# PM Datanote: UK final services and composite PMI, July 2024

## In one line: The PMI signals steady growth now and a stronger expansion to follow..

- The S&P Global composite PMI rose to 52.8 in July, from 52.3 in June, above the consensus and the first estimate, 52.7.
- The services PMI rose to 52.5 in July, from 52.1 in June, above the

**consensus and the first estimate, 52.4.**

**- Data were collected between 11 and 29 July.**

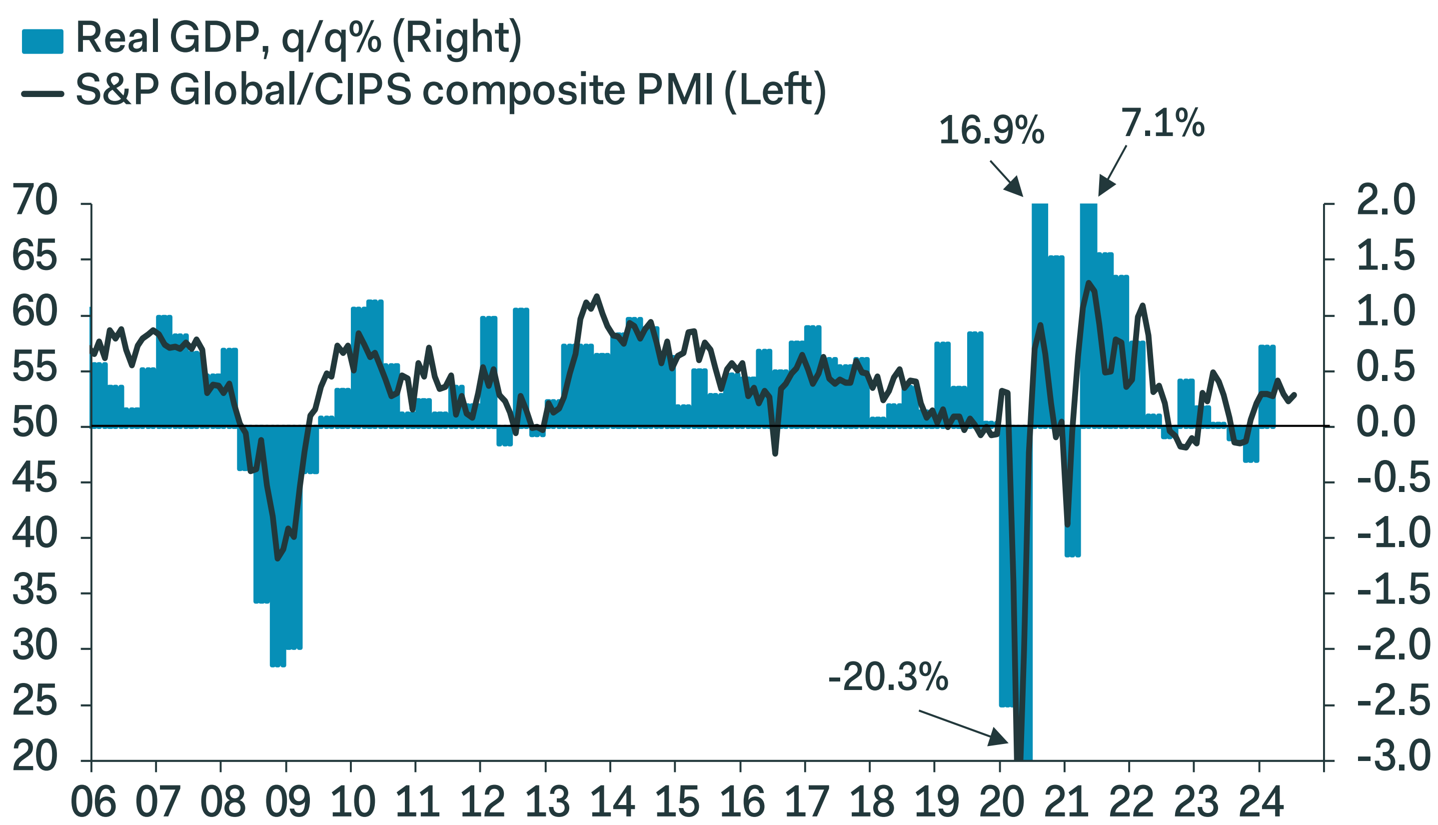
The July PMI's suggest the MPC will wait until November to cut interest rates again. Admittedly the composite PMI output balance is consistent with GDP growth slowing to around 0.2% quarter-to-quarter in Q3, below the MPC's forecast of 0.4%. But the forward-looking parts of the PMI signal are much more optimistic, suggesting that growth will accelerate in the coming months. Crucially firms are recruiting again following the recovery from last year’s minor recession, suggesting the jobs market is not rolling over in the UK. The composite employment index rose to 52.4 in July, revised up slightly from the first estimate of 52.3, and well above the H1 average of 50.4. Both the services and manufacturing readings for their respective employment indices are also reading above 50. This optimism is reflected in business confidence. The composite future activity index in July, after we seasonally adjust it, reached the highest level since January 2022.

