

News Release

Embargoed until 0930 BST (0830 UTC) 04 October 2023

S&P Global / CIPS UK Services PMI[®]

Weakest service sector performance for eight months in September

Key findings

Business activity and new work continue to decline

Fastest rate of job shedding since January 2021

Inflationary pressures lowest for almost two-and-a-half years

September data pointed to a sustained downturn in UK service sector output, although the rate of contraction was only marginal. Survey respondents often cited subdued demand and cutbacks to non-essential spending among clients.

Business sentiment regarding the year ahead outlook remained resilient in September, supported by hopes of a further moderation in inflationary pressures. However, service providers reported a renewed fall in employment, in part due to cost considerations, and the rate of job shedding was the fastest since January 2021.

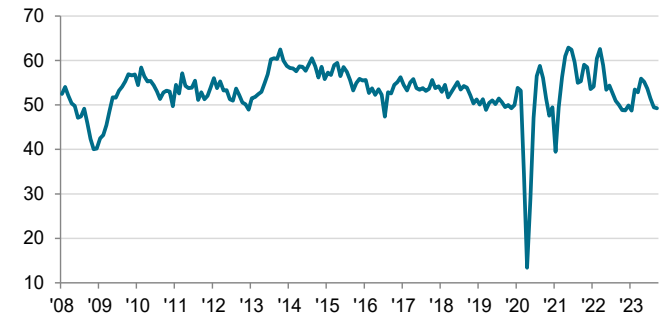
The headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index posted 49.3 in September, down from 49.5 in August and below the neutral 50.0 threshold for the second month running. The final index was at its lowest level since January, but above the earlier 'flash' reading for September (47.2).

Reduced volumes of service sector activity were attributed to sluggish business conditions, heightened risk aversion among clients and downward pressure on demand in the wake of rising borrowing costs.

Total new work decreased fractionally in September, which reflected lower spending among both domestic and overseas clients. Export sales fell for the first time since November 2022. Service providers commented on softer business and consumer demand during September. Some firms also suggested that concerns about the broader economic outlook had negatively impacted customer spending.

There were some signs of spare capacity in September as backlogs of work decreased for the fourth consecutive month and at the second-fastest rate since February 2021. Meanwhile, service sector companies recorded a decline in their staffing numbers for the first time in just over two-and-a-half years. The rate of job shedding was the steepest since the start of 2021, which survey respondents linked to squeezed

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



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

hiring budgets and the non-replacement of voluntary leavers.

On a more positive note, business activity expectations for the year ahead remained optimistic overall and edged up to a three-month high in September. Around 50% of the survey panel predict an increase in activity levels over the next 12 months, while only 14% anticipate a decline. Positive sentiment was attributed to hopes of a sustained easing of inflationary pressures and a turnaround in customer demand, as well as new product launches and business investment plans. Worries about elevated borrowing costs and stretched household budgets were nonetheless cited by survey respondents.

On the inflation front, latest survey data highlighted another moderation in cost pressures across the service economy. The rate of input price inflation eased for the third time in the past four months to its lowest since April 2021. Higher salary payments, fuel prices and utility bills were frequently reported, which was partly offset by falling raw material and shipping costs.

Average prices charged by service sector companies continued to rise at a robust pace in September, largely reflecting efforts to pass on higher operating expenses. A number of firms cited fuel surcharges and the impact of rising wage bills. However, mirroring the trend for input costs, the rate of prices charged inflation eased again in September and was the weakest for 29 months. Service providers commented on greater competitive pressures and some suggested that lower demand had encouraged price discounting strategies to stimulate sales.

Comment

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

"Service sector activity remained on a negative trajectory in September as cutbacks to non-essential business and consumer spending weighed on sales volumes. Although only modest and slower than indicated by the earlier 'flash' PMI reading, the downturn in UK service sector output was the greatest seen since the beginning of this year and stood in contrast to solid growth during the spring months.

"Survey respondents often suggested that a combination of elevated borrowing costs and subdued economic conditions had led to lower new business intakes. A renewed decline in export sales also acted as a headwind to order books during September, led by weaker demand across Europe.

"Service providers responded to lower volumes of new work and falling backlogs by putting the brakes on hiring plans in September. Some firms noted that strong wage pressures had led to the non-replacement of voluntary leavers. Measured overall, service sector payroll numbers decreased at the fastest pace since January 2021.

"The latest survey data provided encouragement that headline rates of inflation will continue to moderate in the coming months, with service sector input costs rising at the slowest pace for nearly two-and-a-half years. There were reports that higher fuel prices and wage bills had pushed up prices charged across the service economy, but service firms often suggested that competitive pressures had eroded pricing power.

