

MARKET SENSITIVE INFORMATION

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S&P Global Flash United Kingdom PMI®

Solid rate of service sector growth helps to boost UK private sector output in February

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 53.3 (Jan: 52.9). 9-month high.

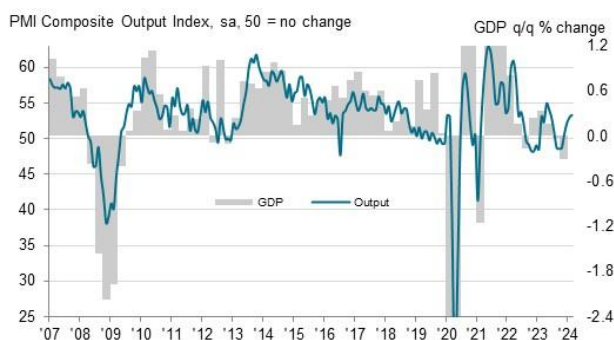
Flash UK Services PMI Business Activity Index⁽²⁾ at 54.3 (Jan: 54.3). Unchanged.

Flash UK Manufacturing Output Index⁽³⁾ at 47.3 (Jan: 45.5). 3-month high.

Flash UK Manufacturing PMI⁽⁴⁾ at 47.1 (Jan: 47.0). 3-month high.

Data were collected 12-20 February

S&P Global Flash UK PMI Composite Output Index



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

Business activity across the UK private sector expanded for the fourth consecutive month and at the fastest pace since May 2023, supported by another strong upturn in the service economy. February data highlighted a solid improvement in customer demand, as signalled by the sharpest rise in new work for nine months. Hopes of a sustained rebound in domestic economic conditions led to the highest level of optimism regarding the year ahead business outlook since February 2022.

Inflationary pressures remained elevated during the latest survey period. Moreover, the rate of input price inflation edged up to its strongest since August 2023, largely due to rising salaries in the service sector. Manufacturers recorded only a modest rise in their input prices, despite higher shipping costs and worsening supply chain disruptions in the wake of the Red Sea crisis. The latest

lengthening of suppliers' lead times was the greatest recorded since July 2022.

At 53.3 in February, up from 52.9 in January, the headline seasonally adjusted **S&P Global Flash UK PMI Composite Output Index** signalled a solid rise in business activity that was the sharpest for nine months. Higher levels of private sector output have been seen in each month since last November.

February data indicated that the rate of business activity growth in the **service economy** was unchanged from January's eight-month high (54.3). Survey respondents often cited a turnaround in business and consumer spending, despite ongoing cost-of-living pressures, whilst some also commented on a boost from less restrictive financial conditions.

Manufacturing production has now decreased in each of the past 12 months, but the rate of decline eased to its lowest since November 2023. Some goods producers suggested that a lesser degree of customer destocking had helped to stabilise demand. Those reporting a drop in production often commented on unfavourable market conditions and depleted order books.

New business volumes across the UK private sector as a whole increased for the third month running and at the fastest pace since May 2023. This was largely due to a solid rise in new work received by service providers in February. Latest data also revealed contrasting fortunes in terms of export sales, with a steep and accelerated fall in the manufacturing sector offsetting a marked upturn in new work from abroad across the service economy.

The latest survey indicated that private sector firms remained cautious about adding to their **staffing numbers**. Total employment levels increased only slightly in February and the pace of job creation was unchanged from the previous month, despite improving order books and rising business optimism. In the manufacturing sector, workforce levels decreased to the greatest extent since June 2020.

Subdued hiring patterns were often linked to strong wage pressures and the need to reduce overheads. Moreover, latest data suggested a lack of pressure on operating capacity, with **unfinished work** falling for the tenth month

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running. Fewer backlogs were seen in both the manufacturing and service sectors in February.

Average cost burdens increased sharply in February and at the fastest pace for six months. Reports from survey respondents suggested that higher labour costs remained the main factor pushing up business expenses, especially in the service economy. Manufacturers often reported rising freight costs during February, linked to the Red Sea crisis, but the latest overall increase in purchasing prices was only modest and slightly softer than in January.

Mirroring the trend for input costs, latest data indicated a renewed acceleration in **prices charged inflation** across the private sector economy. The increase in output charges was the steepest since July 2023 and led by another month of robust prices charged inflation among service sector companies.

Meanwhile, **business expectations** strengthened for the fourth consecutive month in February. The degree of confidence regarding year ahead prospects for output growth were the highest since February 2022. Service providers typically attributed optimism to lower borrowing costs, resilient customer demand, and hopes of a modest return to growth for the broader UK economy. Some firms also suggested that a reduced squeeze on household incomes could boost consumer spending in the year ahead. Manufacturers meanwhile signalled a slight fall in business optimism in February, but this index remained close to the long-run series average and therefore suggested resilient business expectations in the face of renewed international supply chain pressures.

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

“UK economic growth has accelerated in February, with the early PMI survey data pointing to the largest rise in business activity for nine months. This is by no means a one-off improvement, as faster growth has now been recorded for four straight months after a brief spell of decline late last year.

“The survey data point to the economy growing at a quarterly rate of 0.2-3% in the first quarter of 2024, allaying fears that last year’s downturn will have spilled over into 2024 and suggesting that the UK’s ‘recession’ is already over.

“It’s particularly encouraging to see that the upturn in growth has been accompanied by a surge in optimism about year-ahead prospects to the highest for two years, in turn encouraging a second month of increased employment.

“However, there are a number of areas of concern. First, the upturn is being driven to a large extent by resurgent demand for financial services, in turn predicated on hopes of an imminent pivot to rate cutting by the Bank of England. In contrast, manufacturing remains mired in contraction and consumer-facing service providers are reporting falling activity amid the ongoing cost of living crisis.

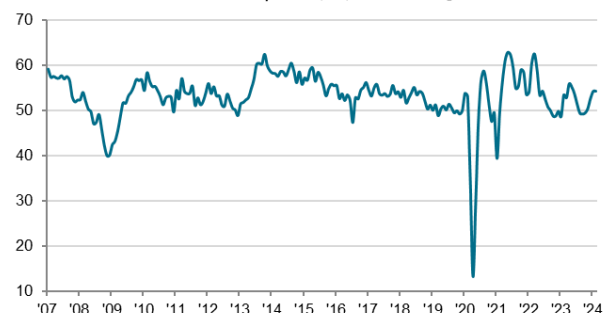
“Second, February saw the highest degree of supply chain delays for over one and a half years, linked to Red Sea shipping disruptions. The resulting increased cost of shipping contributed to the largest monthly rise in selling prices for goods seen over the past nine months.

“Service sector inflation also ticked higher, remaining stubbornly elevated thanks to higher wage costs and the pass-through of some higher goods prices. The survey data signal consumer price inflation running around the 4% level in the coming months – double the Bank of England’s target.

“With growth accelerating and prices on the rise again, February’s data mean policymakers are increasingly likely to err on the side of caution when considering the appropriateness of cutting interest rates.”

S&P Global Flash UK Services PMI Business Activity Index

UK Services PMI Business Activity Index, sa, 50 = no change



Source: S&P Global PMI.

S&P Global Flash UK Manufacturing Output Index

UK Manufacturing Output Index, sa, 50 = no change



Source: S&P Global PMI.

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Note to Editors

Final February data are published on 1 March for manufacturing and 5 March for services and composite indicators.

The S&P Global 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 = 0.2 (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@spglobal.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.

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