News Release

Embargoed until 0930 GMT (0930 UTC) 03 February 2023

# S&P Global / CIPS UK Services PMI®

## Business activity declines again in January, but optimism improves as input cost inflation eases to a 17-month low

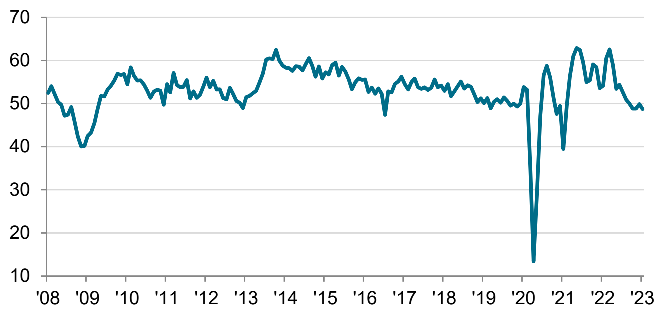
### Key findings

Service sector output falls for fourth month running

Lower fuel bills lead to another slowdown in cost inflation

Business optimism rebounds to its highest since April 2022

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




Source: S&P Global, CIPS.
Data were collected 12-27 January 2023.

UK service providers started the year with another slight reduction in business activity, which survey respondents mostly attributed to subdued business and consumer spending. Business activity expectations for the next 12 months nonetheless improved considerably since December. Softer input cost pressures and improving energy market trends appeared to have boosted output growth projections across the service economy.

Operating expenses increased at the weakest pace since August 2021, helped by lower fuel bills. However, many survey respondents reported sharp rises in staff wages due to tight labour market conditions, alongside higher utility bills.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index registered 48.7 in January, down from 49.9 in December, to remain below the neutral 50.0 threshold for the fourth consecutive month. Although only marginal, the rate of decline for overall business activity was the fastest since January 2021.

Companies reporting a drop in business activity typically cited squeezed household incomes and cautious budget settling by corporate clients, which was linked to strong inflation and rising economic uncertainty.

Subdued demand conditions were also reflected in the latest survey data for new business volumes, which fell for the fifth consecutive month. Reports from survey respondents suggested that heightened recession risks and higher borrowing costs were among the main factors holding back new orders.

In contrast, new export sales increased in January and, although only modest, the rate of expansion was the strongest since July 2022. Higher levels of new work from abroad were mostly attributed to rising demand from clients in the US and Asia.

January data signalled an increase in staffing numbers across the service sector. However, the rate of job creation was among the slowest seen over the past two years. Additional staff hiring was often linked to long-term business expansion plans, but some firms noted lower employment numbers due to cost cutting and a lack of candidates to fill vacancies.

Tight labour market conditions continued to push up business expenses in January. More than half of the survey panel reported an overall rise in their input prices, while only 3% signalled a decline. Higher operating expenses were mostly linked to strong wage pressures and rising energy bills. However, the overall rate of cost inflation has eased in seven of the past eight months and was the lowest since August 2021.

Average prices charged by service sector companies increased sharply at the start of 2023 and, in contrast to the trend for input costs, the rate of inflation accelerated slightly since December. Service providers widely cited the need to pass on increasing staff costs and utility bills. Where lower prices charged were reported, this often reflected reductions in fuel surcharges.

Around 48% of the survey panel forecast an increase in business activity during the year ahead, while only 12% predict a fall, the net result being the strongest degree of positive sentiment since April 2022.

Stronger levels of optimism regarding growth prospects were linked to tentative signs of a turnaround in the global economic outlook, confidence about pipelines of new sales enquiries, and hopes that energy price pressures will soon abate. However, survey respondents also noted widespread concerns about higher interest rates and subdued UK business conditions.

## Comment

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

*"January data pointed to the weakest service sector performance for two years as cutbacks to business and consumer spending resulted in a fourth consecutively monthly reduction in output levels. The latest survey illustrates that the UK economy risks falling into recession as labour shortages, industrial disputes and higher interest rates take their toll on activity.*

*"However, the downturn in service sector output remained relatively shallow at the start of 2023. Encouragingly, new order volumes moved closer to stabilisation and export sales picked up in January, which contributed to a marginal upturn in overall employment numbers.*

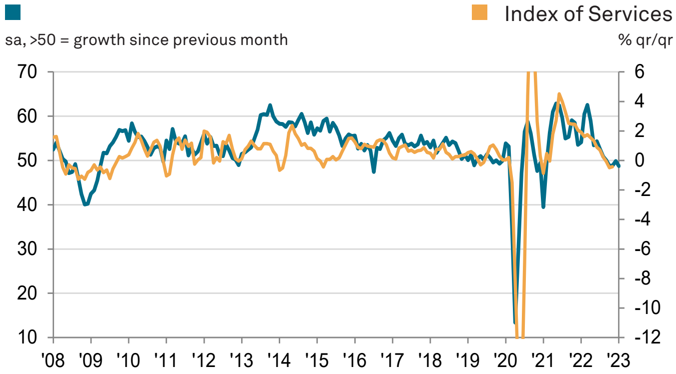
*"Intense pressure on costs from rising energy bills and tight labour market conditions led to another sharp rise in business expenses. Cost pressures are still higher than at any time in the two decades prior to the pandemic, but the overall rate of inflation eased to its lowest since August 2021 as reduced fuel prices offered some relief.*