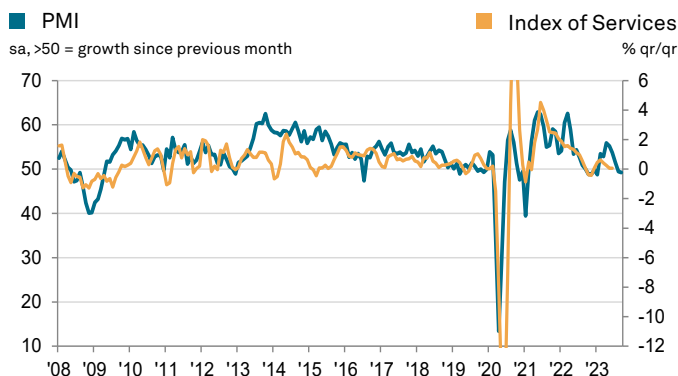
"An expectation of sustained falls in UK consumer price inflation and a subsequent turnaround in demand conditions, appeared to support business optimism in September. Output growth projections across the service economy edged up to a three-month high and were much higher than seen at the same time in 2022."

Dr John Glen, Chief Economist at the Chartered Institute of Procurement & Supply (CIPS), said:

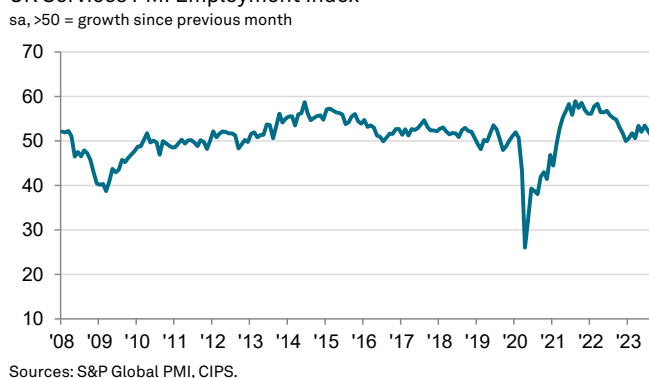
"September signalled a change in direction for the services sector. After strong activity in the spring and a sustained summer of business, autumn brought lower rates of new orders and the bright spots of job creation dimmed with the lowest reading since January 2021.

"The UK economy is still showing signs of strain and the impact of interest rate rises are having an effect. Consumers are concerned by the higher cost of living and expenses continuing to rise especially fuel costs and are reining in spend accordingly.

"Firms are also experiencing squeezed business costs but with the lowest input cost rise since April 2021, there is some room for manoeuvre to reduce prices charged, especially as competition has intensified amongst service providers."



UK Services PMI Employment Index



UK Services PMI Input Prices Index



S&P Global / CIPS UK Composite PMI®

Private sector business activity declines again in September

At 48.5 in September, the final seasonally adjusted S&P Global / CIPS UK Composite PMI* was down from 48.6 in August and signalled the fastest reduction in private sector output since January. The latest index was nonetheless higher than the earlier 'flash' estimate (46.8).

Manufacturing production continued to fall at a notably faster pace than service sector activity. Moreover, goods producers have now recorded a downturn in output for seven consecutive months.

September data pointed to a renewed decline in private sector employment, thereby ending a five-month period of expansion. Although only modest, the rate of job shedding was the steepest seen since January 2021.

Input price inflation moderated for the second month running in September and reached its lowest since the beginning of 2021. However, prices charged inflation picked up slightly from August's 30-month low, driven by a renewed increase in manufacturing output prices.

*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@spglobal.com.

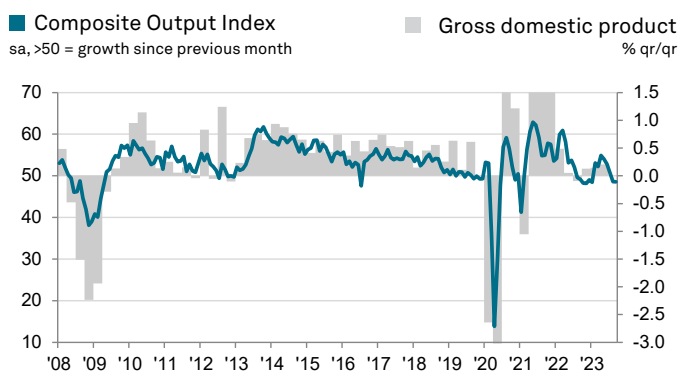
Flash vs. final data

Flash services data were calculated from 77% 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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