

# News Release

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## S&P Global / CIPS UK Services PMI<sup>®</sup>

### Service sector growth continues to slide in August

#### Key findings

Marginal gain in activity reflects downward pressure on sales

Costs and charges continue to rise sharply

Confidence subdued, but employment up markedly again

The UK service sector continued to expand during August, but only just as growth softened to a marginal rate that was the slowest in the current 18-month run. Although sales continued to rise, they did so only modestly amidst growing economic uncertainty, reduced client confidence and worries over high inflation. Indeed, cost pressures remain extremely elevated, linked in the main to rising energy, fuel, and utility bills. Confidence about the future was again historically subdued.

The labour market remained, however, a source of notable resilience. Although staffing levels rose at a slower rate, growth remained marked as firms responded to higher workloads and continued to plug previously unfilled vacancies.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI<sup>®</sup> Business Activity Index once again posted above the 50.0 no-change mark during August, though by dropping to 50.9, from 52.6, was consistent with only a marginal rise in service sector output.

Although firms reported a combination of higher sales and increased investment, there remained many reports of heightened caution within the marketplace: confidence was said to be down and budgets were being squeezed by high inflation, according to panellists. These factors helped to explain why overall new business volumes rose modestly and at the slowest pace in 18 months of expansion. Where new work rose, this was linked to positive marketing campaigns, the Commonwealth Games in Birmingham and some ongoing benefits related to the post-COVID upturn in sales. Higher demand from US clients and European tourists were also reported in some instances, and this helped to support an eighth successive monthly rise in new export sales. Brexit-related factors were, however, reported to have limited growth.

In line with previous surveys this year, high inflation remained a core characteristic of the PMI dataset during August.

S&P Global / CIPS UK Services Business Activity Index  
sa, >50 = growth since previous month



Source: S&P Global, CIPS.  
Data were collected 12-26 August 2022.

Overall operating costs rose sharply, despite inflation dropping slightly to an eight-month low. Supply-side factors (i.e. shortages of goods from vendors) plus higher import prices were reported, whilst there was again evidence of higher wages and salaries being paid. Increased prices for energy, fuel, and utilities, however, remained a dominant driver of cost pressures.

Despite a growing awareness of the need to price as competitively as possible, firms signalled little choice but to pass on higher costs to clients wherever possible. Output price inflation subsequently accelerated slightly since July's five-month low and extended the current period of rising output charges to twenty successive months.

Elevated price pressures remain a worry for service sector companies, notably for energy, as does the prospect of higher interest rates and possible recession. This meant that, in terms of confidence for the coming 12 months, firms remain historically downbeat. That said, investments in new services and marketing are expected to ensure activity is higher than present in 12 months' time.

Moreover, demand for staff amongst UK service providers remained resilient, with employment growth once again historically strong. As well as dealing with higher workloads, some firms reported that staff were being hired to help fill long-held vacancies. The increase in employment enabled firms to easily keep on top of their work outstanding in August: backlogs of work were marginally down for the first time since February 2021. However, the overall rate of job creation slowed to the lowest since March 2021, reflecting the weakening demand trend for services and pressure on companies to cut costs.

## Comment

**Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, which compiles the survey:**

"UK private sector business activity fell for the first time in a year-and-a-half in August as an increasingly severe downturn in manufacturing was accompanied by a near-stalling of the vast services sector. Demand for consumer-facing services such as restaurants, hotels, travel and other recreational activities is collapsing under the weight of the cost-of-living crisis, with demand for business services also coming under pressure amid concerns over rising costs and the darkening economic outlook. Financial services firms are meanwhile reporting subdued trading amid the recent hikes in interest rates, adding to an increasingly broad-based malaise across the economy.

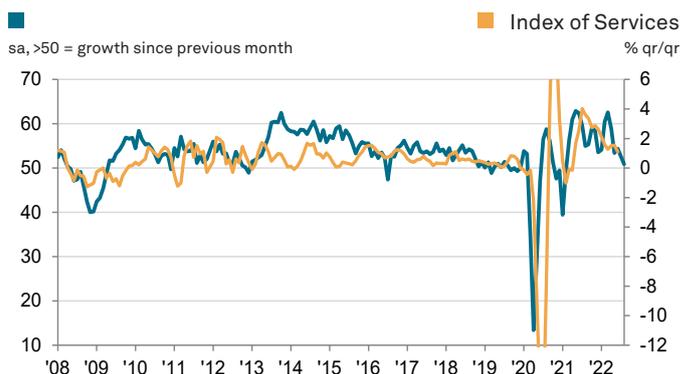
"Jobs growth is already starting to weaken and, with hiring tending to lag changes in order books, the recent slump in demand alongside surging energy prices points to a growing reticence to employ staff in coming months.

"Although the survey data are currently consistent with the economy contracting at a modest quarterly rate of 0.1%, deteriorating trends in order books suggest the incoming prime minister will be dealing with an economy that is facing a heightened risk of recession, a deteriorating labour market and persistent elevated price pressures linked to the soaring cost of energy."

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

"The UK services sector grew at the slowest pace for 18 months in August as a lockdown free summer of sport and tourism narrowly kept the sector in the black. But with backlogs of work depleted and the Commonwealth Games behind us, the sector faces a far more challenging autumn.

"Input costs continued to rise at a rapid rate this month with services businesses left with no choice but to pass the pain onto clients and consumers. While port disruption, Brexit paperwork and shortages all continue to play a role in driving inflation, the sector is relatively powerless in the face of ever-increasing energy bills. Services businesses will have their eyes firmly on the new Prime Minister this week as they hope for a policy driven solution to rocketing costs."



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®

## UK private sector slips into contraction territory in August

The seasonally adjusted S&P Global / CIPS UK Composite PMI\* fell below the crucial 50.0 no-change mark during August for the first time in 18 months. Posting 49.6, down from 52.1 in July, the index was pulled down by a severe and accelerated drop in UK manufacturing output, although a slower rate of service sector expansion also weighed on the headline number.

Similar trends were observed for new orders, where the respective index also slipped fractionally below the 50.0 no-change mark. New export sales fared even worse, with overall overseas sales declining to the greatest degree since January 2021.

Input costs continued to increase sharply at the aggregate level, though inflation - pulled lower primarily by a notable slowdown in manufacturing - did ease to an 11-month low. Overall output price inflation was however little changed, dropping only slightly since July.

Finally, confidence about the future slipped back in August to a level that matched June's 25-month low.

\*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](mailto:economics@ihsmarkit.com).

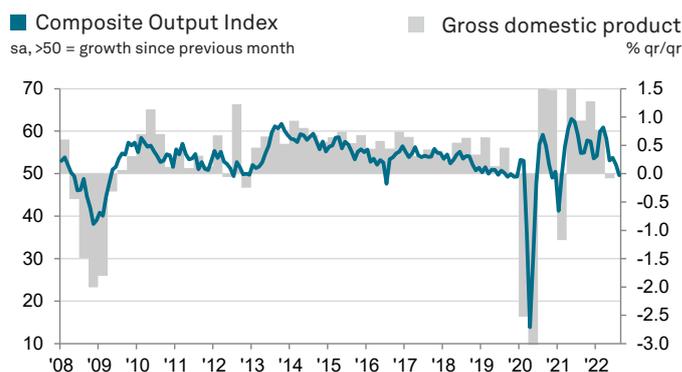
### Flash vs. final data

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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### 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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).