*"Hopes of a sustained drop in input cost inflation, alongside more favourable energy market trends and fewer concerns about the global economic outlook, helped to boost business activity expectations for the year ahead to the strongest reported since April 2022."*

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

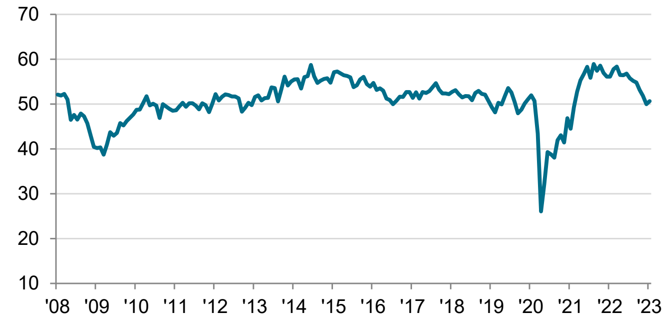
*"The UK's services sector has started 2023 by slumping to a two-year low but there are cautious signs of optimism on the horizon. The fall from 49.9 in December, to 48.7 in January, marks four months of consecutive reductions, and the lowest Business Activity Index since January 2021. The lag in business activity is a result of cautious budget setting, recession risk, and a drop in consumer spending. Winter is still biting for UK service providers.*

*"But supply chain managers in the sector are clearly putting growth in their new year resolutions thanks to rebounding supply chains. Stabilising energy costs, combined with a resurgence in demand from the US and Asia, hint that the worst may be behind us. Business optimism is growing, shown by The Future Activity Index posting its highest monthly gain since November 2020, as businesses predict a return to growth and investment."*




UK Services PMI Employment Index

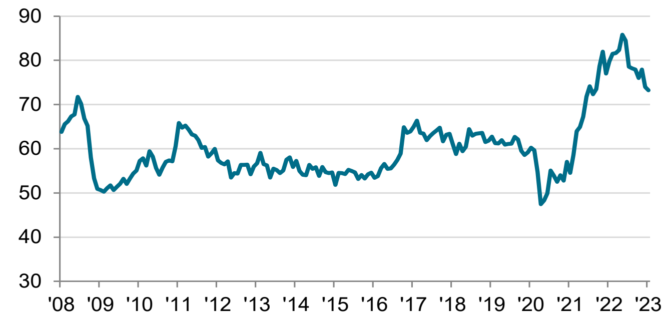
sa, >50 = growth since previous month




Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index

sa, >50 = inflation since previous month




Sources: S&P Global, CIPS.

PMI by S&P Global

# S&P Global / CIPS UK Composite PMI®

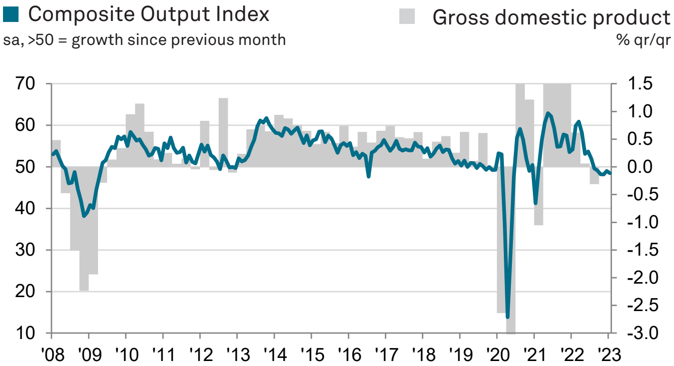
## Modest reduction in private sector output

At 48.5 in January, down from 49.0 in December, the seasonally adjusted S&P Global / CIPS UK Composite PMI* registered below the crucial 50.0 no-change mark for the sixth consecutive month. This represents the longest period of continuous decline since the global financial crisis in 2008/09. However, the rate of contraction was only modest in January.

Manufacturing production continued to decline more quickly than service sector activity. That said, manufacturing output fell at the slowest pace since July 2022, while the latest service sector performance was the weakest for two years.

Private sector employment was broadly unchanged in January as job creation in the service economy was offset by another solid decrease in payroll numbers at manufacturing firms.

Meanwhile, input cost inflation moderated to its lowest since May 2021, with both manufacturers and service providers reporting softer price pressures at the start of the year.




Sources: S&P Global, CIPS, ONS.

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*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 82% 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).



### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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. www.spglobal.com.

### 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 over 60,000 members in 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.
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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.



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