

News Release

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S&P Global UK Services PMI[®]

Fastest increase in service sector activity for six months during December

Key findings

Output and new work rise for second month running

Slight fall in employment numbers

Prices charged inflation accelerates again

UK service providers signalled stronger growth momentum in December, with business activity and incoming new work both picking up at the strongest rates for six months. Moreover, optimism regarding the business outlook for 2024 improved for the second month in a row to its highest since last May, driven by hopes of a sustained turnaround in client demand.

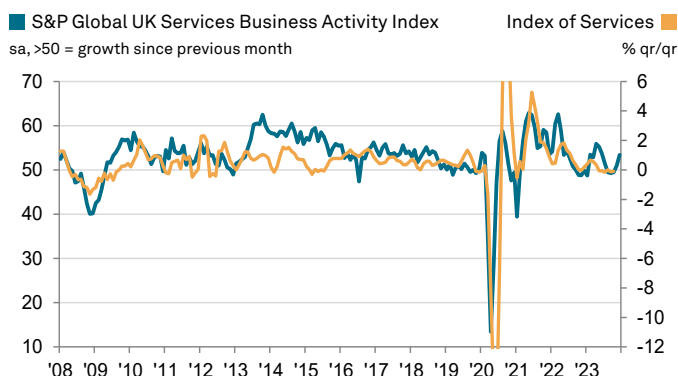
However, staff hiring remained subdued at the end of 2023, in part due to strong concerns about wage pressures. Overall input cost inflation accelerated to a three-month high, which contributed to the fastest rise in prices charged by service providers since last July.

Adjusted for seasonal influences, the final S&P Global UK Services PMI[®] Business Activity Index posted above the 50.0 no-change mark for the second month running. At 53.4 in December, up from 50.9 in November, the latest index reading pointed to a solid increase in business activity that was the fastest since last June. The earlier 'flash' reading was 52.7 in December.

Higher business activity was again linked to a tentative turnaround in client demand, especially among firms in technology and financial services. Some firms noted better-than-expected consumer spending on leisure and hospitality services at the end of 2023.

Adding to signs of an improvement in customers' willingness-to-spend was a further increase in new order volumes during December. Mirroring the trend for business activity, latest data pointed to the fastest upturn in new work since last June. Survey respondents commented on a boost to sales from rising business optimism, despite lingering concerns about weak UK economic growth prospects. Export sales were subdued, however, with total new work from abroad rising only fractionally.

Employment was a weak spot in December, with staffing numbers dipping for the third time in the past four months. Anecdotal evidence suggested that margin pressures and muted demand for much of the second half of 2023 had led to hiring freezes, the non-replacement of voluntary leavers and some redundancies. A lack of pressure on operating capacity



Sources: S&P Global PMI, ONS.
Data were collected 06-20 December 2023.

Comment

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

"December data indicated that the UK service sector ended last year on a high, with business activity growth accelerating to its fastest for six months as the turnaround in order books gained momentum. The recovery in client demand was attributed to hopes of lower borrowing costs and an improving global economic backdrop in 2024. However, many firms continued to cite challenging underlying business conditions due to the stagnating UK economy and strong pressure on margins from rising labour costs.

"Business activity expectations for the year ahead are now the most upbeat since last May, supported by signs of a rebound in clients' appetite to spend. Staff hiring was the main weak spot in December, with hiring freezes yet to be lifted as service providers sought to maintain a tight grip on headcount.

"Strong wage pressures fuelled another month of substantial input cost increases in the service sector. Overall input price inflation picked up for the second month running, despite relief from lower transport bills and raw material costs.

"Many firms noted constraints on their pricing power due to squeezed budgets among households and businesses. However, the latest survey indicated a robust rise in prices charged across the service economy amid efforts to defend margins, with the rate of inflation the fastest since last July."

PMI[®]

by S&P Global

UK Services PMI Input Prices Index
sa, >50 = inflation since previous month



Source: S&P Global PMI.

was further signalled by a modest decline in unfinished work in December. This marked seven months of falling backlogs across the service economy.

Despite falling volumes of outstanding business and ongoing caution in terms of staff hiring, the latest survey indicated that service providers are upbeat about their output growth prospects in 2024. Around 51% of the survey panel anticipate an increase in business activity during the year ahead, while only 12% forecast a decline.

The overall degree of business optimism was the highest since last May. Companies expecting an increase in activity over the next 12 months commented on hopes of lower borrowing costs, improving global economic conditions, and forthcoming business expansion plans. That said, some survey respondents noted weak projections for spending among construction and real estate clients.

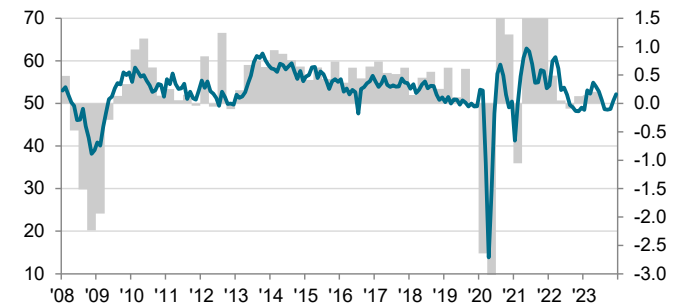
Meanwhile, the latest survey indicated another month of strong cost pressures across the service economy. The rate of input price inflation accelerated to the highest since September, which was overwhelmingly driven by reports of greater staff wages. Some firms noted lower fuel and raw material costs, but utility bills and prices paid for technology service were often reported as having increased in December.

A sharp rise in operating expenses led to robust prices charged inflation at the end of 2023. The overall rate of output price inflation accelerated to its fastest for five months. Survey respondents typically cited efforts to pass on higher labour costs, despite competitive pressures limiting their pricing power.

S&P Global UK Composite PMI®

Moderate rise in private sector output, despite faster downturn in manufacturing production

■ S&P Global UK Composite PMI Output Index ■ Gross domestic product
sa, >50 = growth since previous month % qr/qr



Sources: S&P Global, ONS.

The final seasonally adjusted S&P Global UK Composite PMI* registered 52.1 in December, up from 50.7 in November and above the neutral 50.0 value for the second month running. The latest reading was the highest since last June and pointed to a moderate increase in private sector output. The earlier 'flash' reading was 51.7 in December.

December data illustrated divergent trends across the manufacturing and service sectors. The former posted a decline in production for the tenth consecutive month and the pace of contraction accelerated since November. Service providers meanwhile indicated a solid expansion of business activity at the end of 2023.

UK private sector firms are the most upbeat about the year ahead business outlook since last May, which was driven by rising confidence in the service economy. In contrast, optimism among goods producers fell to its lowest for 12 months in December.

*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.

Contact

Tim Moore
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-095
tim.moore@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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Survey methodology

The S&P Global 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@spglobal.com.

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi

Flash vs. final data

Flash services data were calculated from 76% 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).