The MPC can take some comfort from the PMI showing continued gradual declines in inflation pressure. The input prices balance rose only marginally this month, to 59.9 from 59.7, and the output prices balance eased to 55.3 from 55.7. Moreover, the services PMI output price balance fell to 55.6, from 56.1 and revised up from 55.0 in the flash release. That is consistent with three-month-on-three-month annualised growth in our seasonally-adjusted version of the MPC's underlying services CPI—excluding airfares, package holidays, rents and education—slowing to 4.5% in the next three months. But uncomfortably for the MPC, both input and output prices were revised upwards in the final PMI, suggesting services inflation is falling only gradually and CPI inflation has far exceeded that PMI steer lately. S&P Global reported that costs arising from transportation, IT, wages and supplier fees all contributed to elevated price pressures.

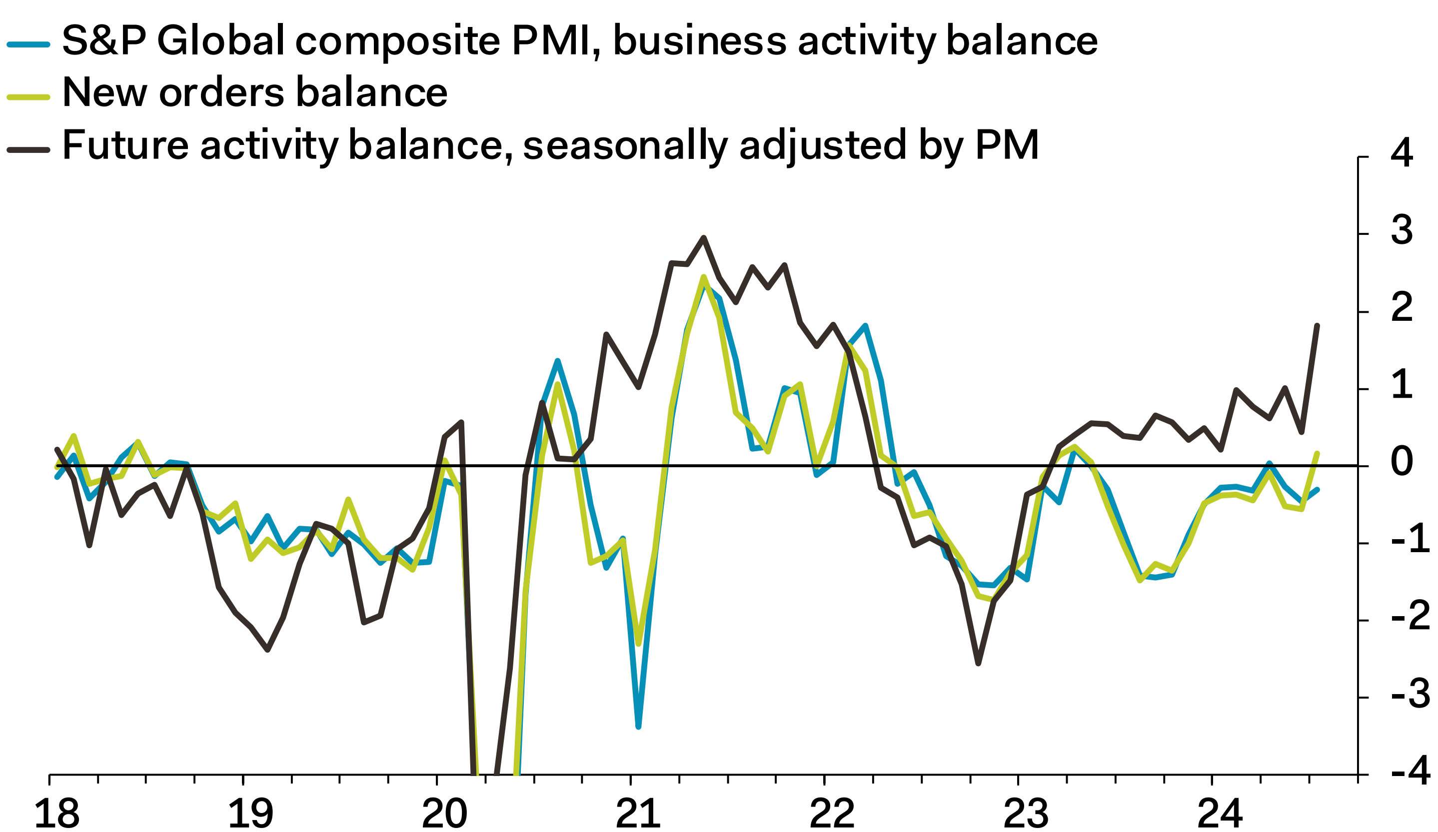
Services continue to drive the increases in the composite PMI, with the business activity balance rising to 52.5 from 52.1 in June, and revised up from 52.4 in July. Services new orders increased sharply, rising to 54.9, from 51.6 in June. Future output expectations rose briskly to 73.8 in July, from 69.5 in June, taking them above the long-term average of 71.0. That reading was revised down, however, from 74.2 in the flash release. The future business expectations and new orders balances combined are consistent with the services PMI increasing to around 55.5 in August.

