News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 23 August 2023

S&P Global / CIPS Flash United Kingdom PMI®

UK private sector output falls at fastest rate since January 2021

Key findings:

Flash UK PMI Composite Output Index(1) at 47.9 (Jul: 50.8). 31-month low.

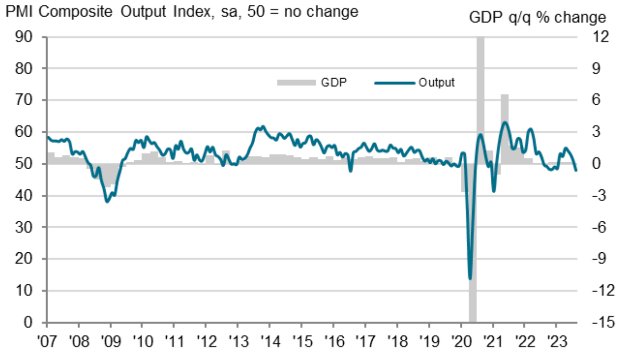
Flash UK Services PMI Business Activity Index(2) at 48.7 (Jul: 51.5). 7-month low.

Flash UK Manufacturing Output Index(3) at 43.3 (Jul: 47.2). 12-month low.

Flash UK Manufacturing PMI(4) at 42.5 (Jul: 45.3). 39-month low.

Data were collected 10-21 August

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



Sources: S&P Global PMI, CIPS, ONS via S&P Global Market Intelligence.

UK private sector firms signalled a renewed downturn in business activity in August, thereby ending a six-month period of expansion. This mostly reflected a faster fall in new orders as sluggish domestic economic conditions and higher borrowing costs led to caution among clients.

Inflationary pressures continued to moderate in August, with input costs rising at the slowest pace for two-and-a-half years. That said, there were again many reports of persistently strong wage pressures. Average prices charged by UK private sector companies also increased at the softest rate since February 2021. Survey respondents suggested that they had adjusted their pricing strategies in response to weaker demand and falling input cost inflation.

At 47.9 in August, down from 50.8 in July, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** posted below the neutral 50.0 threshold for the first time since January. The latest reading was the weakest since January 2021 and signalled a moderate reduction in UK private sector output.

Lower levels of activity were recorded in both the manufacturing and service sectors during August. The downturn in **service sector output** was only marginal, but nonetheless the joint-fastest for 31 months (equalling that seen in January). **Manufacturers** meanwhile experienced a sharp and accelerated fall in production volumes, which extended the current period of decline to six months.

August data indicated a decline in **new orders** across the UK private sector economy for a second consecutive month. The latest decrease in new business was the fastest since November 2022, with lower levels of customer demand now seen in the service economy as well as the manufacturing sector. Companies recording a drop in new orders typically cited a reluctance to spend among clients in the wake of higher interest rates and stretched disposable household incomes. Where sales growth was reported, this was sometimes linked to resilient demand for international travel and leisure services.

Shrinking order books allowed for a steep reduction in **backlog of work** during August. This was the fourth successive monthly decline in unfinished work and the latest fall was the fastest since June 2020. Excess capacity contributed to another round of job shedding across the manufacturing sector, whereas service providers signalled a marginal upturn in workforce numbers. Measured overall, private sector **employment** rose only slightly and at the slowest pace since March. Survey respondents once again commented on severe difficulties with recruiting and retaining suitably skilled staff, largely due to tight labour market conditions and a subsequent lack of candidates to fill vacancies.

Higher wages were the most commonly cited factor leading to rising **input costs** during August, especially in the service economy. This was partly offset by lower energy and raw material prices. Across the private sector as a whole, average cost burdens increased at the slowest pace since February 2021. Moreover, **prices charged** inflation moderated for the fourth month running to its lowest for two-and-a-half years.

Manufacturers reported the steepest fall in their purchase prices since January 2016. A combination of improving supply and lower demand led to an accelerated pace of destocking in August. **Pre-production inventories** decreased at the fastest rate since March 2009, with many goods producers reporting efforts to run down safety stocks and improve working capital management.

