

# News Release

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## S&P Global / CIPS UK Services PMI<sup>®</sup>

### Sharpest reduction in service sector output since January 2021 as political and economic uncertainty hit demand in October

#### Key findings

Business activity falls for the first time in 20 months

New orders decline at faster rate than in September

Business optimism slumps to its lowest since April 2020

UK service providers experienced a modest reduction in business activity during October, which represented the first overall decline in output since February 2021. Survey respondents often commented on shrinking demand and greater risk aversion among clients, largely due to heightened political and economic uncertainty.

Escalating energy bills and strong wage pressures led to another rapid increase in business expenses during October. That said, the overall pace of input cost inflation was the least marked since September 2021, with some service sector firms citing reduced freight rates and softer raw material prices.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI<sup>®</sup> Business Activity Index registered 48.8 in October, down from 50.0 in September and the lowest reading since January 2021. Lower volumes of service sector output were mostly linked to cautious spending patterns among businesses and consumers. A number of firms noted that political uncertainty since the mini-Budget had adversely impacted business investment and encouraged a wait-and-see approach to new projects.

October data indicated that new business volumes decreased for the second month running and at the fastest pace since January 2021. Discretionary spending saw a particularly steep downturn, according to survey respondents, as rising inflation and higher borrowing costs led to a continued squeeze on client budgets.

New work from abroad also fell for the second month running and at an accelerated pace in October. Some service providers commented on a boost to export sales from increased international travel and the weak pound, but others cited subdued global economic conditions and ongoing Brexit-related trade frictions.

Employment remained a relatively bright spot in October as staffing levels were increased for the twentieth consecutive

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



Source: S&P Global, CIPS.  
Data were collected 12-27 October 2022.

month. Although still signalling a solid upturn in hiring, the rate of job creation was the slowest since March 2021. Greater workforce numbers were mostly linked to backfilling vacancies. There were again many reports of difficulties finding candidates to replace staff departures, which restricted business capacity and contributed to another modest rise in backlogs of work.

Service providers indicated that wage pressures were a key driver of input cost inflation during October, with salaries increased due to strong labour market conditions and efforts to retain skilled staff. Higher energy bills and fuel costs were also widely cited by survey respondents. The overall rate of input price inflation eased for the fifth month running, but remained higher than at any time in the two decades prior to the pandemic.

Latest data signalled a marginal slowdown in prices charged inflation. The rate of output charge inflation was the weakest since January, but still exceptionally strong in comparison to historic trends. Service providers once again noted efforts to pass on escalating energy bills and staff costs to customers, despite worsening demand conditions and widespread concerns about the business outlook.

Optimism regarding the outlook for service sector activity during the year ahead decreased considerably since September, with the respective index slumping to its lowest since April 2020. That said, discounting the record lows seen at the start of the pandemic, the degree of business confidence was in fact the lowest since December 2008. This reflected recession concerns, domestic political uncertainty since the mini-Budget, alongside worries about high inflation and rising interest rates.

## Comment

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

"UK service providers reported the steepest drop in business activity for 21 months in October as household spending cutbacks and shrinking business investment combined to dent new order volumes. A number of firms noted that political uncertainty and rising borrowing costs since the mini-Budget had led to greater risk aversion among clients and a wait-and-see approach to new projects. There were also many reports that higher energy bills had led to reduced spending on non-essential services.

"Overall input price inflation slowed for the fifth month running during October, which signalled a gradual easing of cost pressures from the record highs seen this spring. However, the latest rise in business expenses was still faster than at any time in the survey history prior to the pandemic, driven by further steep increases in energy costs and staff wages.

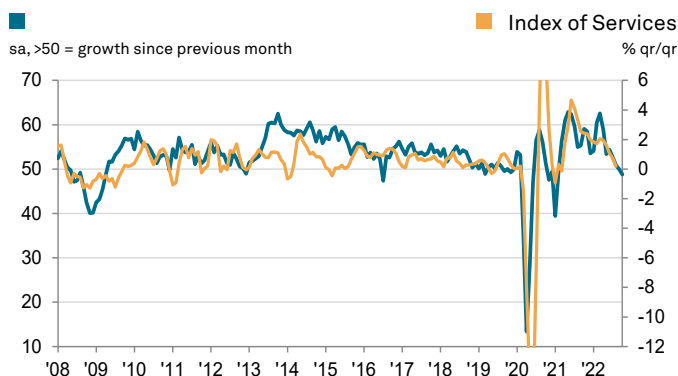
"Stubbornly high inflation, increased borrowing costs and worries about the UK economic outlook all contributed to weaker business optimism in October. Aside from the slump at the start of the pandemic, the degree of confidence across the service economy is now the lowest since December 2008."

