News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 23 June 2022

S&P Global / CIPS Flash United Kingdom PMI®

Business expectations slump to weakest since May 2020 as new order growth loses considerable momentum in June

Key findings:

Flash UK PMI Composite Output Index(1) at 53.1 (May: 53.1). Unchanged since previous month.

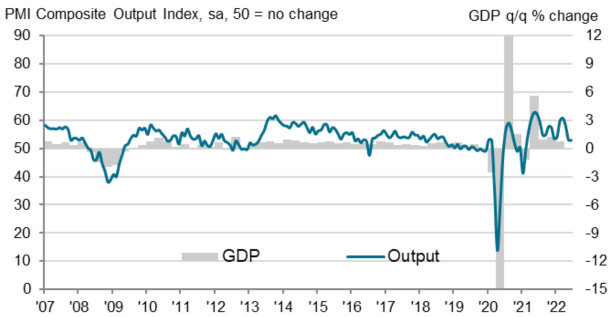
Flash UK Services PMI Business Activity Index(2) at 53.4 (May: 53.4). Unchanged since previous month.

Flash UK Manufacturing Output Index(3) at 51.2 (May: 51.6). 16-month low.

Flash UK Manufacturing PMI(4) at 53.4 (May: 54.6). 23-month low.

Data were collected 13-21 June

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



June data indicated that output growth across the UK private sector was unchanged from the 15-month low seen in May. Resilient business activity trends were seen across the service economy as a whole, but manufacturing production growth eased further to its lowest since February 2021. Demand conditions remained subdued in June, with new order growth slowing for the fourth month running and to a greater extent than seen during May.

Worries about customer spending cutbacks and the impact of rapid inflation on the longer-term economic outlook led to another fall in business activity expectations. Optimism at UK private sector companies has declined in each month since February and is now the lowest for just over two years.

At 53.1 in June, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** was unchanged from the reading in May and posted above the neutral 50.0 value for the sixteenth consecutive month. However, the index was the joint-lowest seen over this period and much weaker than the average in the first quarter of 2022 (58.3).

By sector, **service providers** (index at 53.4) continued to outperform **manufacturers** (51.2), with the latter signalling only marginal production growth in June amid widespread reports of weaker demand as well as ongoing supply issues. A sustained recovery in events and other areas of face-to-face consumer spending helped to boost business activity in the service economy. However, many survey respondents also cited growth headwinds from the cost of living crisis and heightened economic uncertainty.

The seasonally adjusted index measuring **new order volumes** across the UK private sector as a whole dropped from 53.8 in May to 50.8 in June, which signalled only a marginal overall expansion and the weakest rate of growth since the recovery began in March 2021. Manufacturing order books were particularly subdued, with this index slightly below the 50.0 no-change threshold and pointing to the weakest performance for two years. UK private sector firms cited hesitancy among clients and squeezed budgets due to rising inflation as key factors holding back demand.

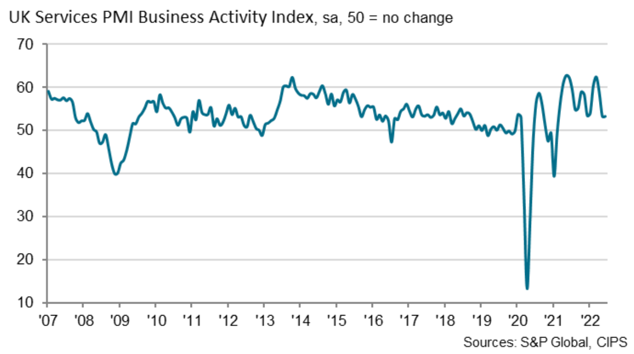
Despite weaker new business growth, the latest survey signalled a robust and accelerated rise in **staffing numbers**. Job creation was the fastest for three months, led by stronger hiring in the service sector. Higher levels of employment reflected efforts to fill vacancies, meet increased business requirements and process unfinished workloads. Survey respondents continued to report considerable difficulties with finding suitable candidates to replace departing staff, however.

Strong wage pressures added to **cost burdens** at private sector companies in June. Measured overall, input prices increased at a slightly slower pace than in May, but the rate of inflation was still the second-fastest since the index began in January 1998. Service providers typically noted higher salary payments, fuel costs and the impact of supply shortages. Manufacturers mostly cited higher energy costs and raw material prices, although the overall rate of purchase price inflation eased to a four-month low in June.

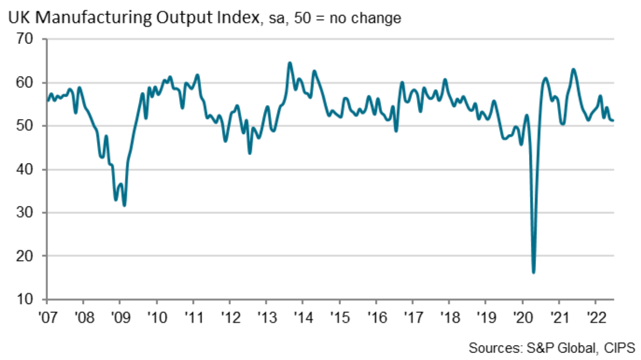
Exceptionally strong cost pressures resulted in a steep increase in **average prices charged** in June. The rate of output charge inflation eased to its lowest since February, but remained higher than at any other time in the past two decades. The need to pass on higher energy, fuel and wage costs to customers was widely reported by manufacturers and service providers alike in June.

Concerns about persistently high inflation, alongside impending cutbacks to non-essential spending by households and businesses, contributed to another drop in output growth projections for the year ahead. The **business expectations** index fell by 4.6 points in June, which was the largest monthly decline since the start of the pandemic. Both manufacturers and service providers reported the lowest degree of business optimism since May 2020.

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



S&P Global / CIPS Flash UK Manufacturing Output Index



Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"The economy is starting to look like it is running on empty. Current business growth is being supported by orders placed in prior months as companies report a near-stalling of demand. Manufacturers in particular are struggling with falling orders, especially for exports, and the service sector is already seeing signs of the recent growth spurt from pent-up pandemic demand move into reverse amid the rising cost of living.

"Business confidence has now slumped to a level which has in the past typically signalled an imminent recession. The weakness of the broad flow of economic data so far in the second quarter points to a drop in GDP which the forward-looking PMI numbers suggest will gather momentum in the third quarter.

"While there are some signs that the inflation could soon peak, the survey data suggest the rate of inflation will meanwhile remain historically high for some time to come, indicating that the UK looks set for a troubling combination of recession and elevated inflation as we move into the second half of the year."

Duncan Brock, Group Director at CIPS, said:

"The economic uncertainty brought about by war disruptions, the cost of living crisis, and China's Zero Covid-19 policy, have all dampened business optimism to its lowest point since the start of the pandemic.

"New order growth was also at its lowest point since February 2021. The manufacturing sector was one of the worst affected, with new orders decreasing at the fastest rate for two years. The service sector fared better as hospitality and events businesses came roaring back to life after the end of multiple lockdowns. However, supply chain managers have expressed concerns over the current cost of doing business, with inflation hitting a 40 year high and businesses increasingly having to pass costs on to consumers.

"The supply chain squeeze seemed to have little effect on the job creation numbers as the UK saw the highest staffing increase since March this year. Though, this is most likely a sign of businesses making up for the staff shortages suffered earlier in the year. So, with business expectations now the lowest since May 2020, the next few months will be a true test for how sustainable this capacity building will be."

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Note to Editors

Final June data are published on 1 July for manufacturing and 5 July 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.

PMI® by S&P Global

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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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