News Release

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S&P Global / CIPS UK Services PMI®

Service sector activity stalls in September as inflationary pressures hit discretionary spending

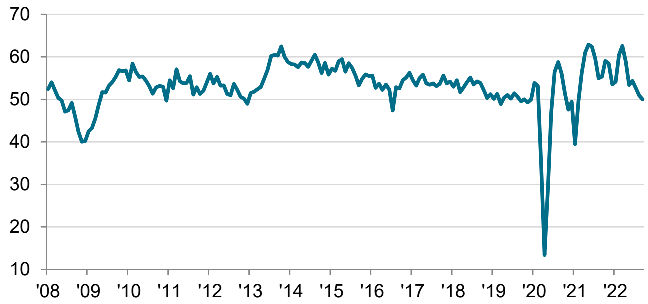
Key findings

Weakest service sector performance since February 2021

New orders decline for first time in 19 months

Input cost inflation continues to edge down from May's peak

S&P Global / CIPS UK Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global, CIPS.
Data were collected 12-28 September 2022.

September data pointed to a loss of momentum for the UK service sector, with an 18-month period of output expansion coming to an end amid falling volumes of incoming new work. Shrinking client demand was widely attributed to pressure on household budgets from escalating inflation, alongside widespread pessimism about the economic outlook.

Business expectations for the year ahead meanwhile dropped to the lowest since May 2020. Survey respondents noted that the energy crisis, global recession concerns and rising interest rates had all weighed on business optimism.

At 50.0 in September, the headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index registered in line with the neutral threshold and therefore signalled unchanged levels of output across the service economy. The index was down from 50.9 in August and pointed to the weakest service sector performance since the national lockdown in February 2021.

Service providers often noted spending cutbacks among UK households, especially in relation to discretionary services such as hospitality and leisure. There were also reports that rising business expenses and heightened economic uncertainty had added to demand headwinds.

The latest survey indicated a marginal overall decline in new orders across the service economy, which contrasted with the period of growth seen over the past one-and-a-half years. Many service providers cited subdued confidence and ongoing cost cutting efforts among clients.

Export sales also fell in September, which ended an eight-month period of growth. Brexit-related trade difficulties and weaker global economic conditions were reported by survey respondents. However, some firms commented on a boost from exchange rate depreciation, especially in US markets.

Despite a reduction in new work, latest data pointed to a renewed accumulation of unfinished business across the service sector. Increased backlogs were mostly attributed to supply shortages and difficulties filling staff vacancies.

September data highlighted another solid rise in employment levels, largely reflecting efforts to align staffing numbers with post-pandemic requirements. The rate of job creation nonetheless eased to its weakest since March 2021. Anecdotal evidence cited ongoing shortages of candidates and difficulties replacing departing staff, but there were also some reports that cost pressures had led to hiring freezes.

Around 58% of the survey panel signalled an overall rise in their input prices during September, while only 1% indicated a decline. The resulting seasonally adjusted index was the lowest since December 2021, and the overall rate of input cost inflation has now moderated in each month following May's survey-record high. That said, the survey still signalled a rapid degree of cost pressure. Escalating energy costs, higher staff wages and supplier price hikes were the main sources of rising expenses in September. This was only partly offset by a dip in fuel bills and lower transportation costs.

Service providers overwhelmingly passed on higher costs to clients, despite signs of weaker demand during September. The rate of prices charged inflation was little-changed since the previous month and still close to the peak seen in May.

Finally, business activity expectations for the year ahead weakened for the first time since June. The latest index reading signalled the lowest level of optimism since May 2020, with confidence severely hit by the energy crisis and its likely negative impact on demand.

Comment

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

"September data highlighted an absence of growth in the UK service sector for the first time in 19 months as the energy crisis continued to hit business and consumer spending.

"Severe pressure on budgets in the wake of rising inflation, alongside deepening worries about the economic outlook, also led to a reversal in new order volumes for the first time since February 2021.

"Employment trends remained positive in September, with staff numbers increasing at a strong pace as service providers adjusted to post-pandemic requirements. However, the pace of job creation has now slowed for three months running amid greater caution about future growth and sporadic reports of hiring freezes.

