findings

Robust rises in output and incoming new work

Staffing numbers increase for fifth month running

Wage pressures push up cost inflation to a three-month high

UK service providers maintained a strong rate of business activity expansion during May, with growth holding close to April's 12-month peak. Survey respondents commonly cited resilient customer demand and cautious optimism about the near-term growth outlook, despite pressure on budgets from elevated inflation.

Input costs increased at a rapid pace in May and the latest round of inflation was the strongest for three months. Higher operating expenses were overwhelmingly linked to rising staff wages. Efforts to pass on higher payroll costs resulted in a further steep increase in average prices charged.

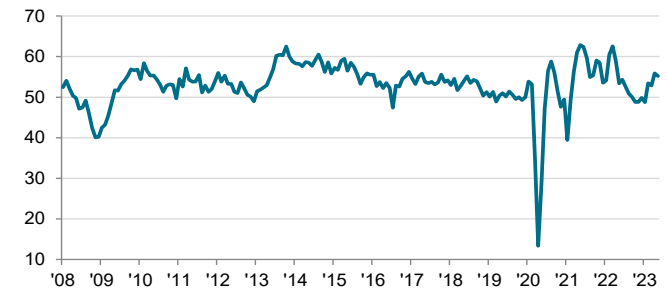
The headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index posted 55.2 in May, down slightly from 55.9 in April but above the neutral 50.0 value for the fourth consecutive month. The latest reading signalled a strong rate of business activity growth that remained faster than the long-run survey average and compared favourably with the soft patch seen in the second half of 2022.

Higher levels of service sector output were often linked to rising spending on consumer services, especially tourism and leisure. There were also many reports of greater demand for technology services.

Robust sales pipelines and greater willingness to spend, despite ongoing economic uncertainty, helped to boost order volumes in May. The rate of new business expansion eased only slightly from April's 13-month high. Latest data also highlighted a solid upturn in export sales, which survey respondents attributed to increased international visitor numbers, alongside strengthening demand for business services among clients in the US and Europe.

A combination of robust demand and improved candidate availability encouraged additional staff recruitment in May. That said, the rate of job creation eased since April and remained much softer than seen throughout much of 2022.

S&P Global / CIPS UK Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global, CIPS.
Data were collected 11-26 May 2023.

Some service providers commented on the non-replacement of voluntary leavers due to higher wages and squeezed margins. Staff shortages contributed to another increased in unfinished work during May, which extended the current period of backlog accumulation to four months. Capacity pressures were nonetheless partly alleviated by improving supplier lead times, according to survey respondents.

May data signalled a rapid increase in average cost burdens across the service economy. Moreover, the overall rate of input price inflation edged up to a three-month high. Elevated wage pressures and ongoing supplier price hikes, especially for food items, were widely reported. Service sector firms nonetheless noted that lower fuel bills had helped to limit input cost inflation during the latest survey period.

Prices charged by service providers continued to rise sharply in May. That said, the rate of inflation eased to its second-lowest since August 2021. Some businesses noted that price resistance among clients had started to act as a brake on output charges.

Finally, the latest survey indicated that service sector companies are upbeat about their prospects for output growth over the year ahead. Around half of the survey panel forecast a rise in business activity, while only one-in-ten anticipate a reduction. Positive sentiment was mostly attributed to a robust sales pipelines and long-term business expansion plans. Those predicting a drop in business activity often cited the adverse impact of higher interest rates and subdued housing market conditions on customer demand.

Comment

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

"Service sector businesses have experienced strong growth so far in the second quarter of 2023, fuelled by resilient demand for consumer and technology services, combined with a post-pandemic tailwind as households switched from spending on goods to services. Rising export sales were also reported in May, reflecting increased international visitor numbers and improving demand for business services from clients based in the US and Europe.

"Job creation was maintained in May as service providers recruited additional staff in support of rising business requirements. Some firms noted a gradual improvement in candidate availability, likely reflecting a slowdown in hiring from the levels seen last year.

