

News Release

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S&P Global / CIPS UK Services PMI[®]

Service sector returns to growth in November

Key findings

Business activity expands for first time since July

Slight rises in new work and employment

Prices charged inflation hits four-month high

November data highlighted a modest rebound in business activity across the UK service sector, which ended a three-month period of decline. Rising output reflected a slight rise in new orders, but survey respondents continued to report subdued demand and low confidence among clients.

Service providers experienced another sharp increase in their average cost burdens, largely due to rising staff wages and elevated inflationary pressures across the broader economy. Efforts to limit the squeeze on operating margins led to the steepest increase in service sector charges since July, although the rate of inflation remained much softer than seen in the first half of 2023.

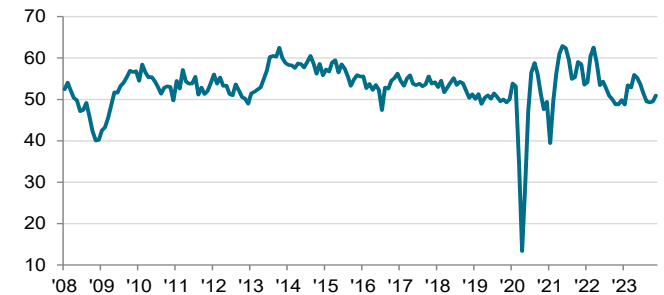
The headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index registered 50.9 in November, up from 49.5 in October and above the 50.0 no-change value for the first time in four months. Although above the earlier 'flash' estimate (50.5) and the highest reading since July, the index pointed to only a marginal overall expansion of service sector output.

Higher levels of business activity were attributed to rising demand, as well as the completion of unfinished projects. Backlogs of work were depleted for the sixth month running and at the fastest pace since August. Service providers again cited lacklustre client spending, partly due to weak business and consumer confidence. Some firms also noted that elevated borrowing costs had weighed on new orders in November.

Stronger export demand, especially from the United States, contributed to a further marginal rise in new work from abroad. Survey respondents also generally commented on rising sales to European clients, despite ongoing constraints from Brexit trade frictions.

The latest survey indicated a renewed upturn in staffing numbers across the service economy, which mirrored the positive trends seen for business activity and incoming new

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



Source: S&P Global PMI, CIPS.
Data were collected 09-28 November 2023.

work. Moreover, the slight rise in employment contrasted with a marked downturn in September, when the respective index dropped to its lowest level for 32 months. Service providers attributed extra staff recruitment to long-term business expansion plans and a tentative improvement in demand conditions. However, some firms noted that strong cost pressures and concerns about the economic outlook had led to hiring freezes and the non-replacement of voluntary leavers.

Overall levels of business optimism edged up across the service sector in November, with around 48% of the survey panel predicting activity growth during the year ahead and only 13% anticipating a decline. That said, confidence remained softer than seen on average in the first half of 2023. Worries about the impact of higher borrowing costs on business and consumer spending were often cited in November. Some noted concerns about heightened geopolitical uncertainty, but others expect a boost from more supportive global economic conditions and lower inflation over the next 12 months.

Service providers indicated another sharp increase in their average cost burdens during November. The rate of inflation accelerated slightly on the month but was the second-lowest since March 2021. Rising operating expenses were mostly linked to higher staff wages and higher prices paid for essential business services. Meanwhile, lower raw material prices were again reported as a factor helping to constrain overall cost inflation.

Finally, the latest survey indicated that service providers passed on higher costs at a robust and accelerated pace in November. The rate of output charge inflation was the strongest since July, despite a number of firms noting that stretched client budgets had limited their pricing power.

Comment

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

"UK service providers moved back into expansion mode during November as stabilising demand conditions helped to lift business activity from its recent malaise. Although only marginal, the upturn in service sector output was the fastest since July and slightly stronger than the earlier 'flash' estimate for November. Staffing numbers also returned to growth, supported by a modest improvement in business activity expectations for the year ahead.

"Despite tentative signs of a turnaround in new orders, survey respondents once again commented on a lack of willingness to spend among clients. Many firms noted that low levels of business and consumer confidence, alongside elevated borrowing costs, had constrained sales opportunities in November. Overseas markets continued to show resilience, with strengthening US demand often cited as a driver of increased new export orders.

