News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 24 October 2022

S&P Global / CIPS Flash United Kingdom PMI®

UK economic downturn worsens in October as service sector records fastest decline in activity since January 2021

Key findings:

Flash UK PMI Composite Output Index[1] at 47.2 (Sep: 49.1). 21-month low.

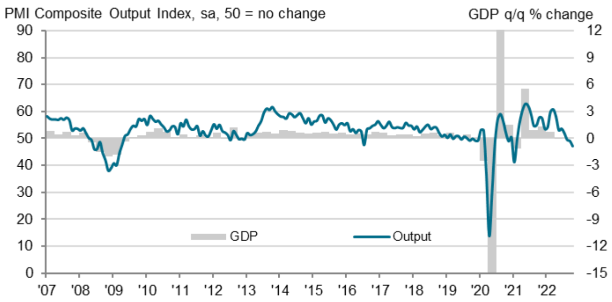
Flash UK Services PMI Business Activity Index[2] at 47.5 (Sep: 50.0). 21-month low.

Flash UK Manufacturing Output Index[3] at 45.6 (Sep: 44.2). 3-month high.

Flash UK Manufacturing PMI[4] at 45.8 (Sep: 48.4). 29-month low.

Data were collected 12-20 October

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



Sources: S&P Global, CIPS, ONS.

October data highlighted a reduction in UK private sector output for the third month running, according to the latest Flash UK PMI® survey compiled by S&P Global and CIPS. Adding to signs of weakening underlying demand, new orders decreased at the sharpest pace since January 2021. This was often attributed to a considerable downturn in business and consumer confidence in recent months.

UK private sector firms also indicated a steep fall in business expectations for the year ahead, with optimism the lowest since April 2020. Intense inflationary pressures, escalating political uncertainty and rising interest rates were the most commonly cited reasons for downbeat sentiment in October. That said, overall input cost inflation eased to its lowest since September 2021. Survey respondents suggested that lower freight rates and softer commodity price pressures helped to offset surging energy bills and higher staff wages.

At 47.2 in October, down from 49.1 in September, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered below the neutral 50.0 no-change value, as has been the case in each month since August. The latest reading signalled a modest reduction in output volumes and the speed of the downturn was the fastest since January 2021. Moreover, aside from pandemic related lockdowns, the index was the lowest since March 2009.

Manufacturers saw a particularly steep fall in output during October (index at 45.6), although the rate of decline eased slightly since September and was the least marked for three months. Many firms noted that supply shortages continued to hold back production volumes, alongside a general slowdown in demand.

Meanwhile, business activity across the **service economy** declined for the first time in 20 months and at the fastest pace since January 2021 (index at 47.5). Squeezed household budgets, recession concerns and delayed business investment decisions due to political uncertainty were all cited as factors leading to lower output in October.

Latest data highlighted that **new orders** fell at a stronger pace than business activity volumes. Survey respondents noted a lack of new work to replace completed projects and fewer sales enquires, which was mainly linked to the worsening economic outlook. Measured overall, new business levels decreased at the sharpest rate since January 2021. Manufacturers experienced an especially steep fall in new work, exacerbated by the fastest downturn in **export sales** for nearly two-and-a-half years.

Staff hiring remained a relatively bright spot in October, as post-pandemic recovery plans and efforts to clear backlogs helped to boost employment numbers. The rate of private sector job creation was nonetheless the slowest for 20 months. Service providers signalled a solid rise in workforce levels, whereas manufacturers recorded net job shedding for the first time since December 2020.

Input price inflation eased for the fourth time in the past five months during October, with the latest rise in operating expenses the least marked for 13 months. Overall cost pressures were still stronger than at any time in the two decades prior to the pandemic. Service sector businesses recorded a particularly strong rate of cost inflation, driven by rapid increases in energy bills and staff wages. Survey respondents also noted that exchange rate depreciation

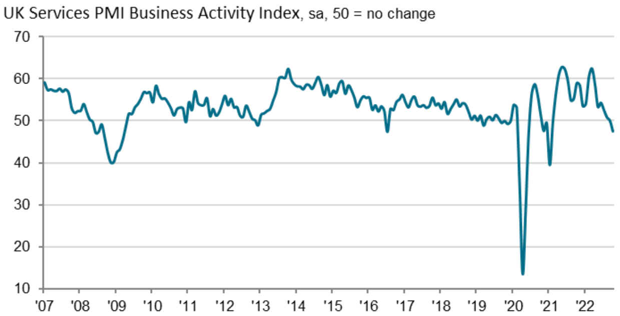
PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply against the US dollar had added to their cost burdens in October.