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

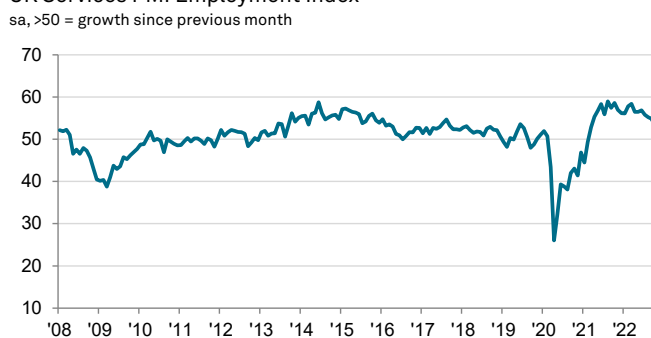
"October's data paints a worrying picture for UK services firms who suffered a body blow of political uncertainty following the Government's mini-Budget announcements, which combined with rising interest rates and business costs led to the first fall in activity since February 2021.

"The sector had already been teetering on the edge of the abyss in September but it was uncertainty around the strength of the UK economy that pushed it into contraction. Consumers stayed at home to calculate the impact of rising energy bills and holding on to their disposable income for harder times ahead. Clients also delayed business decisions with concerns that global disruptions and Brexit trading conditions were still having an impact and that services were becoming unaffordable with ongoing inflationary rises.

"As the country braces for recession, the gloomy evidence presented by the PMI data shows services providers are feeling the pressure. Confidence for trading in the next 12 months was one of the most despondent since December 2008, with the exception of the lows felt during the pandemic, as firms wondered if there was any sustainable growth on the horizon at all."



**UK Services PMI Employment Index**



Sources: S&P Global, CIPS.

**UK Services PMI Input Prices Index**



Sources: S&P Global, CIPS.

# S&P Global / CIPS UK Composite PMI®

## UK private sector output falls at faster rate in October

The seasonally adjusted S&P Global / CIPS UK Composite PMI\* registered 48.2 in October, down from 49.1 in September and below the 50.0 no-change mark for the third month running. Although only modest, the latest reading signalled the fastest rate of decline since January 2021. Manufacturing production fell at a much faster pace than service sector activity.

Slower rates of input price inflation were seen in both the manufacturing and service sectors in October, despite severe pressure on business expenses from higher energy bills and staff wages. The seasonally adjusted index measuring overall cost burdens across the UK private sector pointed to the least marked rate of inflation since September 2021.

Nonetheless, inflation worries and the associated uncertainty and negative impact on client purchasing capabilities meant business confidence dropped sharply since September. The latest survey indicated that private sector growth projections were the weakest since April 2020.

\*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](mailto:economics@ihsmarkit.com).

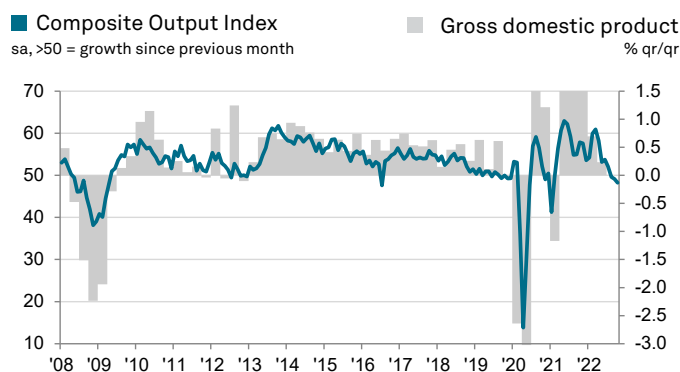
### Flash vs. final data

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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### 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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).