PM Datanote: UK final services and composite PMI, April 2024

In one line: Strengthening growth and slowing inflation, but watch the jump in input costs.

- The S&P Global composite PMI rose to 54.1 in April, from 52.8 in March, above the consensus and the first estimate, 54.0.
- The services PMI rose to 55.0, from 53.1 in March, above the

consensus and the first estimate, 54.9.

- Data were collected between 11 and 26 April.

The PMI data continue to suggest the economy has escaped the minor recession it experienced in the second half of last year and is expanding faster than the 0.1% quarter-to-quarter growth the MPC expects. At 54.1, the composite PMI rose slightly above its average reading between 1998 and 2019. It’s early days in Q2, but the PMI is consistent with around 0.4% quarter-to-quarter GDP growth.

The composite PMI jump this month was driven by services, where the output balance rose to its strongest since May last year. Manufacturing stumbled in April. Even so, manufacturing has improved markedly since last year, with an output balance of 49.3 in April, compared to an average of 46.3 in Q4 2023. The details of the PMI suggest solid economic growth will continue. The composite

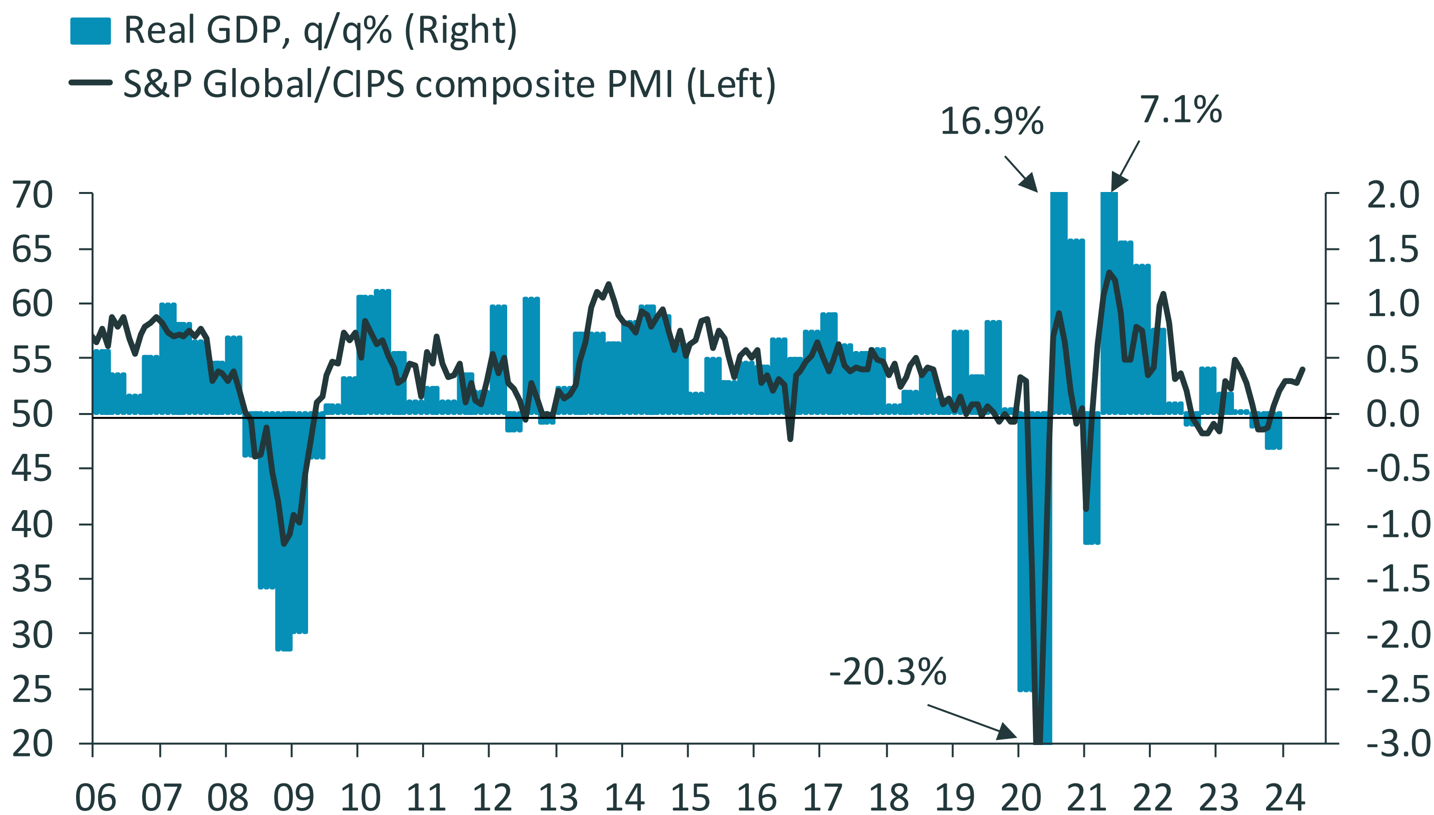
PMI new orders index rose to 53.5 from 52.0 in March, revised up from 53.3 in the flash release and the highest for 11 months. Moreover, backlogs of work fell at their joint slowest rate since May 2023, suggesting scope for stronger output growth. But the composite future activity index fell to 71.9 in April from 73.4 in March, revised down from 72.9 in the flash release. That is still above the 2012-2019 average of 68.2 but suggests falling scope for further PMI gains in the coming months.

