

MARKET SENSITIVE INFORMATION

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S&P Global / CIPS Flash United Kingdom PMI®

Weakest rise in UK private sector output for six months in July

Key findings:

Flash UK PMI Composite Output Index⁽¹⁾ at 50.7 (Jun: 52.8). 6-month low.

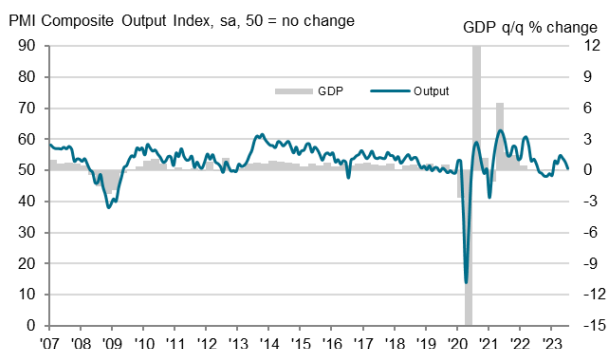
Flash UK Services PMI Business Activity Index⁽²⁾ at 51.5 (Jun: 53.7). 6-month low.

Flash UK Manufacturing Output Index⁽³⁾ at 46.5 (Jun: 48.1). 7-month low.

Flash UK Manufacturing PMI⁽⁴⁾ at 45.0 (Jun: 46.5). 38-month low.

Data were collected 12-20 July

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



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

July data highlighted a considerable slowdown in business activity growth across the UK private sector economy. The latest rise in output levels was the weakest for six months, largely due to flatlining new orders and sharply reduced backlogs of work.

Manufacturing companies meanwhile reported the biggest improvement in suppliers' delivery times since this index began in January 1992. The normalisation of global supply chains helped to boost vendor performance and bring down cost pressures in July. As a result, manufacturers reduced their output charges for the second month running. Across the UK private sector as a whole, the latest round of prices charged inflation was the slowest for nearly two-and-a-half years.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 50.7 in July, down from 52.8 in June and the lowest reading since January. The index has posted above the crucial 50.0 no-

change threshold in each of the past six months, although the latest expansion was only marginal and the weakest over this period. Survey respondents often commented on a headwind to business activity from rising interest rates, elevated inflation, and more caution among clients due to the uncertain economic outlook.

Activity growth in the **service economy** moderated for the third month running in July and was much softer than seen on average during the first half of 2023. A number of firms cited weaker residential property market conditions, while others commented on cutbacks to discretionary business and consumer spending.

Manufacturing production fell for the fifth successive month and at the steepest pace since December 2022. Goods producers mostly noted that lower demand and overstocking among clients had weighed on their production requirements in July.

New business volumes across the private sector stalled in July, thereby ending a five-month period of expansion. Marginal growth in the service economy was offset by falling manufacturing sales. Survey respondents typically noted heightened economic uncertainty, inventory reduction, and the impact of rising borrowing costs on spending decisions. Some firms commented on subdued demand in overseas markets, especially European clients. **Total new export orders** decreased at the steepest pace since November 2022, reflecting weaker trends in both the manufacturing and service sectors.

July data pointed to a further reduction in **unfinished work** as softer demand, improving supply conditions, and greater business capacity helped to reduce backlogs. The latest decline in work-in-hand (but not yet completed) was the fastest since June 2020. Efforts to catch up on outstanding business were helped by additional staff recruitment in July and fewer instances of candidate shortages, according to survey respondents. Private sector **employment** has risen in each of the past four months, but the rate of job creation eased since June.

Around three times as many manufacturers (15%) reported improving **supplier lead times** as those that signalled a deterioration in July (5%). The resulting seasonally adjusted Suppliers' Delivery Times Index was above the 50.0 no-change value for the sixth month running and signalled the fastest improvement in vendor

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performance in more than 30 years of data collection. Manufacturers cited an upturn in raw material availability, shorter lead times for critical electronics components, and increased transportation capacity. The normalisation of global supply chains encouraged leaner inventory strategies in July, as signalled by the steepest decline in **stocks of purchases** since May 2020.