We doubt the final PMI will materially affect the MPC's outlook. Last week the MPC made their guidance, and rate decisions, much less responsive to the dataflow and more dependent on the 'big picture'. On the latter the PMI signals continued solid growth and gradually slowing inflation pressures, so the MPC will be comfortable in their decision to begin the cutting cycle. That said, there is little in today's data that would push the MPC to cut rates again as soon as September, of which markets now see a 60% chance. The jump in new orders and business expectations are consistent with our call that the MPC will wait until November to cut interest rates again.

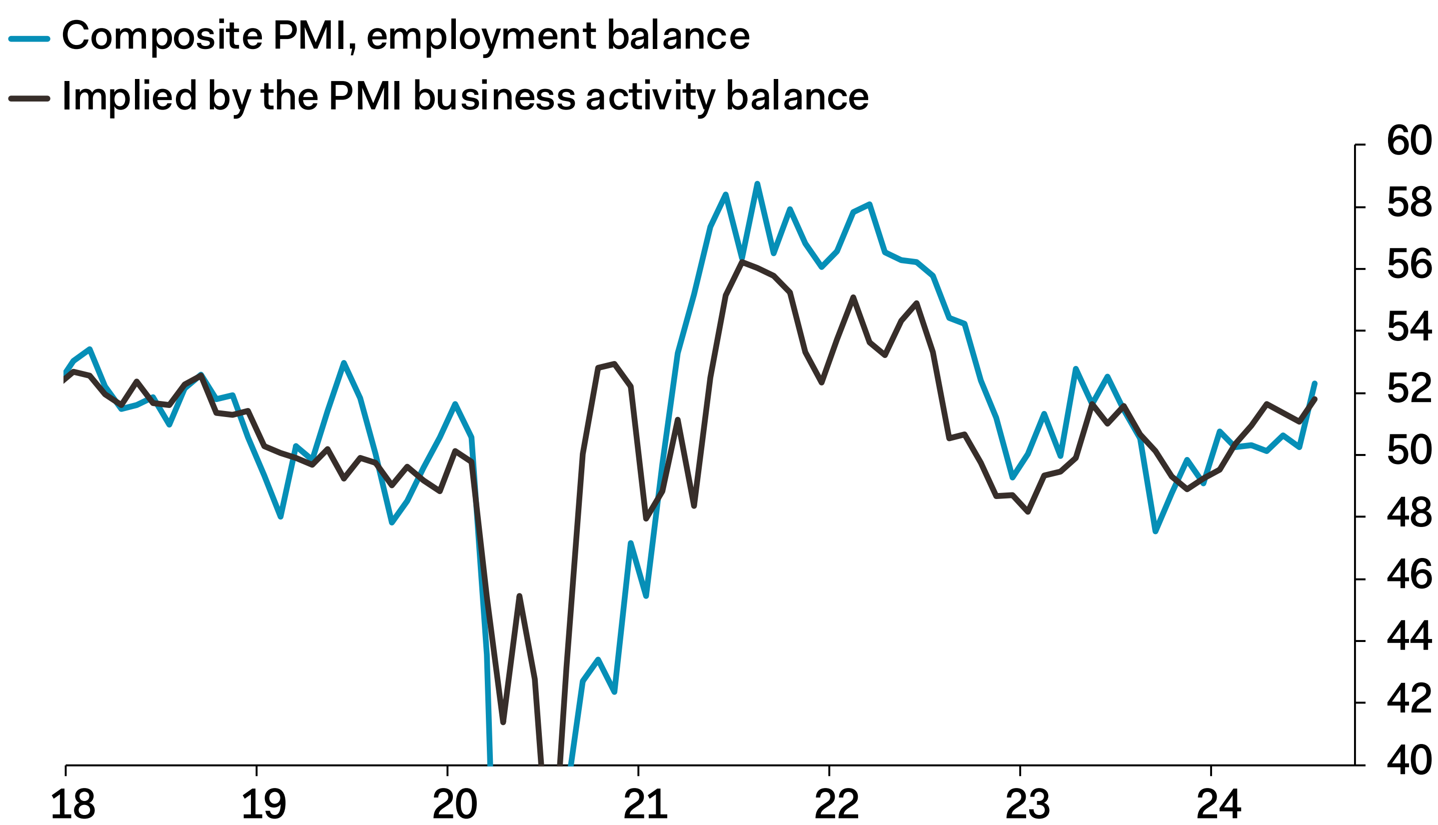
The first chart shows that the PMI is consistent with around 0.2% quarter-to-quarter growth. The second chart shows that forward-looking indicators increased and business confidence in the outlook remains above average. The third chart shows that firms are seeking to hire again. The fourth chart shows PMI services output price balance signals continued slowing CPI services inflation. The fifth chart shows that the PMI suggests services firms shrank margins in July.



