

S&P Global UK Services PMI[®]

New work declines for first time since October 2023

Renewed downturn in order books

Marginal output growth in January

Fastest reduction in employment for four years

S&P Global UK Services PMI[®] data signalled a sustained expansion of business activity. However, incoming new work declined in January and the pace of job shedding accelerated to its sharpest for four years.

At the same time, greater payroll costs meant that input price pressures continued to intensify at the start of 2025. The overall rate of cost inflation was the highest for nine months, which resulted in a robust and accelerated rise in average prices charged by service sector firms.

Adjusted for seasonal influences, the headline S&P Global UK Services PMI[®] Business Activity Index registered 50.8 in January, down fractionally from 51.1 in December and the joint-lowest for 15 months (equalling that seen in November 2024). The latest reading was also well below the pre-pandemic average and signalled only a marginal increase in service sector output.

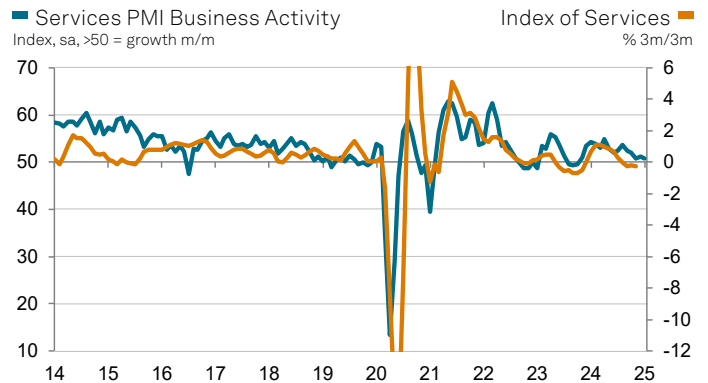
Service providers widely noted headwinds to growth from cost cutting and heightened risk aversion among corporate clients as well as delayed investment plans. Meanwhile, there were also reports citing weak consumer confidence and cutbacks to non-essential household spending.

Total new work decreased slightly in January, thereby ending a 14-month period of sustained expansion. While some service providers commented on the impact of global economic uncertainty and elevated interest rates, many firms also linked lower new orders to weaker business confidence in the wake of the Autumn Budget. Where new business growth was recorded, survey respondents typically cited strong demand for technology services.

Export sales decreased for the second month running, albeit to a lesser extent than in December. Resilient demand from US clients was reportedly offset by lacklustre spending across Europe.

January data indicated a marked reduction in backlogs of work across the service economy, which typically reflected spare capacity following a sustained period of weak demand. The latest decline in unfinished work was the sharpest since August 2023.

Staffing numbers were reduced for the fourth consecutive month. The rate of job shedding accelerated to its fastest



Data compiled 09-29 January 2025.

Sources: S&P Global PMI, ONS via S&P Global Market Intelligence. © 2025 S&P Global.

Comment

Tim Moore, Economics Director at S&P Global Market Intelligence, said:

"January data highlighted a challenging business environment for UK service providers as stagflation conditions appeared to take a firmer hold at the start of the year. Output levels increased only marginally, while input cost inflation accelerated for the fifth month in a row to its highest since April 2024. Businesses widely noted sharply rising salary payments and many also felt the impact of suppliers passing on forthcoming increases in employers' national insurance contributions.

"A renewed downturn in new business volumes added to signs that the near-term UK economic outlook remains tilted to the downside. Service providers typically cited risk aversion among clients and subsequent cutbacks to investment plans, albeit with resilient spending continuing in areas such as technology services.

"Business activity expectations for the year ahead weakened in response to subdued demand in January, with optimism now the lowest since December 2022. A range of growth headwinds at home and abroad were cited by survey respondents, including elevated interest rates, geopolitical uncertainty and a post-Budget slide in domestic business confidence.

"The twin perils of shrinking workloads and rising payroll costs meant that many service providers put the brakes on recruitment in January. As a result, total employment numbers across the service economy decreased to the greatest extent for four years. Job cuts were seen in most sub-sectors, with leisure and hospitality businesses indicating a particularly sharp rate of decline."

since January 2021. Anecdotal evidence suggested that rising payroll costs and lower margins had encouraged hiring freezes and a focus on boosting operational efficiency.

Rising salary payments and efforts by suppliers to pass on higher payroll costs contributed to the strongest pace of cost inflation since April 2024. Similarly, prices charged by service sector firms increased to the greatest extent for 13 months. This was despite some reports of price discounting to stimulate sales.

Concerns about squeezed margins, weak customer demand and lacklustre UK economic growth prospects were all cited as weighing on business confidence in January. The latest survey indicated the lowest degree of optimism regarding the year ahead outlook for service sector business activity since December 2022.

S&P Global UK Composite PMI®

Employment fell at the fastest pace since November 2020.

January data pointed to a reduction in private sector staffing levels for the fourth month running. Aside from the pandemic, the pace of job shedding was the steepest since the global financial crisis more than 15 years ago. Lower workforce numbers reflected subdued demand conditions and ongoing efforts to mitigate higher payroll costs. Overall input price inflation hit an 18-month high in January.

Meanwhile, the seasonally adjusted S&P Global UK PMI Composite Output Index registered 50.6 in January. This was up fractionally from 50.4 in December, but still indicative of only a marginal rise in private sector output.

Methodology

The S&P Global 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.

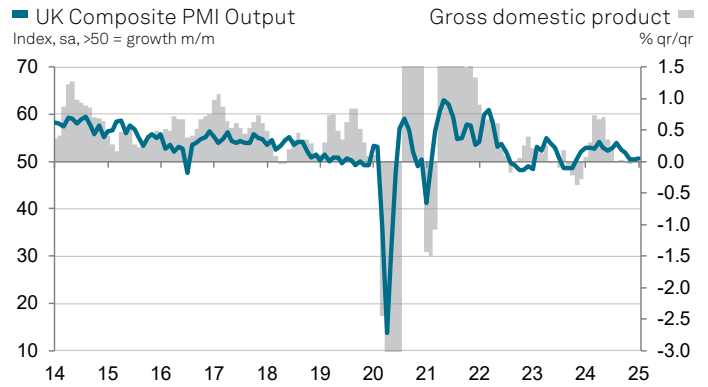
Flash services data were calculated from 86% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.2 (0.7 in absolute terms).

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@spglobal.com.

PMI by S&P Global

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