

MARKET SENSITIVE INFORMATION

Embargoed until 0930 BST (0830 UTC) 24 October 2023

S&P Global / CIPS Flash United Kingdom PMI®

UK private sector output declines for third month running in October

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 48.6 (Sep: 48.5). 2-month high.

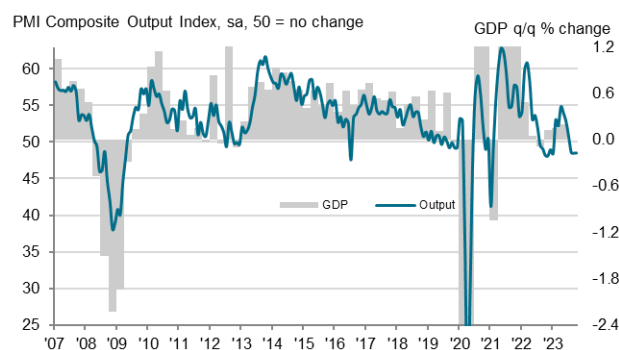
Flash UK Services PMI Business Activity Index⁽²⁾ at 49.2 (Sep: 49.3). 9-month low.

Flash UK Manufacturing Output Index⁽³⁾ at 45.3 (Sep: 44.6). 3-month high.

Flash UK Manufacturing PMI⁽⁴⁾ at 45.2 (Sep: 44.3). 3-month high.

Data were collected 12-20 October

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



Business activity decreased again across the UK private sector economy during October. Lower output was seen in both the manufacturing and service sectors, with the former posting the sharper rate of decline.

The latest survey also pointed to modest reductions in new order volumes and staffing numbers at private sector firms. Concerns about the outlook for business and consumer spending meant that output growth expectations for the year ahead were the lowest since December 2022.

At 48.6 in October, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** was up fractionally from 48.5 in September but below the 50.0 no-change mark for the third month running. The latest reading signalled a modest reduction in private sector output, which contrasted with an upward trend on average during the first half of 2023.

Service providers indicated only a marginal fall in

business activity during October, but the latest decline was the most pronounced since January. Survey respondents commented on subdued consumer confidence, the impact of elevated borrowing costs, and weak client demand across the real estate sector. Where business activity growth was reported, this outperformance was mostly centred on the technology services sub-sector.

October data signalled a reduction in **manufacturing** output for the eighth consecutive month, which represented the longest period of decline since 2008/09. However, the rate of contraction was the least marked since July. Manufacturers noted that customer destocking and a lack of incoming new work to replace completed contracts had weighed on production schedules.

Mirroring the trend for business activity, latest data highlighted another modest fall in **new work** across the private sector economy. Lower new order volumes have been recorded in each of the past four months and the latest decline was slightly faster than seen in September. Survey respondents typically cited caution among corporate clients, alongside stretched household budgets due to cost-of-living pressures. Weaker export sales also acted as a constraint on overall demand, especially in the manufacturing sector.

Another solid decline in **backlogs of work** suggested a lack of pressure on business capacity in October. This resulted in reduced staff hiring, with private sector **employment** decreasing for the second month running. Anecdotal evidence suggested that payroll numbers had been lowered through the non-replacement of voluntary leavers, but there were also some reports of redundancies in the manufacturing and service sectors.

Lower confidence regarding the **year ahead business outlook** contributed to hiring freezes and falling workforce levels in October. The latest survey indicated that business optimism weakened for the first time since July and was the lowest seen in 2023 to date. Similarly sharp falls in growth expectations were seen across the manufacturing and service sectors. Survey respondents typically cited worries about the UK economic outlook and constraints on spending due to higher borrowing costs.

Input price inflation meanwhile slowed for the third consecutive month in October and was the lowest since the start of 2021. This was helped by a further softening of

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cost pressures across the service economy, alongside falling purchasing prices in the manufacturing sector. Where higher business costs were reported, this overwhelmingly reflected rising staff salaries and greater fuel prices.

In contrast to the trend for input costs, **price charged inflation** accelerated to a three-month high in October. This was driven by a sharp and accelerated increase in output charges across the service economy, with survey respondents often noting efforts to catch up on broader inflationary pressures and limit the squeeze on their operating margins. Meanwhile, manufacturers reported the fastest decline in factory gate prices since February 2016, following reports of strong competitive pressures to pass on falling materials prices.

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

“The UK economy continued to skirt with recession in October, as the increased cost of living, higher interest rates and falling exports were widely blamed on a third month of falling output.

“The overall pace of decline remains only modest, signalling a mere 0.1% quarterly rate of GDP decline, but gloom about the outlook has intensified in the uncertain economic climate, boding ill for output in the coming months. A recession, albeit only mild at present, cannot be ruled out.

“Encouragingly, cost pressures have continued to moderate, in part helped by reports of lower wage inflation and further falls in prices charged by manufactures. However, selling price inflation for services remains somewhat elevated, and even ticked higher in October, pointing to some stickiness of headline inflation around the 4% mark into the early months of next year.

“In this context, any upward inflation pressures due to higher oil prices will be a major concern, meaning it would be unlikely for policymakers to rule out the possibility of rates rising again later in the year.”

Dr John Glen, CIPS Chief Economist said:

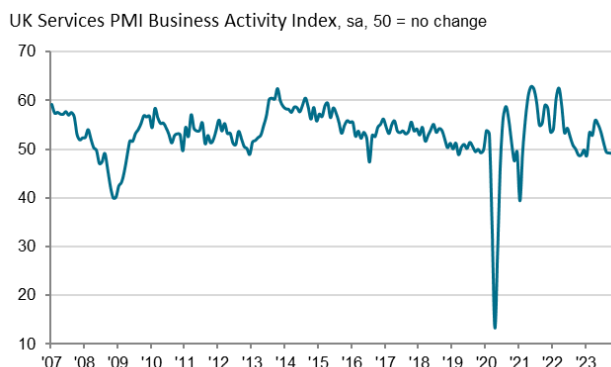
“The lowest optimism since December 2022 was a clear indicator of the direction of travel in the private sector as both manufacturers and service providers gave a downbeat assessment of activity in October and remained in contraction for the third month in a row.

“Customers hesitated to commit to orders, preferring to use up stocks in hand to complete ongoing business, and new work orders fell faster compared to the previous month. Manufacturing production was in decline as activity fell for an eight month in a row, while service providers remained affected by consumers concerned by ongoing cost of living rises.

“Redundancies were also increasing in number as staff cuts became one option in a range of cost-cutting measures. An improvement in input cost inflation was not enough to stem the haemorrhaging of business margins, as higher salary demands were still present and rising fuel bills offset falling prices for raw materials.”

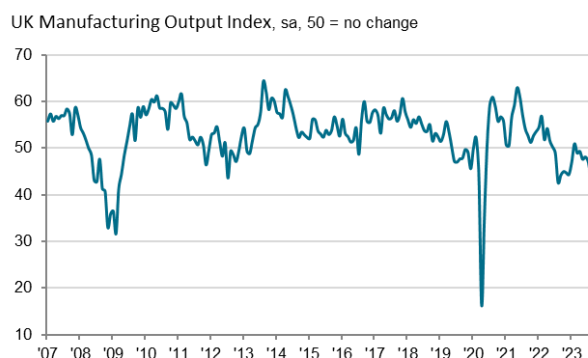
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S&P Global / CIPS Flash UK Services PMI Business Activity Index



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 October data are published on 1 November for manufacturing and 3 November 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.

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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.

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@ihsmarkit.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. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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