"Wage pressures due to shortages of candidates to fill vacancies were widely reported by service companies in September, which added to pressure on business expenses from escalating energy costs. The overall rate of input price inflation nonetheless eased slightly to its lowest since December 2021, helped by falling fuel prices and transportation costs.

"Service sector businesses trimmed their growth expectations to the lowest seen for nearly two-and-a-half years in September, which survey respondents linked to concerns about falling disposable income and the unfavourable global economic outlook."

Dr John Glen, Chief Economist, Chartered Institute of Procurement and Supply (CIPS):

"More evidence of weaknesses in the UK economy appeared last month as the services sector flatlined in September, falling to the no-change mark with fewer orders and higher costs affecting output.

"The new business index was the lowest since February 2021 as domestic consumers had cost-of-living pressures and not hospitality uppermost in their minds. After enjoying rising levels of export orders for eight months in a row, the ongoing effects of Brexit and trade difficulties also reduced overseas enquiries for service companies.

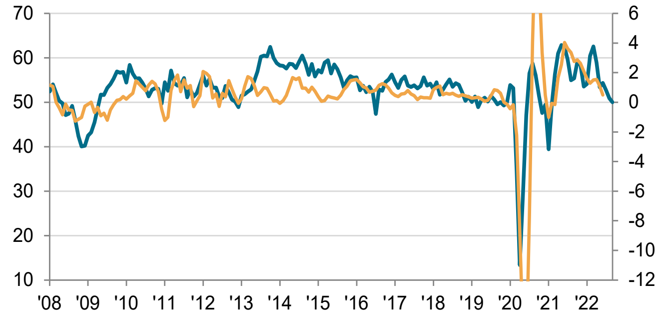
"Inflation rates remained high forcing businesses to pay more for food and energy and ongoing staff shortages put upward pressure on salaries. However, some improvement in fuel and transportation costs gave service providers a modicum of respite.

"Expectations of growth from service providers in the next 12 months also stalled to its lowest since May 2020 following the first pandemic lockdown. 39% of respondents were hopeful that business opportunities would grow but this compared with over 60% at the beginning of the year, which is a significant downturn and a clear indication of the trajectory this year."

Index of Services

sa, >50 = growth since previous month

% qr/qr



UK Services PMI Employment Index

sa, >50 = growth since previous month

Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index

sa, >50 = inflation since previous month

Sources: S&P Global, CIPS.

S&P Global / CIPS UK Composite PMI®

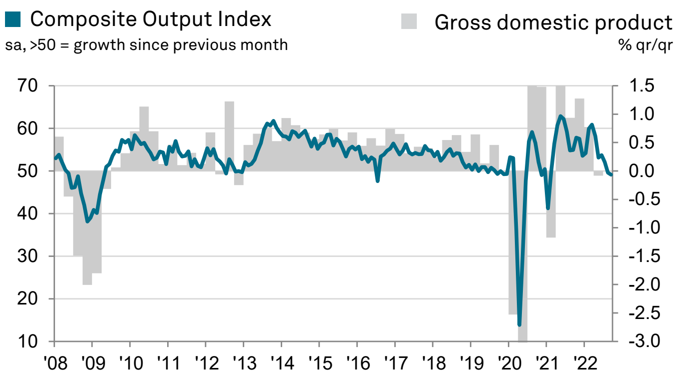
Fastest decline in private sector output since January 2021

At 49.1 in September, down from 49.6 in August, the seasonally adjusted S&P Global / CIPS UK Composite PMI* posted below the 50.0 no-change value for the second consecutive month and was the lowest since January 2021.

The latest reading signalled a marginal overall reduction in private sector output, led by a considerable downturn in manufacturing production.

Both manufacturers and service providers indicated lower volumes of incoming new work in September, with the seasonally adjusted index measuring new business volumes across the private sector as a whole the lowest for 20 months.

Looking ahead to the coming 12 months, business confidence dropped for the seventh time in the past eight months. Growth projections for the year ahead are now the weakest since May 2020, largely reflecting a slump of sentiment in the service economy.



Sources: S&P Global, CIPS, ONS.

Contact

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

Greg Baker
Corporate Communications
CIPS
T: +44 (0) 7887 404983
Greg.baker@hkstrategies.com

*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.

Survey methodology

The S&P Global / CIPS 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@ihsmarkit.com.

Flash vs. final data

Flash services data were calculated from 77% 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).

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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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