

MARKET SENSITIVE INFORMATION

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S&P Global / CIPS Flash United Kingdom PMI®

UK private sector output growth edges up to a six-month high, led by a faster recovery in the service economy

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 51.7 (Nov: 50.7). 6-month high.

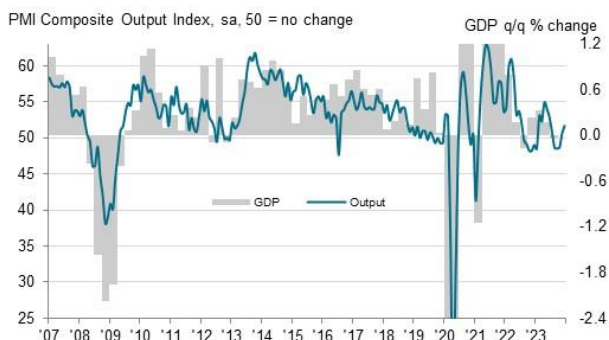
Flash UK Services PMI Business Activity Index⁽²⁾ at 52.7 (Nov: 50.9). 6-month high.

Flash UK Manufacturing Output Index⁽³⁾ at 45.9 (Nov: 49.2). 2-month low.

Flash UK Manufacturing PMI⁽⁴⁾ at 46.4 (Nov: 47.2). 2-month low.

Data were collected 06-13 December

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



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

UK private sector output expanded for the second month running in December, which continued a modest recovery from the downturn seen during the three months to October. Higher levels of business activity were supported by a renewed improvement in order books, alongside efforts to work through post-pandemic backlogs.

At 51.7 in December, up from 50.7 in November, the headline seasonally adjusted **S&P Global / CIPS Flash UK PMI Composite Output Index** pointed to the fastest rise in private sector business activity since June. However, the latest index reading remained weaker than the long-run survey average (53.6) and only pointed to a modest rate of output expansion.

A moderate upturn in business activity across the **service economy** underpinned the rebound in overall private sector output at the end of 2023. Survey respondents once

again commented on tentative signs of a revival in customer demand, especially for technology and financial services. Anecdotal evidence cited cost-of-living pressures on household budgets and subdued conditions in the construction sector as ongoing headwinds to growth in some parts of the service economy.

Manufacturing production meanwhile decreased for the tenth month running, and at a notably faster pace than in November. Goods producers often reported a slide in output volumes due to overstocked customers and tighter inventory policies at their own plants. Meanwhile, efforts to reduce backlogs of work provided some support to production schedules, but survey respondents suggested that this impetus had waned in December.

UK private sector firms revealed an increase in total **new work** for the first time since June, albeit only marginal. Survey respondents cited a stabilisation in interest rates and hopes of a modest recovery in underlying economic conditions as factors helping to support demand, despite continued hesitancy to spend among customers. The improvement in order books was nonetheless confined to the service economy. At the same time, total **export sales** continued to decrease at the end of 2023, with manufacturers recording a particularly sharp decline.

Staffing numbers across the private sector fell for the fourth successive month in December as persistent economic uncertainty, strong wage pressures and fewer capacity constraints led to a marginal rate of job shedding. Lower employment was recorded in both the manufacturing and service sectors, with the former posting the sharper rate of decline. Spare capacity and improved supply chains meant that **backlogs of work** continued to decrease in December, but at the slowest pace since June.

Input cost inflation edged up to its highest since August, driven by another sharp rise in operating expenses at service sector companies. This was widely linked to rising salary payments. Greater input costs led to another robust increase in **output charges**, with little sign of a slowdown in inflationary pressures since the summer months. On average in the final quarter of 2023, prices charged inflation across the private sector was unchanged from the previous quarter. Some survey respondents commented on promotional discounting due to competitive pressures, but others still cited a need to pass on higher costs.

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December data indicated that UK private sector firms are optimistic overall about their own growth prospects for 2024. The degree of positive sentiment regarding the year ahead **outlook for business activity** edged up to its highest since September. This was driven by a further rise in service sector confidence, while manufacturers indicated the lowest optimism for exactly one year.

Anecdotal evidence suggested that planned business investment, hopes of lower interest rates and a longer-term recovery in consumer demand had supported business activity expectations in December. Many firms nonetheless commented on challenging underlying economic conditions at home and in key export markets, as well as an expected drag on client demand from the ongoing downturn in construction sector activity.

Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

“The UK economy continues to dodge recession, with growth picking up some momentum at the end of the year to suggest that GDP stagnated over the fourth quarter as a whole. While employment meanwhile fell for a fourth month, the decline was only marginal and not indicative of any material rise in unemployment.

“This is, however, a dual-speed economy, with manufacturing contracting sharply while services regained some poise, the latter growing faster in December thanks in part to financial services activity being buoyed by hopes of lower interest rates in 2024.

“This divergence is also reflected in inflation pressures, with falling prices again evident in the goods producing sector while service providers report persistent elevated inflationary pressures, often linked to wage growth. The resulting signal is one of inflation remaining stubbornly above 3% in the coming months.

“The service sector’s resilience and sticky inflation picture will add to speculation that it’s too early for the Bank of England to be talking about cutting interest rates, and will add fuel to some policymakers’ calls for further rate hikes. However, the fear is that the tentative nature of growth in December, and the impetus from looser financial conditions, means that fears of further policy tightening could tip the economy back into decline.”

Dr John Glen, CIPS Chief Economist said:

“A revival in the services economy is helping the UK’s private sector end the year on a more positive note. However, the persistent nature of inflationary pressures and the continued struggles in manufacturing add a tone of caution as we look ahead to 2024.

“The overall growth was underpinned by an upturn from the services economy. Stable interest rates are fuelling a tentative return of customer demand and increase in new work. UK manufacturing will be glad to see the back of 2023, however. Overstocked customers mean December is yet another month of decreasing production levels and reducing output volumes for the manufacturing sector. Despite an easing of supply chain pressures there was little relief from overseas markets, with export sales declining sharply.

“The increase in input costs shows inflation is proving stickier than hoped and indicates there is still some way to go before costs stabilise. An easing of inflationary pressures and a more robust return of customer demand will be high on the private sector’s wish list as we head into 2024.”

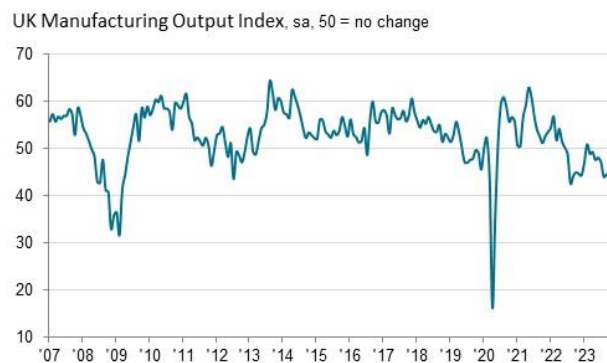
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S&P Global / CIPS Flash UK Services PMI Business Activity Index



Sources: S&P Global PMI, CIPS.

S&P Global / CIPS Flash UK Manufacturing Output Index



Sources: S&P Global PMI, CIPS.

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Note to Editors

Final December data are published on 2 January for manufacturing and 4 January 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.

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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 = 0.2 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.1 (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@spglobal.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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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.

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