

## MARKET SENSITIVE INFORMATION

Embargoed until 0930 GMT (0930 UTC) 24 January 2023

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

### Sharpest drop in business activity for two years, but growth expectations rebound during January in wake of reduced inflationary pressures

#### Key findings:

Flash UK PMI Composite Output Index<sup>(1)</sup> at 47.8 (Dec: 49.0). 24-month low.

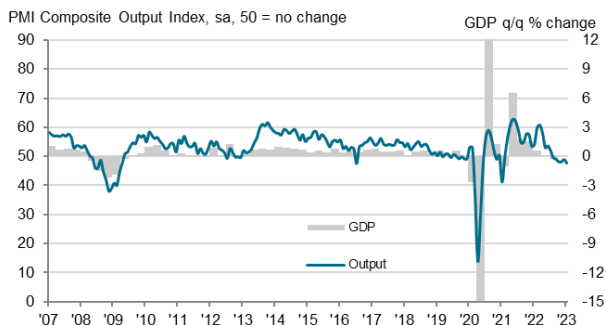
Flash UK Services PMI Business Activity Index<sup>(2)</sup> at 48.0 (Dec: 49.9). 24-month low.

Flash UK Manufacturing Output Index<sup>(3)</sup> at 46.6 (Dec: 44.4). 6-month high.

Flash UK Manufacturing PMI<sup>(4)</sup> at 46.7 (Dec: 45.3). 4-month high.

Data were collected 12-20 January

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



Sources: S&P Global, CIPS, ONS.

January data highlighted a sustained downturn in UK private sector business activity. Although only modest, the overall rate of decline accelerated to its fastest for two years. Service providers experienced a marked loss of momentum since December, with survey respondents citing higher interest rates and low consumer confidence as key factors that held back business activity.

Despite falling output volumes and weak demand, optimism regarding the year ahead outlook for business activity picked up in January and was the strongest since May 2022. This improvement appeared to reflect hopes of a turnaround in global economic conditions and a further slowdown in cost pressures over the course of 2023.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 47.8 in January, down from 49.0 in December, to remain below the neutral 50.0 threshold for the sixth consecutive month.

Moreover, the latest reading signalled the fastest rate of decline since the national lockdown in January 2021.

A faster overall drop in private sector output mostly reflected a weaker **service sector performance**, with business activity falling at the steepest pace for two years (index at 48.0, down from 49.9 in December). **Manufacturing production** meanwhile decreased considerably in January (index at 46.6), but the rate of contraction was the least marked since July 2022.

Lower volumes of private sector activity were often attributed to squeezed household incomes, alongside greater risk aversion among corporate clients and a subsequent drop in business investment. The fragile backdrop for customer demand resulted in a sustained downturn in **new work** during January. However, the overall decline in new orders was only marginal and the softest seen since August 2022.

Another modest fall in new business intakes contributed to fewer pressures on capacity during January. This was signalled by a third consecutive monthly fall in **backlogs of work**, alongside a fractional reduction in **employment numbers**. Cutbacks to staffing levels were most prevalent in the manufacturing sector, whereas service providers recorded a slight uplift in employment at the start of 2023.

Turning to **cost pressures**, the latest survey highlighted a continued slowdown across the private sector economy in January. The overall rate of input cost inflation eased for the second month running to its lowest since April 2021. Survey respondents typically cited wage pressures as a factor leading to rising business expenses, but this was offset by lower fuel bills, commodity prices and shipping costs. Manufacturers experienced the biggest slowdown in input cost inflation, with the latest reading the weakest since October 2020.

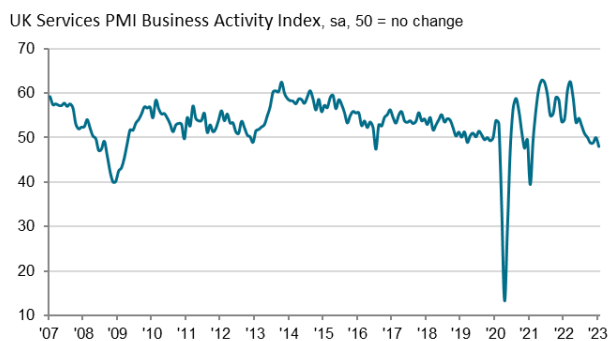
**Average prices charged** by private sector companies increased sharply in January, driven by historically strong inflationary pressures and efforts to pass on rising staff wages. However, the latest increase in output charges was the weakest since August 2021, reflecting more constrained pricing power and softer rises in transport and raw material costs.

Meanwhile, **business expectations** for the year ahead

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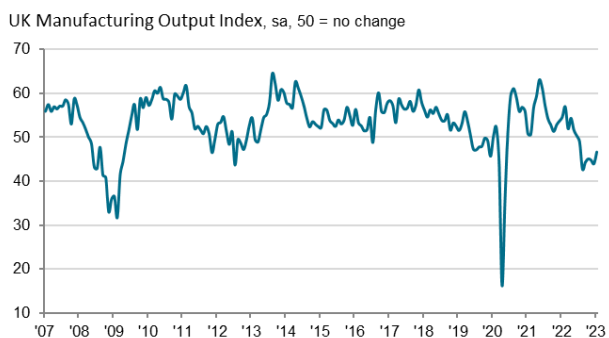
improved considerably in January. This index has rebounded in each month following the low point seen in October 2022, with the latest reading pointing to the strongest degree of optimism for eight months. Higher levels of confidence were recorded in both the manufacturing and service sectors, driven by hopes of an improving global economic backdrop and lower domestic inflationary pressures over the course of 2023.

## 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:

*“Weaker than expected PMI numbers in January underscore the risk of the UK slipping into recession. Industrial disputes, staff shortages, export losses, the rising cost of living and higher interest rates all meant the rate of economic decline gathered pace again at the start of the year. Jobs also continued to be lost as firms tightened their belts in the face of these headwinds, though many other firms reported being constrained by an ongoing lack of available labour.”*

*“There were some bright spots in the survey, including improved business expectations for the year ahead and a further cooling of inflationary pressures. The overall rate of decline indicated also remains only modest. But this is undeniably a disappointing start to the year for the UK, reflecting not just short-term hits to growth such as strike action and the rise in energy costs due to the Ukraine war, but also highlighting the ongoing damage to the economy from longer term structural issues such as labour shortages and trade woes linked to Brexit.”*

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

*“January saw a second-rate level of performance from private sector business with the sharpest fall in output since January 2021, but some bright spots appeared on the horizon in terms of inflation and optimism to balance out the gloomy numbers.”*

*“Manufacturing firms took another hammering and sank further into negative territory at 46.6, as the lower levels of interest in customer orders took their toll but it was the poor performance of services business that was the main drag. Slight improvements in the rate of inflation will only start to trickle down through the remainder of 2023 and though it was manufacturers that fared the best with the weakest rise for goods prices since October 2020, consumers and businesses won’t see wholesale improvements quickly.”*

*“Though the country still teeters on the precipice of a recession, supply chain managers commented on improved times for raw material deliveries and optimism amongst private sector firms was the best for eight months signalling the downturn may not be as long and protracted as feared.”*

-Ends-

# News Release

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## Note to Editors

Final January data are published on 1 February for manufacturing and 3 February for services and composite indicators.

The S&P Global / CIPS Flash UK Composite PMI<sup>®</sup> 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<sup>®</sup> (PMI<sup>®</sup>). 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.

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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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