Average cost burdens meanwhile increased sharply during July, but the overall rate of inflation dropped since the previous month and was the weakest since February 2021. Strong wage pressures resulted in another marked increase in input costs across the service economy, while manufacturers reported a fall in purchase prices for the third month running. Goods producers often commented on lower freight rates, energy costs and metals prices.

Private sector companies indicated a robust rise in their **average prices charged** in July, largely due to the pass through of higher staff wages across the service economy. In contrast, factory gate charges in the manufacturing sector fell slightly since June. Measured overall, output prices at private sector firms increased at the slowest pace since February 2021. The rate of inflation has now eased in five of the past six months.

Finally, **business activity expectations** moderated for the third month running in July. The degree of positive sentiment regarding growth prospects for the year ahead is now the weakest since December 2022. This mostly reflected a downturn in business optimism across the service economy to its lowest so far this year. Survey respondents widely commented on concerns about the impact of higher borrowing costs on customer demand.

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

“The UK economy has come close to stalling in July which, combined with gloomy forward-looking indicators, reignites recession worries.

“July’s flash PMI survey data revealed a deepening manufacturing downturn accompanied by a further cooling of the recent resurgence of growth in the service sector.

“Rising interest rates and the higher cost of living appear to be taking an increased toll on households, dampening a post-pandemic rebound in spending on leisure activities. Meanwhile, manufacturers are cutting production in response to a worryingly severe downturn in orders, both from domestic and export markets.

“Forward-looking indicators, such as order book inflows, levels of work-in-hand and future business expectations, all point to growth weakening further in the months ahead, adding to a risk of GDP falling in the third quarter.

“An upside to the deteriorating growth and demand picture is a further cooling of inflationary pressures. Manufacturing prices are falling at an increased rate and service sector inflation is continuing to moderate. Although ongoing upward wage pressures mean service sector price growth remains elevated, the survey data signal further, potentially marked, falls in consumer price inflation in the months ahead.”

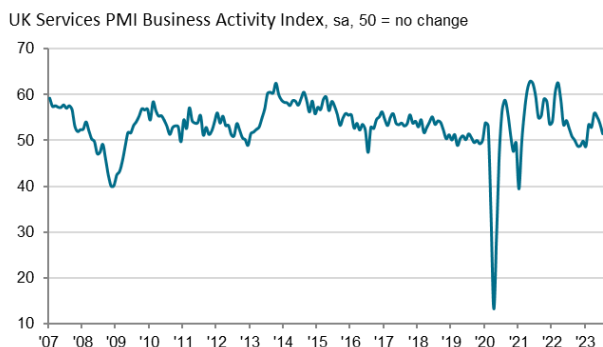
Dr John Glen, CIPS Chief Economist said:

“Higher borrowing costs are here to stay and the private sector knows it. Interest rate hikes are not just affecting new orders today but spending plans long into the future. The biggest concern is increasingly not if the UK economy will enter recession but for how long.

“The jigsaw pieces for a supply-led reduction in inflation are falling into place, however. Global supply chains are returning to normal after years of pandemic shortages and rising costs. Stocks of unused goods built up to help manage Brexit, the pandemic and most recently global shipping disruption are finally being run down. Manufacturing input costs are falling and supplier performance is improving at the fastest rate we have ever seen. This renewed supply chain agility, combined with falling raw material and transportation costs, could not have come at a better time for business.”

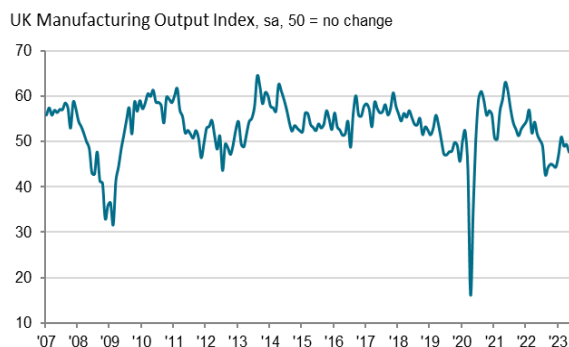
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S&P Global / CIPS Flash UK Services PMI Business Activity Index



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 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.

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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 = 0.1 (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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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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