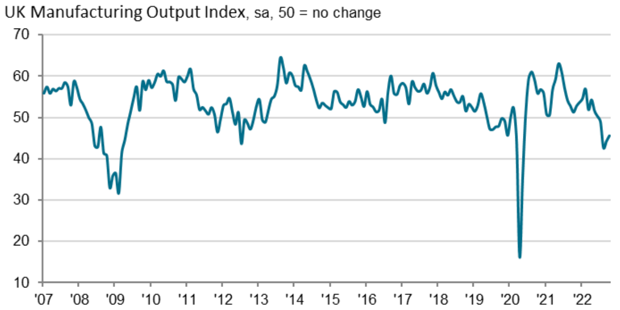
Average prices charged by private sector firms increased sharply during the latest survey period, although the rate of inflation moderated to its lowest since August 2021. Some noted that competitive pressures and subdued demand had acted as constraints on pricing power.

The index measuring **business expectations for the year ahead** dropped by almost 6.5 points in October, which was the largest monthly fall in growth projections since March 2020. Optimism levels hit a two-and-a-half year low in both the manufacturing and service sectors, with the slump in expectations overwhelmingly linked to political uncertainty, rising interest rates and worries about the impact of stubbornly high inflation on customer demand.

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.

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

"October's flash PMI data showed the pace of economic decline gathering momentum after the recent political and financial market upheavals. The heightened political and economic uncertainty has caused business activity to fall at a rate not seen since the global financial crisis in 2009 if pandemic lockdown months are excluded. GDP therefore looks certain to fall in the fourth quarter after a likely third quarter contraction, meaning the UK is in recession.

"Business confidence has meanwhile collapsed, sliding to a level rarely seen before in 25 years of survey history, meaning companies are becoming increasingly nervous about the outlook. As night follows day, investment and employment will suffer in the months ahead as companies adjust to the increasingly challenging environment. Hiring is already slowing sharply, with manufacturing now even shedding workers.

"While the economic downturn has led to reduced upward pressure on prices, the weak pound and high energy costs meant that input cost inflation remains higher than at any time in the survey's history prior to the pandemic.

"The resulting elevated, albeit easing, price pressures look set to drive the Bank of England into further aggressive interest rate hikes. On top of the collapse in political stability, financial market stress and slump in confidence, these higher borrowing costs will add to speculation of a worryingly deep UK recession."

Dr John Glen, CIPS Chief Economist said:

"No great surprise seeing the manufacturing and services sectors backsliding again in October given the jangled nerves amongst cash-strapped businesses facing a faltering economy, political turmoil and historically high input costs. These challenges have spooked consumers and businesses alike into the biggest fall in demand for goods and services since January 2021, from both domestic and overseas markets.

UK goods producers were most affected by this dry up in demand with 37% of supply chain managers reporting lower order levels in October. The weak pound did little to encourage orders from overseas as exports fell to the greatest extent since March 2020. Without a strong pipeline of new work the manufacturing sector pressed pause on post-pandemic capacity building with 16% of firms making redundancies to save on business costs which was the first month of job losses since December 2020.

The service sector saw its first decline in activity since February 2021. Concerns over rising energy and food bills affected consumer appetite for pubs and restaurants and demand was scaled back.

These gloomy results confirm the UK's economic recessionary status in the last quarter of the year, not least as business activity expectations fell by the largest amount since March 2020 when the impact of the pandemic first hit UK shores."

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News Release

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Note to Editors

Final October data are published on 1 November for manufacturing and 3 November 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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