Reflecting continued growth employment rose for the fourth consecutive month, but disappointingly the composite employment balance was revised down to 50.1 in the final PMI for April, from 51.1 in the flash release and likely is consistent with further gradual increases in unemployment. April's 9.8% minimum wage hike caused the composite PMI input price balance to leap. The jump was particularly large for services, to 67.1 in April from 63.4 in March.

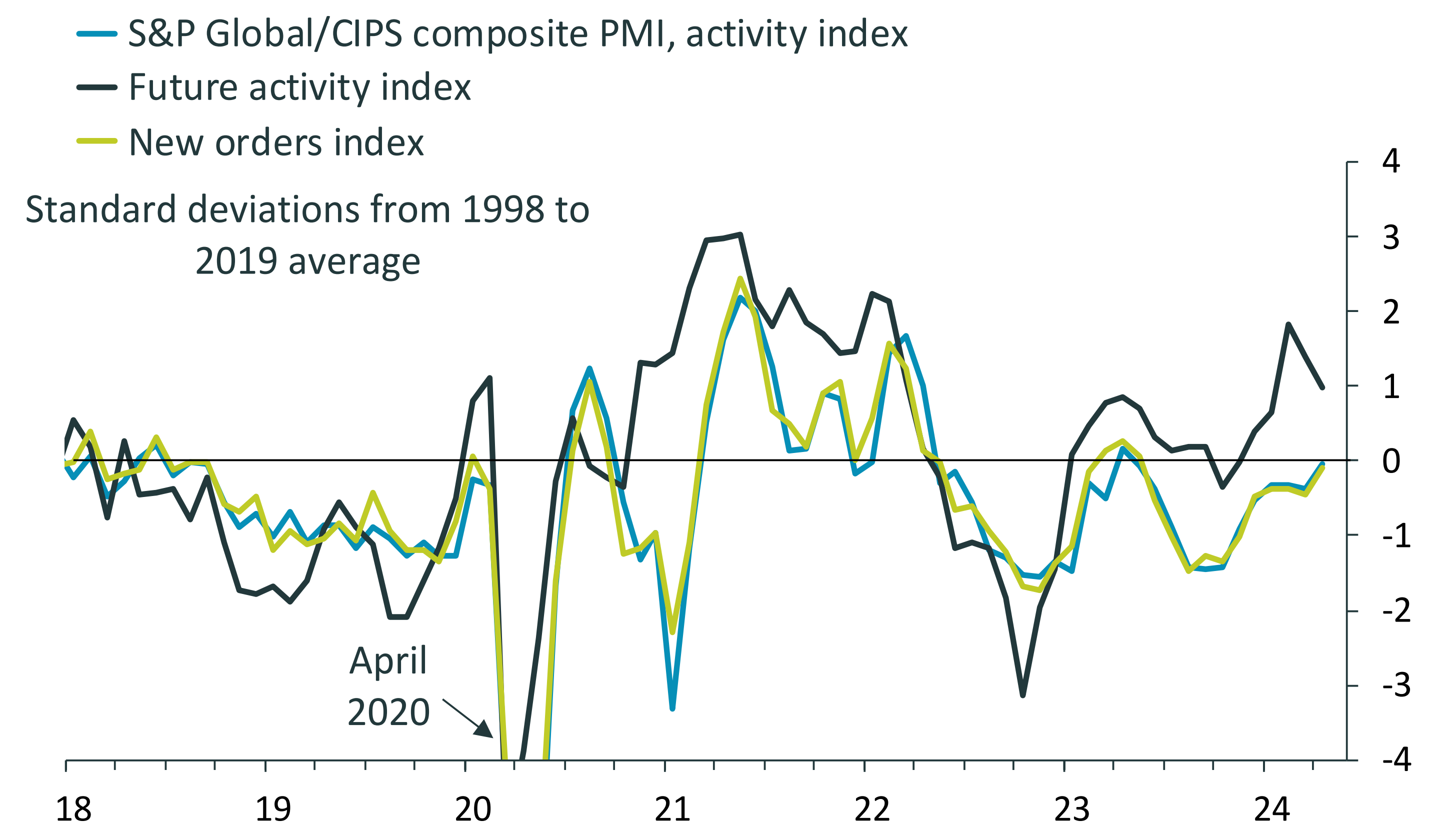
Encouragingly for the MPC, the services input price balance was revised down from 68.7 in the flash release, and firms have not yet passed that increase in costs through to retail prices. The services output prices balance fell to 56.7 in April, from 57.1 in March. That was revised up from 56.4 in the flash release but was still the lowest since April 2021 and is consistent with three-month-on-three-month annualised growth in our seasonally-adjusted version of the MPC's new underlying services CPI—

excluding accommodation services, airfares and non-private rents—slowing to around 4.5% for the next three months. The risk, however, is that firms do pass through those increased costs to a greater extent in the coming months.