Despite a sustained downturn in demand conditions, latest data signalled only a slight moderation in **business activity expectations** at UK private sector companies. The degree of confidence regarding year ahead growth prospects slipped to its weakest since December 2022, but was still broadly in line with the long-run series average.

Service providers signalled a modest drop in business optimism since July, which survey respondents linked to worries about the broader economic outlook and the impact of higher interest rates on consumer spending. However, manufacturers bucked the overall trend and noted a further improvement in business expectations. This was linked to investments in new products and technologies, alongside a boost from falling input costs, and the eventual need for customers to replenish their depleted inventories.

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

"The early PMI survey for August suggests that inflation should moderate further in the months ahead, but also indicates that the fight against inflation is carrying a heavy cost in terms of heightened recession risks.

"A renewed contraction of the economy already looks inevitable, as an increasingly severe manufacturing downturn is accompanied by a further faltering of the service sector's spring revival. The survey is indicative of GDP declining by 0.2% over the third quarter so far.

"Companies are reporting reduced orders for goods and services as demand is increasingly hit by the cost-of-living crisis, higher interest rates, export losses and concerns about the economic outlook.

"Although cost pressures remain elevated, thanks mainly to rising wages, the deteriorating demand environment is curbing companies' pricing power. Prices charged for goods and services are growing at rate commensurate with consumer price inflation cooling to 4% in the months ahead. A further pull-back in hiring in August meanwhile indicates that the labour market is losing steam, which should feed through to lower wage pressures.

"While a further hike in interest rates in September looks to be on the cards, the August PMI data will add to speculation that rates could soon peak."

Dr John Glen, CIPS Chief Economist said:

"High interest rates continue to cast a shadow over the UK economy, creating a lull in new orders, stunting output, and ensuring prospects for the private sector remain uncertain.

"This reduction in activity has provided UK supply chains with much-needed respite after the instability of the last two years. High interest rates are starting to have their intended effect of dampening demand and reducing inflationary pressures, leading to moderated input costs and reduced raw material prices for manufacturers. Businesses who had built up stock as a safety net against disruption have now reduced their inventories and created more balanced and efficient supply chains as a result.

"The hope is that more predictable supply chains will help to stabilise the economy and support an eventual rebound in new orders. However, the question remains as to how long elevated borrowing costs will limit demand."

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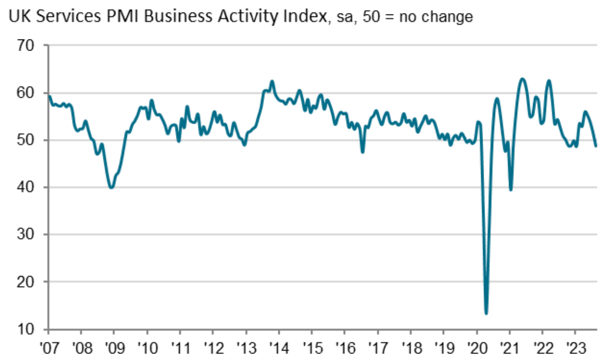
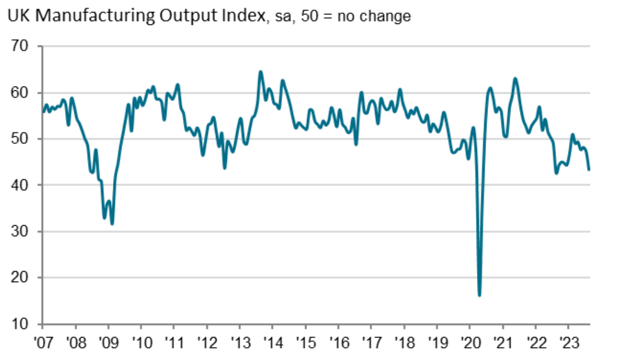
S&P Global / CIPS Flash UK Services PMI Business Activity Index



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 August data are published on 1 September for manufacturing and 5 September 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.

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:

PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply

Composite Output Index = 0.1 (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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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 200,000 in over 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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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