News Release

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S&P Global / CIPS UK Services PMI®

Service sector remains in downturn during November

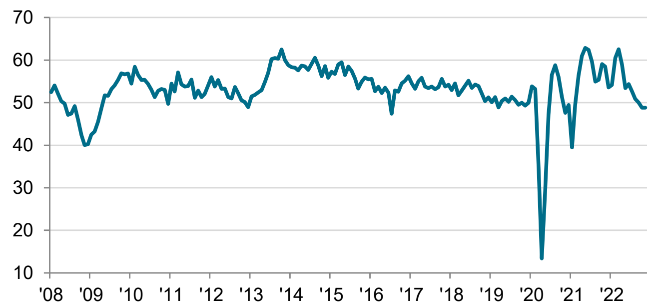
Key findings

Fastest fall in new business volumes since January 2021

Discretionary spending hit by cost of living crisis

Higher pay ensures that cost inflation remains elevated

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



Source: S&P Global, CIPS.
Data were collected 11-28 November 2022.

The UK service sector registered another modest contraction of activity during November as levels of incoming new work continued to fall amid ongoing economic uncertainty and cost of living challenges weighing on discretionary spending. Cost pressures showed little signs of abating, with operating expenses again rising sharply, although pricing power was limited to some degree by rising competition and falling sales.

Firms continue to hire additional staff as they sought to address skills shortages at their units, but confidence in the outlook remains historically subdued, despite improving noticeably since October.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index recorded 48.8 in November. That was unchanged since October, when the index fell to its lowest level since January 2021 and signalled a second consecutive monthly fall in activity. Firms once again linked the decline to a concurrent reduction in new sales volumes, amid reports of ongoing caution amongst businesses and belt-tightening amongst households in the face of continued cost of living challenges. Overall, sales were down for a third month in a row, and to the sharpest degree since January 2021's lockdown-induced reduction. Budgets were reported to be under pressure at both domestic and foreign clients. Indeed, new export business was also down for the third successive survey period, albeit only marginally as a weak pound helped support trade with the USA.

Despite the underwhelming trends in new business and activity, service sector companies registered a modest increase in backlogs of work during November. This was linked by several companies to an insufficient level of skilled staff at their units, and this helped in part explain why firms continued to recruit additional workers. Expected growth in 2023 and efforts to bolster business operations also underpinned recruitment activity. However, the net increase in employment was the slowest in the current 21-month sequence of growth. There were some reports of hiring freezes and the non-replacement of leavers as firms grew concerned over costs and operating margins.

Indeed, overall expenses rose again at an extremely elevated rate, with inflation picking up since October's 13-month low. Efforts to retain and meet the pay demands of staff were reported to have led to higher wages and salaries being paid. Utility bills, food prices and fuel costs also remained key drivers of inflation, according to panellists. Average output prices rose as a result, marking a twenty-third successive month in which prices charged have increased. However, mounting competitive pressures and the weaker demand environment meant that overall output price inflation dropped to its lowest level for ten months.

Looking towards the future, confidence in the outlook improved somewhat since October as the political turmoil caused by the 'mini-budget' somewhat dissipated. Plans to release new products and services in 2023 were also cited as reasons to be confident. However, sentiment remains historically subdued, with firms worried that cost of living challenges and the possibility of recession will dampen demand for the foreseeable future.

PMI by S&P Global

CIPS Chartered Institute of Procurement & Supply

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, which compiles the survey:

"A further economic contraction signalled by the PMI surveys hints at a growing recession risk for the UK. A change of government and its new economic policies may have helped arrested some of the financial market volatility after September's 'mini-budget' but the economic picture remains stubbornly unchanged. The overall rate of economic contraction has held steady compared to October, indicative of GDP falling at a quarterly rate of 0.4%. As such, this is the toughest spell the UK economy has faced since the global financial crisis excluding only the height of the pandemic.

"Inflows of new work fell at an increased rate, indicating slumping demand for goods and services, forcing companies to pare back their hiring, resulting in only very modest employment growth. And, although business confidence in the outlook has lifted from October's recent low, largely reflecting signs of improved political stability at home, an overall gloomy mood prevails to restrain business optimism at one of the lowest levels seen over the past decade. Clearly, risks to the near-term outlook remain tilted to the downside.

