

News Release

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S&P Global / CIPS UK Services PMI[®]

Service sector moves towards stabilisation

Key findings

Fractional fall in activity recorded at end of 2022

Inflation rates down, but still high

Employment unchanged, ending long period of jobs growth

The UK service sector remained inside contraction territory, but only just as 2022 ended. Activity was down fractionally, whilst new business fell at its weakest rate for three months. Cost pressures also showed signs of weakening, with inflation rates down for both operating expenses and charges. Nonetheless, price pressures remain elevated, and the business environment challenging. Firms subsequently exhibited a cautious attitude to hiring staff, which overall were left unchanged compared to November.

At 49.9, compared to November's 48.8, the headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index improved in December though remained below the 50.0 no-change mark for a third month in a row. Although the best reading since September, and indicative of a broad stabilisation of activity, the latest survey data and anecdotal evidence from panellists nonetheless painted a picture of a difficult operating environment. There were reports that cost of living pressures and high inflation continued to depress consumption, whilst uncertainty and hesitancy characterised business decision making. Indeed, firms and clients were reported to be delaying making commitments to new contracts until 2023. The net result was a fourth successive monthly fall in new business volumes placed with UK service providers. Domestic weakness was also the key depressor of overall sales: new export business rose in December, albeit only slightly, for the first time since August.

Inflation, as it has done throughout 2022, remained a dominant theme in December's survey. Firms again reported a substantial, and historically elevated, rise in operating expenses during the month. However, in a further sign that some of the upward pressures that have characterised price rises in 2022 are slowly unwinding, the rate of inflation was the lowest in 15 months. Sources of higher costs remained fuel and utilities, the limited supply of goods and, in some instances, suppliers seeking to repair damaged profit

S&P Global / CIPS UK Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global, CIPS.

Data were collected 06-21 December 2022.

margins. Wages and salaries were also noted as a key driver of higher expenses. Firms again signalled little option but to pass on increased costs wherever possible, although in the face of strong competition, indicated a reticence to raise charges too strongly. Overall, output prices subsequently rose to the lowest degree since the start of 2022.

The last survey of the year pointed to a growing caution amongst firms when it came to hiring new staff. Although several firms sought to fill previously advertised vacancies, and continued to bemoan a lack of available staff, many companies were unwilling to replace leavers or take on new workers at a time of underwhelming trends in new work and activity. The net result was no overall change in employment, and thereby snapping a 21-month sequence of jobs growth. This had little negative impact, however, on firms' ability to keep on top of workloads, with latest data showing that backlogs of work fell in December for the first time for four months.

A degree of caution and uncertainty also showed up in the latest expectations data. Although firms are more optimistic than in November, and notably more so after September's 'mini-budget', sentiment remained somewhat below par in December. Although planned new services, greater investment and higher marketing activity should all support growth, firms also remain worried about the corrosive effects on consumption of high inflation.

Comment

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

"UK service providers ended the year with another downturn in new orders as strong inflationary pressures and worries about the economic outlook sapped demand. Overall levels of business activity fell only fractionally, despite an exceptionally challenging business environment and spending cutbacks due to cost of living difficulties.

"Stalling recruitment and lower backlogs of work added to signs that service sector companies are now experiencing fewer capacity pressures. Business optimism has recovered from the lows seen in the wake of last September's 'mini-Budget', but many firms are braced for a sustained period of subdued demand in 2023.

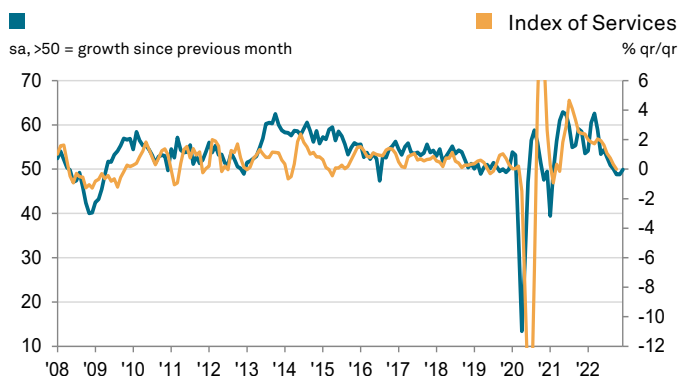
"Around 40% of the survey panel expect a rise in business activity over the next 12 months, while 16% forecast a decline. Survey respondents commented on squeezed disposable incomes, elevated recession risks and a housing market downturn as key factors likely to constrain demand in the year ahead. Although service providers widely noted concerns about global economic headwinds and stubbornly high inflation, there were also many reports citing positivity about factors within their control, including forthcoming product launches, expansion into new markets and planned business investment."