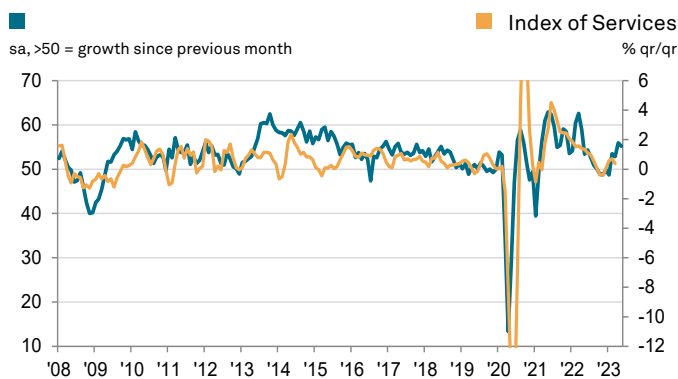
"Intense wage pressures continued across the service economy, despite a moderation in employment growth. Higher salary payments more than offset lower fuel costs, which meant that overall input price inflation edged up to its strongest for three months in May. Average prices charged by service sector companies nonetheless increased at the second-weakest pace since August 2021 amid some reports of greater price resistance among clients."

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

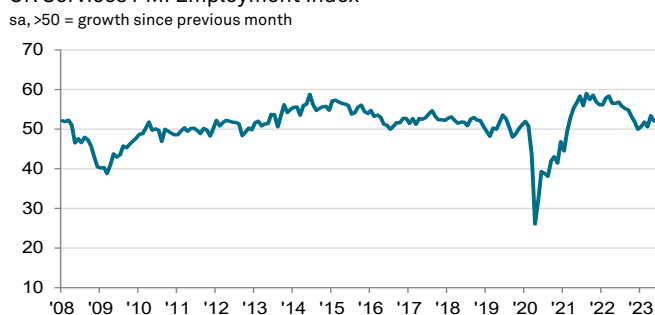
"The service sector was running in the opposite direction to the declining manufacturing sector in the UK, powering ahead with another strong rise in new orders including work from overseas and rising tourist numbers. Optimism was high with half of all respondents predicting a strong year ahead, keeping positivity close to April's recent peak.

"Some providers fared less well, however. Those linked to manufacturing and consumer goods recorded slower sales and activity such as logistics providers who were sitting on their hands – a far cry compared to the pressures on transportation seen during the pandemic where transport costs soared as availability diminished.

"The spending patterns amongst consumers seemed to be at odds with the continuing cost of living crisis. Another interest rate rise is predicted this month which will add to mortgage costs, whilst service providers continued to pass their higher bills on to customers at a fast rate. Business costs rose at the sharpest rate in three months, spent mostly on salaries and mandatory living wage rises, which begs the question whether the level of activity is near its peak already."



UK Services PMI Employment Index



Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index



Sources: S&P Global, CIPS.

S&P Global / CIPS UK Composite PMI®

Two-speed UK economy continues in May

The seasonally adjusted S&P Global / CIPS UK Composite PMI* registered 54.0 in May, down from 54.9 in April but still indicative of a solid upturn in private sector output volumes. Higher levels of business activity have been recorded in each month since February.

There were again divergent trends across the UK private sector economy, as rising services activity helped to offset a fall in manufacturing production. Moreover, the latest decline in manufacturing output was the steepest since January. Similarly, new order intakes and employment numbers decreased among goods producers but continued to rise in the service economy.

May data pointed to the slowest overall rise in average cost burdens across the private sector since March 2021. This largely reflected an outright decline in purchase prices in the manufacturing sector for the first time in three-and-a-half years.

*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.

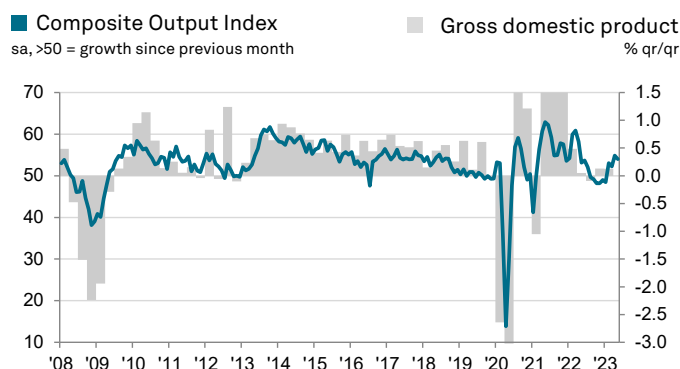
Flash vs. final data

Flash services data were calculated from 79% 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).

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.



Sources: S&P Global, CIPS, ONS.

Contact

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761576
trudy.salandiak@cips.org

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

About CIPS

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

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.