News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 22 July 2022

S&P Global / CIPS Flash United Kingdom PMI®

Weakest rise in UK private sector business activity for 17 months. Input cost inflation slows during July

Key findings:

Flash UK PMI Composite Output Index[1] at 52.8 (Jun: 53.7). 17-month low.

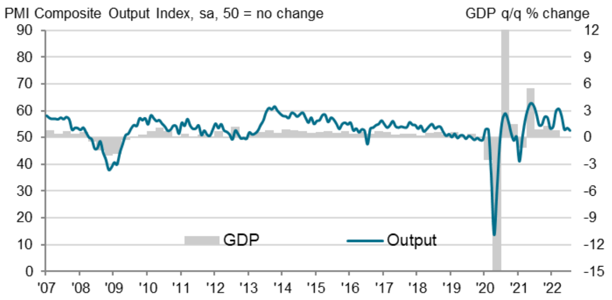
Flash UK Services PMI Business Activity Index[2] at 53.3 (Jun: 54.3). 17-month low.

Flash UK Manufacturing Output Index[3] at 49.7 (Jun: 50.3). 26-month low.

Flash UK Manufacturing PMI[4] at 52.2 (Jun: 52.8). 25-month low.

Data were collected 12-20 July

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



Sources: S&P Global, CIPS, ONS.

Business activity at UK private sector companies increased for the seventeenth month running in July, but the rate of expansion was the weakest over this period. The slowdown in output growth mostly reflected softer demand, alongside ongoing capacity constraints arising from shortages of materials and staff.

On a more positive note, latest data indicated that input cost inflation eased considerably since June and was the lowest for ten months. Survey respondents often commented on lower commodity prices and a stabilisation in fuel costs, but there were still widespread reports citing intense salary pressures. Some firms noted that exchange rate depreciation against the US dollar had added to their purchasing costs during July.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 52.8 in July, down from 53.7 in June and the lowest reading since February 2021. Any figure above 50.0 indicates an overall expansion of private sector business activity.

Sector data illustrated that **service providers** continued to outperform in July (index at 53.3), although the latest output expansion was the weakest for 17 months. Meanwhile, **manufacturing** production (49.7) decreased for the first time since May 2020. Goods producers typically cited a lack of new work to replace completed orders, reflecting subdued client confidence and weaker global economic conditions.

New order volumes across the UK private sector as a whole increased moderately in July, driven by a sustained rise in new work across the service economy. A number of firms attributed higher workloads to resilient consumer spending on travel and leisure services. In contrast, manufacturing companies signalled a further reduction in sales volumes and the rate of decline was the fastest for just over two years. Weaker demand led to the steepest drop in backlogs of work at manufacturing firms since June 2020.

July data indicated a solid rise in private sector **employment**, despite the pace of job creation easing to a 16-month low. Higher levels of employment were driven by efforts to reduce backlogs and rebuild business capacity after cutbacks during the pandemic. However, some firms reported that shortages of candidates and concerns about the demand outlook had led to the non-replacement of leavers.

Input cost inflation moderated for the second month running, with the seasonally adjusted index dropping from 84.5 in June to 78.3 in July. This signalled the slowest rate of inflation since September 2021. Manufacturers recorded a particularly marked easing in cost pressures, with this index reaching its lowest for 18 months. Survey respondents suggested that lower commodity prices had started to alleviate pressures on raw material costs (especially metals). Service providers mostly noted that intense wage pressures due to shortages of staff and rising consumer price inflation had continued to push up their cost burdens.

Mirroring the trend for input costs, July data pointed to a further slowdown in **prices charged inflation** at private sector companies. The latest rise in output charges was the least marked since January, reflecting some efforts to moderate price increases in the wake of softer customer demand.

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Looking ahead, private sector firms remain relatively cautious about the **business outlook**, despite a slight improvement from June's 25-month low amid stronger optimism in the service economy. Some service sector firms commented on hopes of only a brief slowdown in client demand and a longer-term boost from COVID-19 recovery and improving supply capacity. However, manufacturing companies indicated that business optimism eased to a 26-month low in July, with the gloomy global economic outlook and subdued new order books contributing to weaker projections for output during the year ahead.

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

"UK economic growth slowed to a crawl in July, registering the slowest expansion since the lockdowns of early-2021. Although not yet in decline, with pent-up demand for vehicles and consumer-oriented services such as travel and tourism helping to sustain growth in July, the PMI is now at a level consistent with just 0.2% GDP growth. Forward-looking indicators suggest worse is to come. Manufacturing order books are now deteriorating for the first time in one and a half years as inflows of new work are insufficient to keep workforces busy, which is usually a precursor to output and jobs being cut in coming months. Raw material buying has already slumped and hiring has slowed as companies reassess their requirements for the coming months in the face of worsening demand conditions.

"The concern is that rising interest rates, as the Bank of England seeks to control inflation, will cause demand growth to weaken further in the coming months. To be hiking interest rates at a time of such weak business growth is unprecedented over the past quarter-century of survey history.

"On a brighter note, inflationary pressures have cooled markedly, stemming from fewer supply shortages and more discounting in response to the weakened demand environment. Companies' costs are growing at the slowest rate since last September, which should help alleviate some of the upward pressures on inflation from energy and food in the coming months."

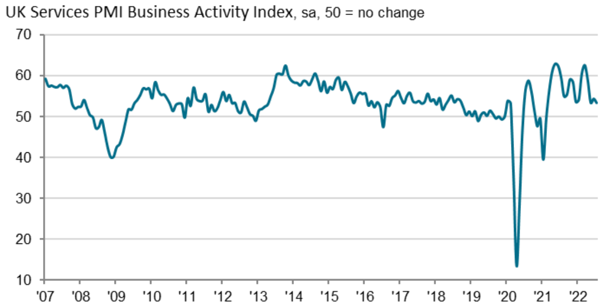
Duncan Brock, Group Director at CIPS, said:

"Private sector firms left little to get excited about in July with the softest rise in activity since February 2021 but there was a scrap of improvement in some areas that offered light relief. The rise in input costs was the lowest since September 2021 with a slight stabilisation in fuel costs and some commodity prices had started to drop.

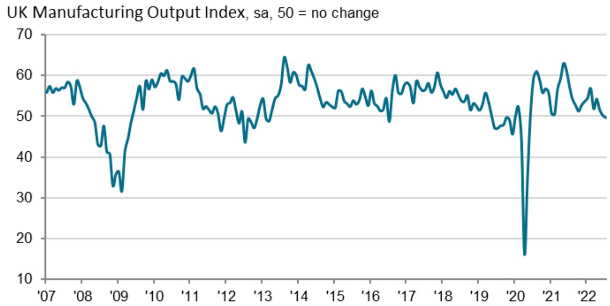
"This will be scant comfort for manufacturers who saw their output drop into contraction for the first time since May 2020. Clients reduced spending as recessionary fears were high on the list, and concerns over higher manufacturing wage bills to tempt suitable staff affected business costs. Service providers were top of the leader board even with the weakest growth for almost 18 months as consumer spending on holidays remained elevated. This may be a fleeting moment in 2022 before higher energy costs kick in during the autumn months and cost of living concerns surface again.

"There was a slight improvement in future business optimism but it remained lower than the survey average. Firms were painfully conscious of the weaknesses in the UK and global economies and were not hopeful they would experience the same boost in momentum compared to earlier in the year."

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



S&P Global / CIPS Flash UK Manufacturing Output Index



Sources: S&P Global, CIPS.

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Note to Editors

Final July data are published on 1 August for manufacturing and 3 August 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:

Composite Output Index = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.0 (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.

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 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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