

News Release

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S&P Global UK Services PMI[®]

UK services activity rises solidly in May and price pressures ease

Key findings

Business activity growth solid, but down from April's high

Hiring activity rises but labour market tightness a constraint

Slowest increase in prices charged for over three years

The UK services economy grew further midway through the second quarter, although some momentum was lost as expansions in business activity and new orders eased from their 11-month highs seen in April. Nevertheless, there were slight pick-ups in jobs growth and the level of business confidence.

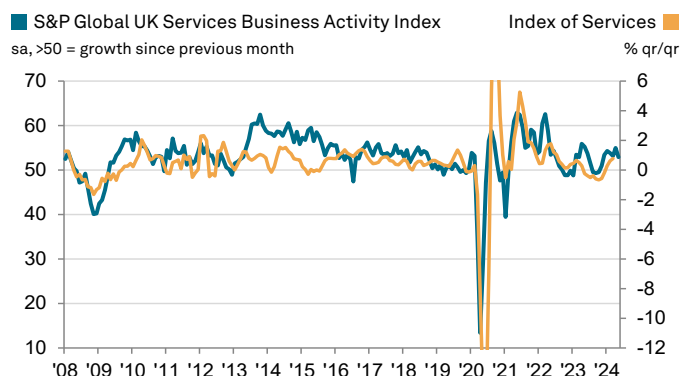
Of note was a substantial cooling in the rate of input cost inflation, which fell to its weakest since February 2021. This fed through to output prices, as companies were less aggressive with their price setting. Overall charges for UK services rose at the slowest rate in over three years.

The seasonally adjusted S&P Global UK Services PMI[®] Business Activity Index recorded above the 50.0 no-change mark in May for a seventh month in succession, signalling a sustained expansion in output across the UK's services economy. The headline measure from the survey did fall, however, to 52.9, from April's 11-month high of 55.0, indicating a softer rate of expansion that was also the slowest since November last year.

Companies attributed gains in output levels to stronger sales performances. Indeed, incoming new business volumes rose again in May, extending the current sequence of increasing demand for UK services to seven months. Where greater new orders were reported (at close to a quarter of the survey panel), successful marketing campaigns, greater client confidence, new customer wins and a boost to the general number of enquiries were cited as reasons for the uplift. Although, the rate of expansion slowed from April's near one-year peak amid reports of subdued overseas demand.

Indeed, with some companies mentioning difficulties carrying out business with customers in the EU, May survey data signalled a softer increase in new orders from non-domestic clients. The expansion in new export business was the slowest in the year-to-date and only marginal overall.

A less marked improvement in sales led UK services companies to turn greater attention to their backlogs of work midway through the second quarter. The depletion in outstanding orders, albeit mild, quickened since April and



Sources: S&P Global PMI, ONS.
Data were collected 09-29 May 2024.

Comment

Joe Hayes, Principal Economist at S&P Global Market Intelligence, which compiles the survey, said:

"The PMI survey for May showed another reasonable rate of expansion in the UK service sector. Taken in tandem with our earlier-released manufacturing survey, the PMIs imply GDP growth of around 0.3% so far in the second quarter.

"Of particular interest to the immediate outlook for the UK economy will be the prices measures, with the Bank of England potentially moving to cut interest rates as soon as this month. The PMI surveys show prices for UK services rising at the slowest pace for over three years. That's now three months on the trot that selling price inflation in the service sector has eased – this will be very encouraging to the Monetary Policy Committee and suggests the trajectory of services prices is moving in the right direction.

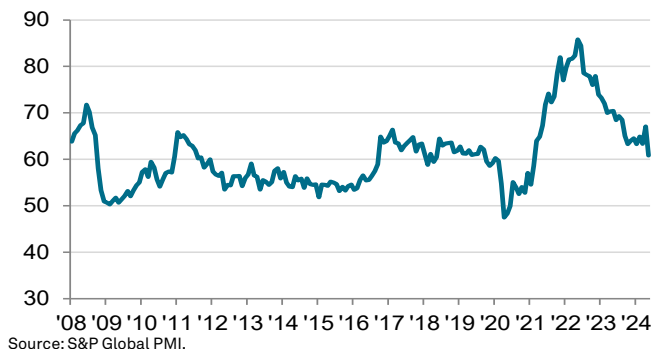
"It is worth noting however that the PMI's gauge of UK services inflation is still sitting well above its pre-pandemic trend, which may give more weight to those suggesting the Bank of England hold out until August to loosen policy."

PMI[®]

by S&P Global

UK Services PMI Input Prices Index

sa, >50 = inflation since previous month



was the fastest for three months.

Nevertheless, the upward trend in UK service sector employment continued during May, extending the current sequence of hiring that commenced at the turn of the year. In fact, the rate of job creation accelerated to the quickest since February. Increased workforce numbers reflected higher sales, although some panellists indicated that jobs growth formed part of their business investment strategy.

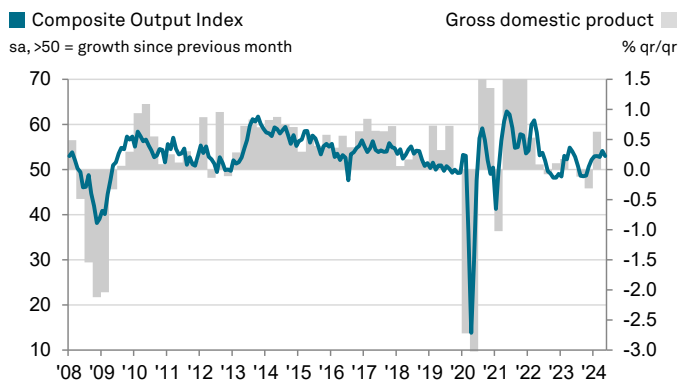
Greater employment levels coincided with another month of robust business confidence during May. UK services companies were strongly optimistic towards the year-ahead outlook, with growth expectations above their long-run average and ticking fractionally higher. Hopes for lower interest rates and an improvement in the domestic economy were reasons companies gave for their positive activity forecasts.

Meanwhile, May survey data signalled a marked easing in the rate of input cost inflation faced by UK services companies. Albeit remaining historically sharp, the increase was the slowest since February 2021.

Amid reports of sustained salary pressures, greater supplier charges and increases in fuel costs, prices charged for UK services rose during May as businesses passed through higher expenses to their clients. That said, the rate of output price inflation eased to its weakest for over three years.

S&P Global UK Composite PMI®

Economic activity rises solidly in May, while inflationary pressures subside



*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.

The seasonally adjusted S&P Global UK PMI Composite Output Index* fell from April's one-year high of 54.1 to 53.0 in May. Nevertheless, this was still indicative of a solid expansion in private sector economic activity.

Higher output was broad-based, with both manufacturing and services registering an expansion on the month. This was also true for new orders, although new business growth at the composite level eased to a six-month low amid a loss of momentum in the service sector.

Nevertheless, the rate of jobs growth accelerated across the UK private sector to a four-month high, reflecting greater hiring at services firms. Factory jobs dipped in May. Sustained employment growth coincided with an improvement in business confidence, which was well above its long-run average during May.

Input cost pressures across the UK private sector eased in May, with inflation down to a 40-month low. Output charges subsequently rose at a softer pace, and one that was the weakest since February 2021.

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Survey 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.

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.

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi

Flash vs. final data

Flash services data were calculated from 84% 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).