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

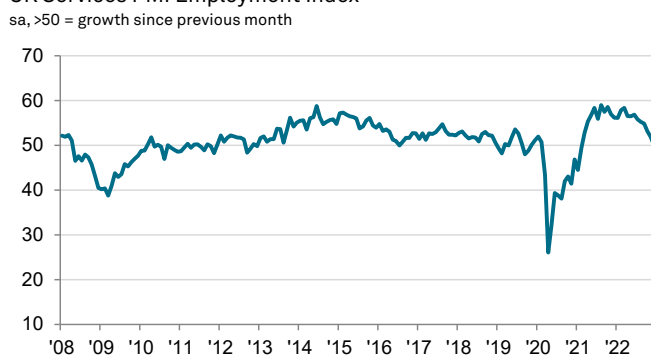
"With more uncertainty than ever in the UK economy, squeezed service providers remained hampered by stubbornly high costs and low customer volumes and the sector remained in contraction. With reduced output for the third month in a row, the slowest rise in the cost of doing business for fifteenth months was not enough to stop service providers focusing on getting good value from their supply chains without racing to the bottom on price.

"This shrinkage has also started to impact on job creation levels which stalled for the first time in almost two years. With another drop in orders, especially from domestic customers, businesses were cautious about building more operating capacity which in turn will affect job seekers looking for the next pay rise to manage cost of living rises as the country braces itself for another recession.

"There were some noticeable improvements in the efficiency of supply chains where stocks of essential materials were in greater supply. However, industrial action affected some businesses with transportation issues and delayed deliveries reversing recent supply improvements in parts of the service economy."

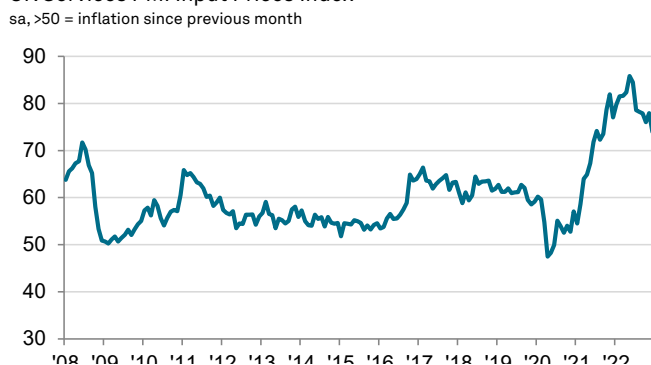


UK Services PMI Employment Index



Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index



Sources: S&P Global, CIPS.

S&P Global / CIPS UK Composite PMI®

Private sector experiences marginal fall in activity

The seasonally adjusted S&P Global / CIPS UK Composite PMI* remained below the 50.0 no-change mark for a fifth successive month during December. With services only recording a very fractional fall in activity, the overall decline in output signalled by the index was only marginal and the slowest since September. The index posted 49.0 in December, up from 48.2 in November.

Both services and manufacturing recorded falls in new business, equating to a fifth successive monthly reduction in new work. The latest decline enabled firms to lower their work outstanding, most notably in manufacturing, where jobs were also lost for the third month running.

Input cost inflation headed sharply downwards during December, reaching its lowest level since May 2021. Average prices charged similarly rose to a lesser degree, with inflation its softest in 16 months. Nonetheless, costs and output prices continue to increase at elevated rates.

*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.

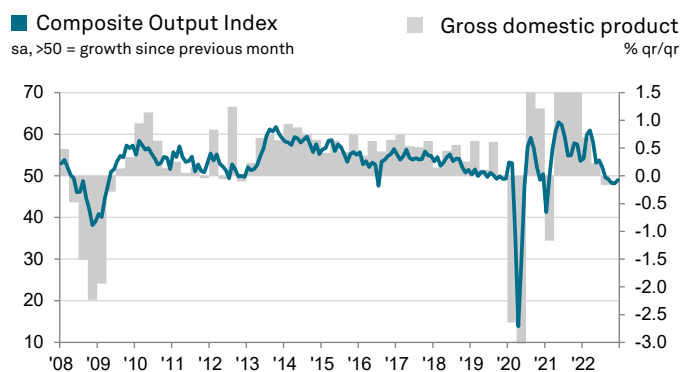
Flash vs. final data

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).

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Sources: S&P Global, CIPS, ONS.

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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. ihsmarkit.com/products/pmi.html.