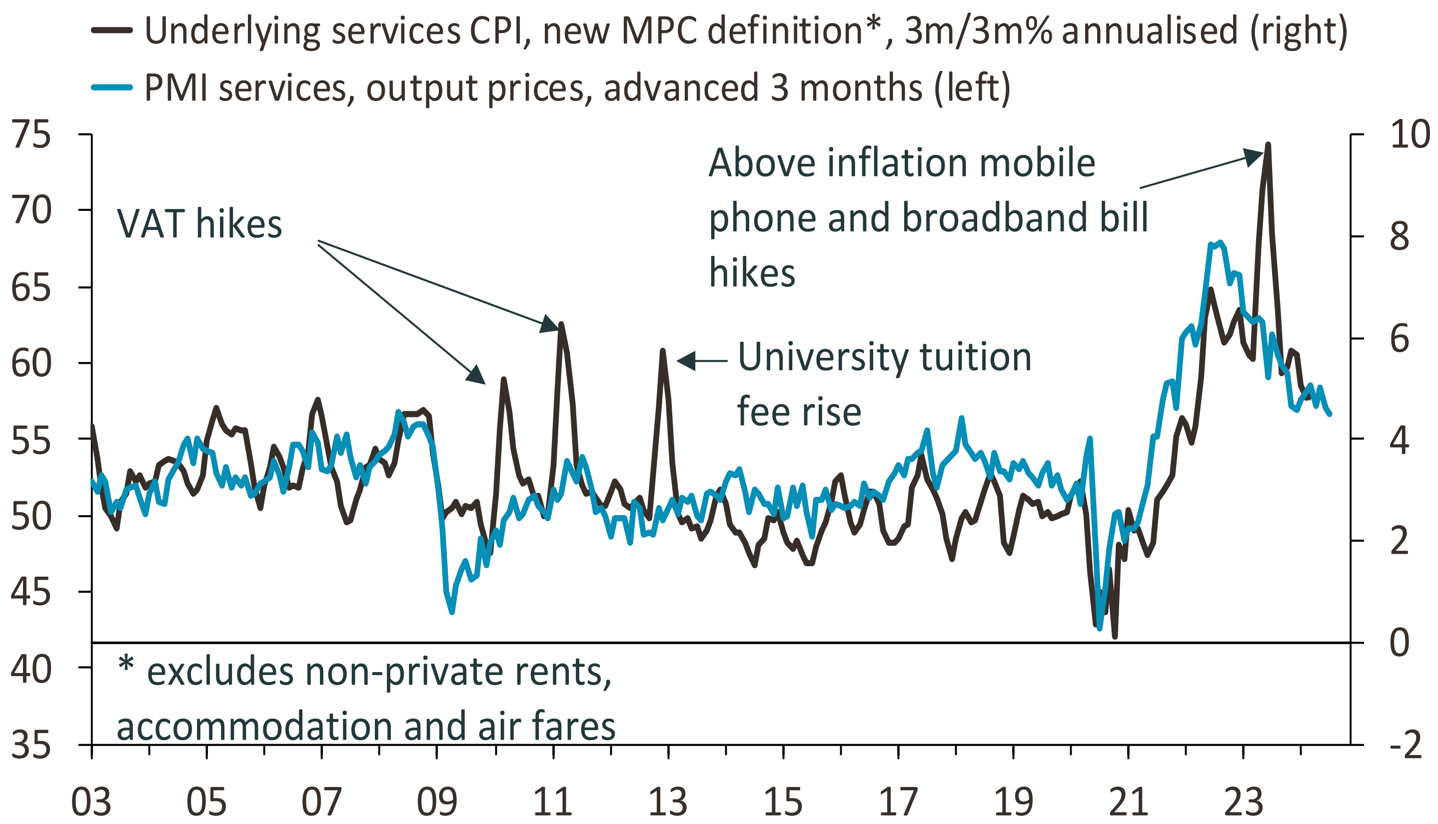
The first chart shows that the PMI is consistent with around 0.4% quarter-to-quarter growth in Q2. The second chart shows that momentum should continue in Q2. The third chart shows that services CPI inflation is slowing gradually.



Real GDP, q/q% (Right)
S&P Global/CIPS composite PMI (Left)
16.9%
7.1%
-20.3%
70
65
60
55
50
45
40
35
30
25
20
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24



S&P Global/CIPS composite PMI, activity index
Future activity index
New orders index
Standard deviations from 1998 to 2019 average
April 2020
4
3
2
1
0
-1
-2
-3
-4
18 19 20 21 22 23 24



Underlying services CPI, new MPC definition*, 3m/3m% annualised (right)
PMI services, output prices, advanced 3 months (left)
75
70
65
60
55
50
45
40
35
10
8
6
4
2
0
-2
VAT hikes
Above inflation mobile phone and broadband bill hikes
University tuition fee rise
* excludes non-private rents, accommodation and air fares
03
05
07
09
11
13
15
17
19
21
23