News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 BST (0830 UTC) 23 August 2022

S&P Global / CIPS Flash United Kingdom PMI®

UK private sector moves closer to stagnation in August, inflationary pressures cool slightly

Key findings:

Flash UK PMI Composite Output Index(1) at 50.9 (Jul: 52.1). 18-month low.

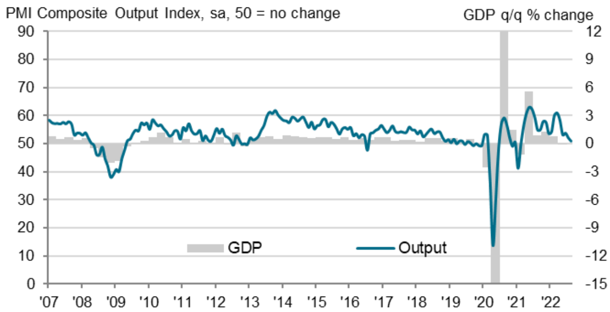
Flash UK Services PMI Business Activity Index(2) at 52.5 (Jul: 52.6). 18-month low.

Flash UK Manufacturing Output Index(3) at 42.4 (Jul: 48.9). 27-month low.

Flash UK Manufacturing PMI(4) at 46.0 (Jul: 52.1). 27-month low.

Data were collected 12-19 August

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



Sources: S&P Global, CIPS, ONS.

August PMI® data compiled by S&P Global and CIPS signalled a further slowdown in business activity growth across the UK private sector. The rate of expansion was the weakest for 18 months and pointed to only a marginal increase in output. The loss of momentum was often linked by panel members to relatively muted customer demand as well as shortages of both labour and inputs.

Softer demand conditions led to a renewed drop in outstanding business, while employment expanded at the slowest rate for 17 months. On a brighter note, inflationary pressures moderated again in August, albeit remaining sharp overall.

At 50.9 in August, the headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** fell from 52.1 in July to signal an expansion of business activity for the eighteenth successive month. That said, the rate of growth was the slowest seen over this period and only marginal. The drop in the headline index was largely driven by a faster decline in manufacturing output (index at 42.4), as services activity growth eased only slightly (52.5).

UK manufacturers signalled a sharp and accelerated fall in production during August, with the rate of reduction the quickest seen since May 2020. Reduced customer demand, the delayed delivery of inputs and labour shortages all weighed on performance, according to panel members. Services companies meanwhile registered a modest increase in business activity that was the softest seen for a year-and-a-half.

New business received by UK private sector firms rose only slightly in August, with the rate of growth the slowest seen for 18 months. The upturn was once again driven by services companies, with greater amounts of new orders often linked to increased activity at clients. However, the rate of increase was only mild, despite quickening on the month. In contrast, manufacturers registered the sharpest fall in new business since May 2020. A number of firms commented that increased economic uncertainty and high costs had weighed on market confidence and sales. At the same time, there were signs of easing pressure on capacity, as overall backlogs of work fell for the first time since February 2021.

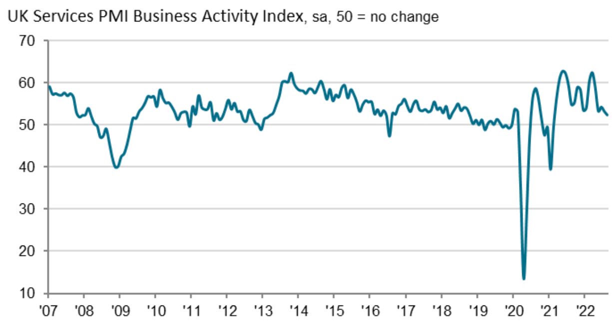
Private sector **employment** continued to rise solidly in August, though the rate of job creation was the softest seen since March 2021. Trends once again differed by sector, as a further strong rise in service sector staffing levels helped to offset a renewed fall at manufacturers. There were a number of reports that difficulties finding and retaining workers had impacted employment levels in August. Some firms also mentioned choosing to not replace voluntary leavers amid softer demand conditions.

