News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 23 May 2023

S&P Global / CIPS Flash United Kingdom PMI®

Service economy leads solid increase in UK private sector output during May, but growth slows from April's one-year peak

Key findings:

Flash UK PMI Composite Output Index(1) at 53.9 (Apr: 54.9). 2-month low.

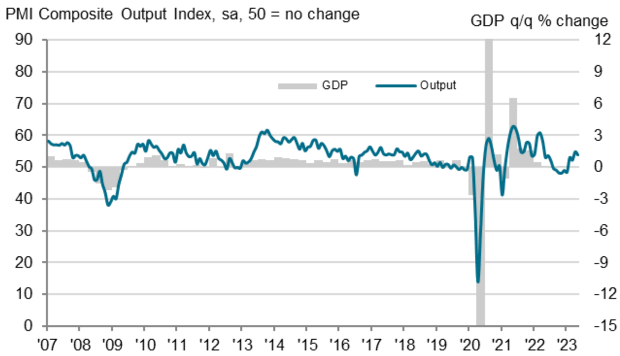
Flash UK Services PMI Business Activity Index(2) at 55.1 (Apr: 55.9). 2-month low.

Flash UK Manufacturing Output Index(3) at 47.4 (Apr: 49.3). 4-month low.

Flash UK Manufacturing PMI(4) at 46.9 (Apr: 47.8). 5-month low.

Data were collected 11-19 May

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



Sources: S&P Global, CIPS, ONS.

May data signalled another solid increase in private sector output, but the speed of expansion slowed since April. UK economic growth remained centred on the service sector, with travel, leisure and hospitality businesses widely commenting on resilient consumer demand. In contrast, manufacturing firms indicated the steepest reduction in production levels for four months.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 53.9 in May, down from April's 12-month high of 54.9 but still above the crucial 50.0 no-change threshold. The latest reading pointed to a solid expansion of private sector output that was broadly in line with the average since the series began.

Divergent trends continued between the **manufacturing** and service sectors in May. The former posted a decline in output for the third month running, which survey respondents often attributed to subdued order books and customer destocking. Some firms also linked lower factory production to the extra bank holiday in May.

Service providers meanwhile reported a slowdown in business activity expansion since April, despite many reports of strong demand in the consumer services segment. Budget pressures among corporate clients, rising economic uncertainty, and higher borrowing costs were among the reasons cited as headwinds to growth.

New work across the private sector economy increased at the weakest pace since February. Mirroring the trend for output levels, the latest survey indicated robust new business growth across the service sector, while manufacturers experienced a faster pace of decline. Moreover, **new orders from abroad** were unchanged in May as improving sales in the service economy were offset by the sharpest drop in manufacturing exports for four months. Goods producers commented on subdued global demand, Brexit-related trade headwinds, and intensifying competition for new orders in overseas markets.

Private sector **employment** increased for the second month running in May, although the rate of job creation was only marginal and remained notably weaker than seen on average in 2022. Additional staff hiring reflected rising business requirements, especially in the service economy, and renewed recruitment efforts amid improved candidate availability. This contributed to the sharpest reduction in **backlogs of work** since January. Moreover, manufacturing companies signalled the fastest decline in unfinished work for just over three years in May, helped by another robust improvement in suppliers' delivery times.

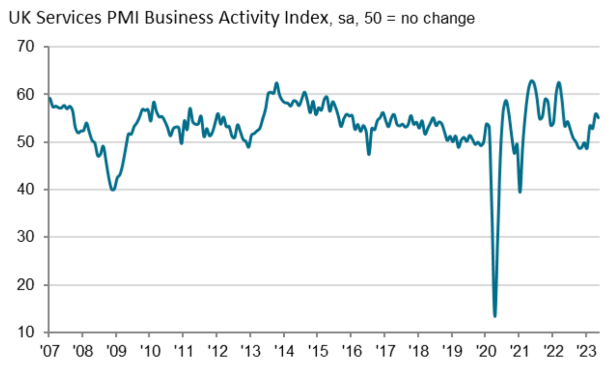
Input price inflation eased fractionally in May, with overall cost pressures now the least marked since March 2021. This was driven by the fastest decline in input costs among manufacturing firms for just over seven years. Goods producers commented on falling energy bills and raw material prices. However, strong wage inflation meant that service providers experienced the fastest rise in their cost burdens for three months. Meanwhile, **output charges** across the private sector economy increased at an historically steep pace in May, although the rate of inflation was the second-lowest since August 2021.

PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply

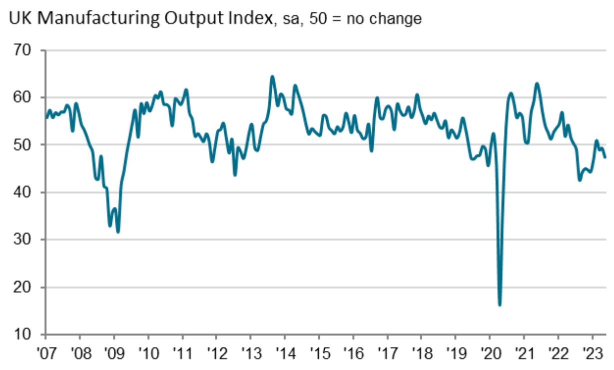
Looking ahead, both manufacturers and service providers signalled weaker business optimism than in April. The overall degree of confidence regarding private sector output growth during the next 12 months was the lowest since February. Survey respondents suggested that worries about the broader economic outlook had led to uncertainty among clients, while there were also a number of reports citing concerns about higher interest rates and ongoing weakness in the residential property sector.

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:

"The UK economy enjoyed another month of strong growth in May, with the expansion continuing to be driven by surging post-pandemic demand in the service sector, notably from consumers and for financial services, with hospitality activities buoyed further by the Coronation. The surveys are consistent with GDP rising 0.4% in the second quarter after a 0.1% rise in the first quarter.

"However, this growth spurt is driving renewed inflationary pressures, as service providers struggle to meet demand and hence not only offer higher wages to attract staff but also find themselves able to charge more for their services.

"It's a different story in manufacturing, where spending is being diverted away from goods to services, and many companies are also winding down their inventories, exacerbating the downturn in demand and driving both output and prices lower.

"The UK is therefore seeing a tale of two economies, with the divergence between manufacturing and services posing difficulties for policymakers. However, it's the far larger service sector that will typically dictate policy, meaning these survey results are nothing but hawkish in suggesting the Bank of England has more work to do to quash stubbornly high inflationary pressures in the services economy."

Dr John Glen, CIPS Chief Economist said:

"Activity growth in private sector business softened last month to the lowest since March as subdued customer demand put a dampener on levels of new orders. Uncertainty returned as businesses were worried about higher interest rates impacting on business investment and consumers about their household bills.

"The dominant UK service sector however fared better than the manufacturing sector. The severe pressures of Brexit resulted in a drop in export orders for the fourth month in a row for producers as competition in markets outside the UK intensified. Service providers in stark contrast had a solid month because consumers chose experiences above goods and spent more on hospitality, travel and eating out.

"This spending was in spite of relatively strong increases in prices charged across both sectors. Services saw higher wage bills as the main pressure contributing to their overall running costs whereas makers found that lower energy bills and improved supply chains resulted in inflationary pressure falling to its lowest since 2016.

"Regardless of the swings and roundabouts shown in the data, neither sector was particularly cheery about the next 12 months as the evident weaknesses in the UK economy remained obstacles to a clear pathway to full recovery."

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Note to Editors

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

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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.

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 200,000 in over 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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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