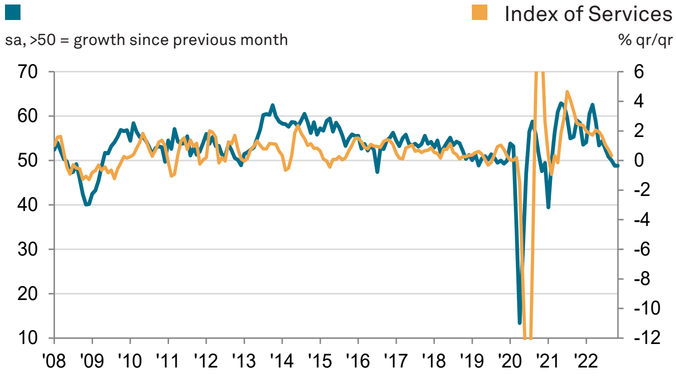
"While an easing of price pressures brought some tentative goods news to suggest inflation has peaked, rates of increase remain historically elevated both in terms of firms' costs and their selling prices to hint at worryingly sticky price pressures."

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

"A stalling service sector delivered a mostly joyless result in November with another decline in overall activity. Businesses are trying to balance their rising costs amidst intense competition but with new orders falling at their quickest rate since January 2021 the cupboard is becoming increasingly bare.

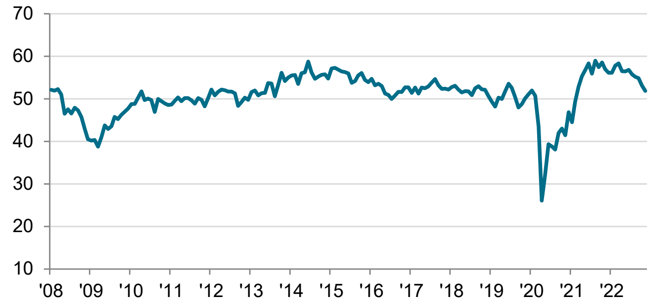
"The uplift in costs this month also showed that wage growth remained a problem with skilled staff demanding higher wages in a tight labour market. Service providers are still not out of the post-pandemic woods in terms of operating capacity and are building their businesses to be 2023-ready. They may have to take the financial hit as output charges rise once again and peak tolerance is reached amongst customers.

"It looks like supply chain issues for most goods have evened out along with the political landscape giving the marketplace some more stability. But there is no doubt now that the UK is in recession, and consumers are likely to be worried about the cost of living and keeping warm, rather than too much festive fun making in the last quarter of a challenging year all round."



UK Services PMI Employment Index

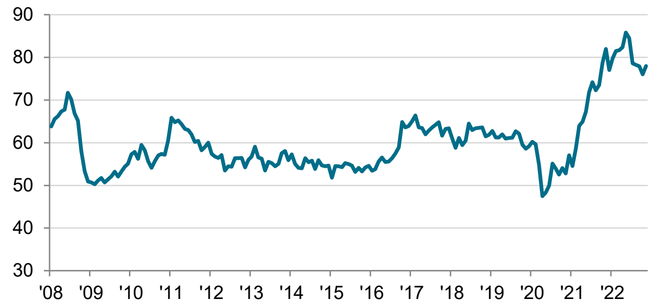
sa, >50 = growth since previous month



Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index

sa, >50 = inflation since previous month



Sources: S&P Global, CIPS.

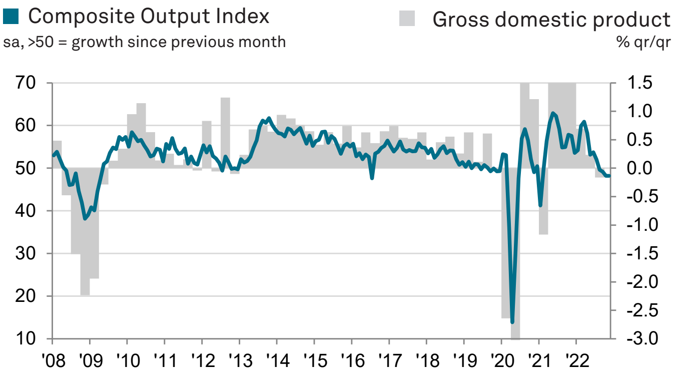
S&P Global / CIPS UK Composite PMI®

Private sector output continues to fall during November

November's seasonally adjusted S&P Global / CIPS UK Composite PMI* was unchanged at 48.2 to thereby signal a fourth successive monthly fall in private sector output. Service sector business activity continued to fall modestly, whilst manufacturing output fell at a slightly faster, and thereby, elevated pace.

Incoming new business volumes remained mired in contraction territory, declining at the fastest rate r for 22 months. Firms were broadly able to keep on top of their workloads, in part supported by another modest increase in staffing levels. Jobs growth was, however, exclusively seen in the services industries: manufacturing employment was cut for a second successive month in November.

Divergent trends were also seen in price data, with cost inflation easing again in manufacturing, dropping to its lowest level for three months, but rising at a faster rate in services. Both sectors, however, recorded slower output charge inflation in November, with the overall rate dropping to a 15-month low.



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 81% 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

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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.
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