August survey data signalled a further easing in the rate of **input cost inflation** across the UK private sector. Though sharp, the pace of increase was the softest seen for nearly a year. The rate of cost inflation softened notably at manufacturers to hit the lowest since November 2020, with survey respondents often stating that lower prices for some commodities such as metals had helped to ease overall cost pressures. In the service sector, the rate of cost inflation picked up slightly on the month. Service providers typically noted higher salary payments, often spurred by rising living costs, though greater expenses for energy and fuel were also widely cited.

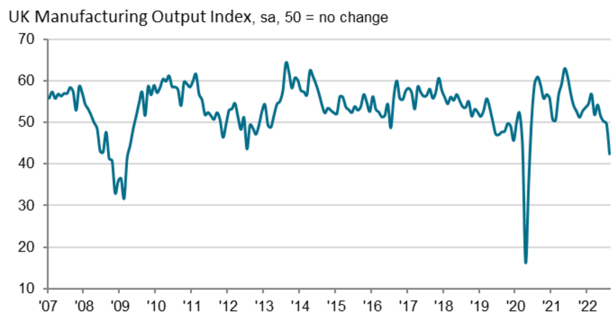
Average prices charged by UK firms also rose at a softer pace in August, with the rate of inflation edging down to a seven-month low. Companies often mentioned that intense market competition and efforts to attract new work had limited overall pricing power.

Optimism around the 12-month outlook for output remained relatively subdued in August, with the overall degree of positive sentiment staying only slightly above June's 25-month low. Services companies expressed slightly stronger confidence compared to July, with growth forecasts often attributed to investment in the development and release of new products, ongoing recovery from COVID-19 and projected increases in customer demand. On the other hand, manufacturing companies were the least optimistic since April 2020, with firms concerned that rising costs, reduced client spending and a weaker economic climate could all drag on performance.

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, **Annabel Fiddes**, Economics Associate Director at S&P Global Market Intelligence said:

"The UK private sector moved closer to stagnation in August, as mild growth of activity across the service sector only just offset a deepening downturn at manufacturers. Waning customer demand amid the weaker economic outlook, and shortages of both staff and inputs, were reported to have hit goods producers hard, with firms registering the quickest drops in output and new work since May 2020. Excluding the initial phase of the pandemic in early-2020, the reduction in manufacturing output was the quickest seen since the start of 2009. Meanwhile, the service sector registered the weakest increase in activity since the recovery began in early 2021.

"More encouragingly, the latest survey also pointed to a further easing of inflationary pressure, with average input costs rising at the softest rate for nearly a year. Though still well above the historical average, the moderation in cost pressures will provide some relief to Bank of England policymakers who are keen to tame inflation, which is currently at a four-decade high.

"However, the tightening of financial conditions via interest rate hikes, the cost of living crisis, labour shortages and strained supply chains are all likely to dampen economic performance further and keep costs elevated in the months ahead."

Dr John Glen, CIPS Chief Economist said:

"A disappointing pace of business activity growth across the private sector, with the weakest rise in output levels for a year-and-a-half and the headline index moved another step closer to the no-change 50.0 mark.

"It was the service sector that held the side up as the manufacturing sector experienced a more downbeat month dropping further into contraction, and with the slowest rise in new orders since May 2020. Supply chain managers reported client reluctance to spend as the cost of living and the cost of doing business remained at elevated levels and both domestic and export orders were affected. In turn, job creation took a hit with the weakest rise for 17 months as confidence dropped amongst manufacturers to the lowest for over two years. Makers began to re-think their capacity-building strategies under challenging economic conditions and placing a question mark over whether they should continue hiring.

"Service companies had a better month, but only marginally as new order levels were sustained and optimism remained that customers would continue to buy throughout the year. However, this may reverse quite quickly. There are many concerns keeping private sector business owners awake at night, such as disruptions to supply chains from war, the highest inflation in the UK for almost 50 years, the impact of higher interest rates and now port disruptions in the UK to name a few."

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Contact

S&P Global Market Intelligence
Annabel Fiddes
Economics Associate Director
Telephone +44-1491-461-010
Email: annabel.fiddes@spglobal.com

Sabrina Mayeen
Corporate Communications
Telephone +44 (0) 7967 447030
Email sabrina.mayeen@spglobal.com

CIPS
Trudy Salandiak
Corporate Communications
Telephone +44- 44-1780-761-576
Email: trudy.salandiak@cips.org

Note to Editors

Final August data are published on 1 September for manufacturing and 5 September 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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