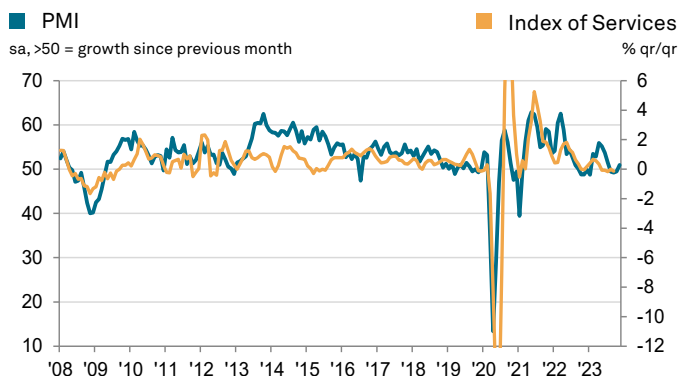
"November data provided a note of caution with regard to the near-term inflation outlook as service providers signalled another round of strong input cost pressures, largely due to rising staff wages. Squeezed margins from higher salary payments and rising prices for essential business services in turn contributed to the fastest increase in output charges across the service economy for four months."

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

"After three months of continuous contraction, the services sector began to show signs of life with a small uplift in growth above the no-change 50 mark.

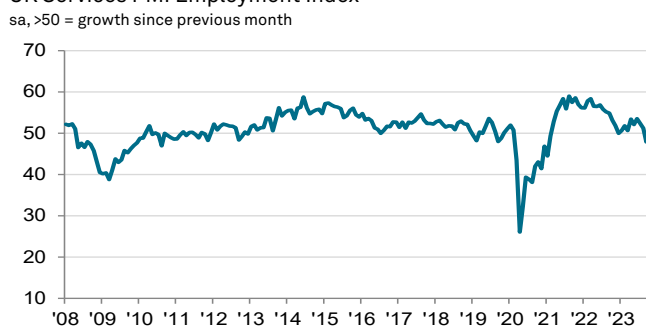
"Amongst the general malaise in customer confidence impacting on demand, there was the biggest rise in new orders since July and export orders since August. A softening in the headline rate of inflation and improved raw material prices set the scene for some clients to commit to new work while the remainder stayed mostly cautious until there were stronger improvements in the UK economy.

"There was also an end to the job losses recorded by service businesses every month since September so this could be another signal that this is the start of a more sustainable revival for 2024. Almost half of service providers felt more optimistic about the New Year, making new plans to build up operations and hoping to leave another challenging year behind them."



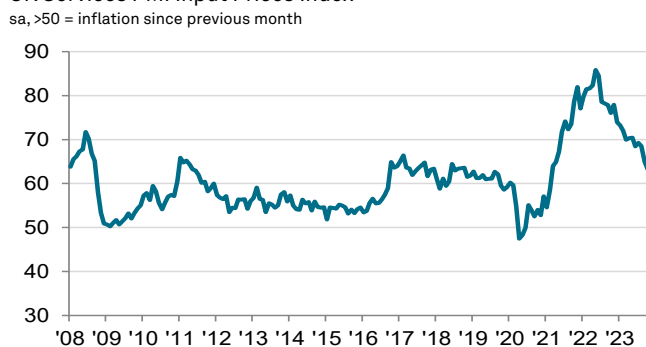
Sources: S&P Global PMI, ONS.

UK Services PMI Employment Index



Sources: S&P Global PMI, CIPS.

UK Services PMI Input Prices Index



Sources: S&P Global PMI, CIPS.

S&P Global / CIPS UK Composite PMI®

Private sector output rises for first time in four months

November data indicated an overall expansion of UK private sector output, thereby ending a three-month period of modest declines. At 50.7, the final seasonally adjusted S&P Global / CIPS UK Composite PMI* was up from 48.7 in October and above the neutral 50.0 threshold for the first time since July.

Output growth was confined to the service economy in November. That said, the latest fall in manufacturing production was only marginal and the weakest seen since April.

Private sector employment stabilised in November, helped by a marginal rebound in staffing numbers among service sector companies. Job shedding was recorded in the manufacturing sector for the fourteenth month running.

There were again contrasting trends in terms of output charges across the private sector economy. Goods producers signalled virtually unchanged factory gate prices in November, whereas service providers indicated the steepest pace of prices charged inflation for four months.

*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.

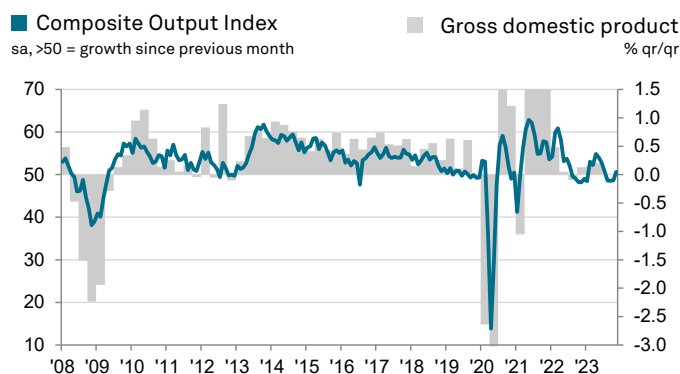
Flash vs. final data

Flash services data were calculated from 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).

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Sources: S&P Global, CIPS, ONS.

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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. www.cips.org

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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