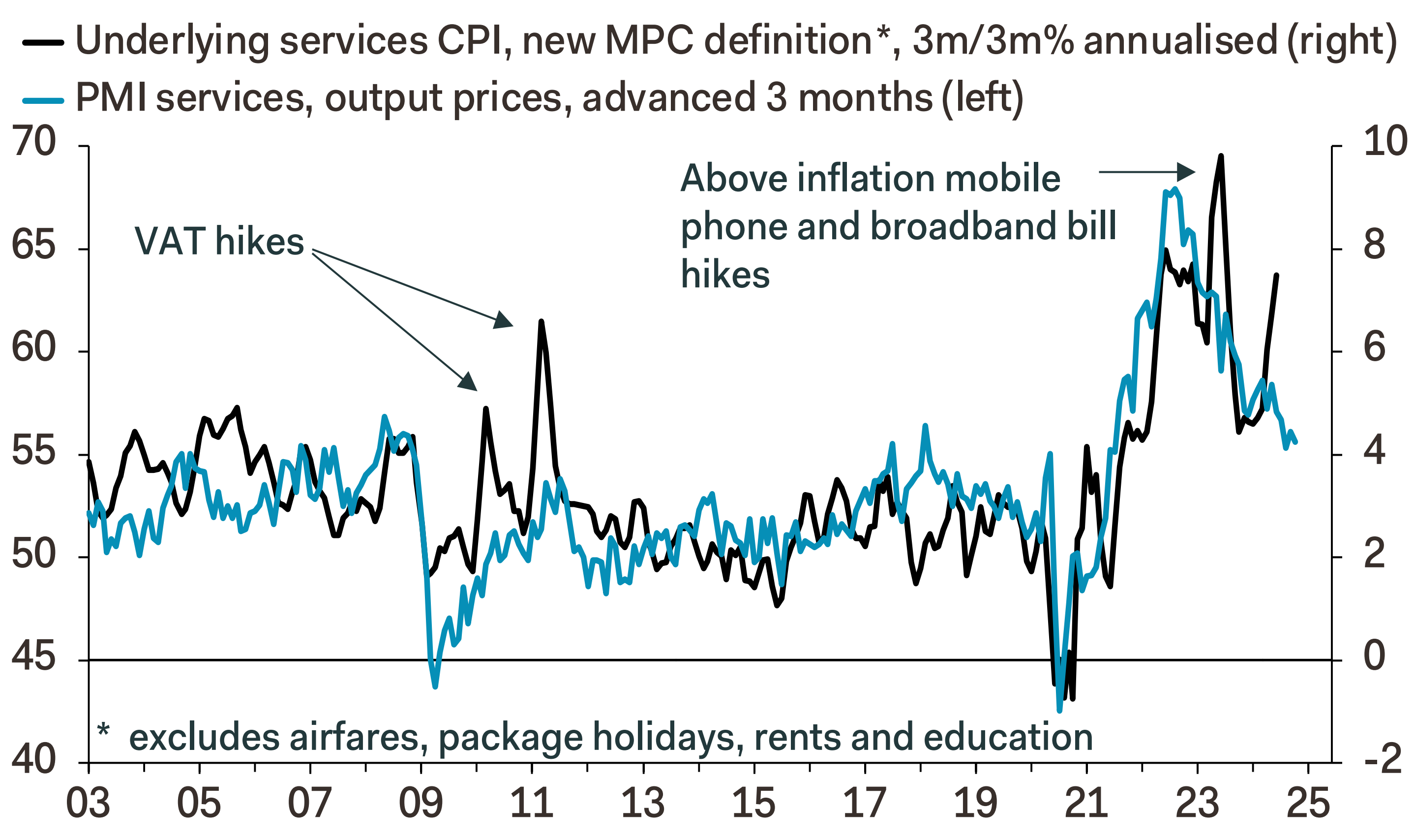
Real GDP, q/q% (Right)
S&P Global/CIPS composite PMI (Left)
16.9%
7.1%
-20.3%
70
65
60
55
50
45
40
35
30
25
20
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

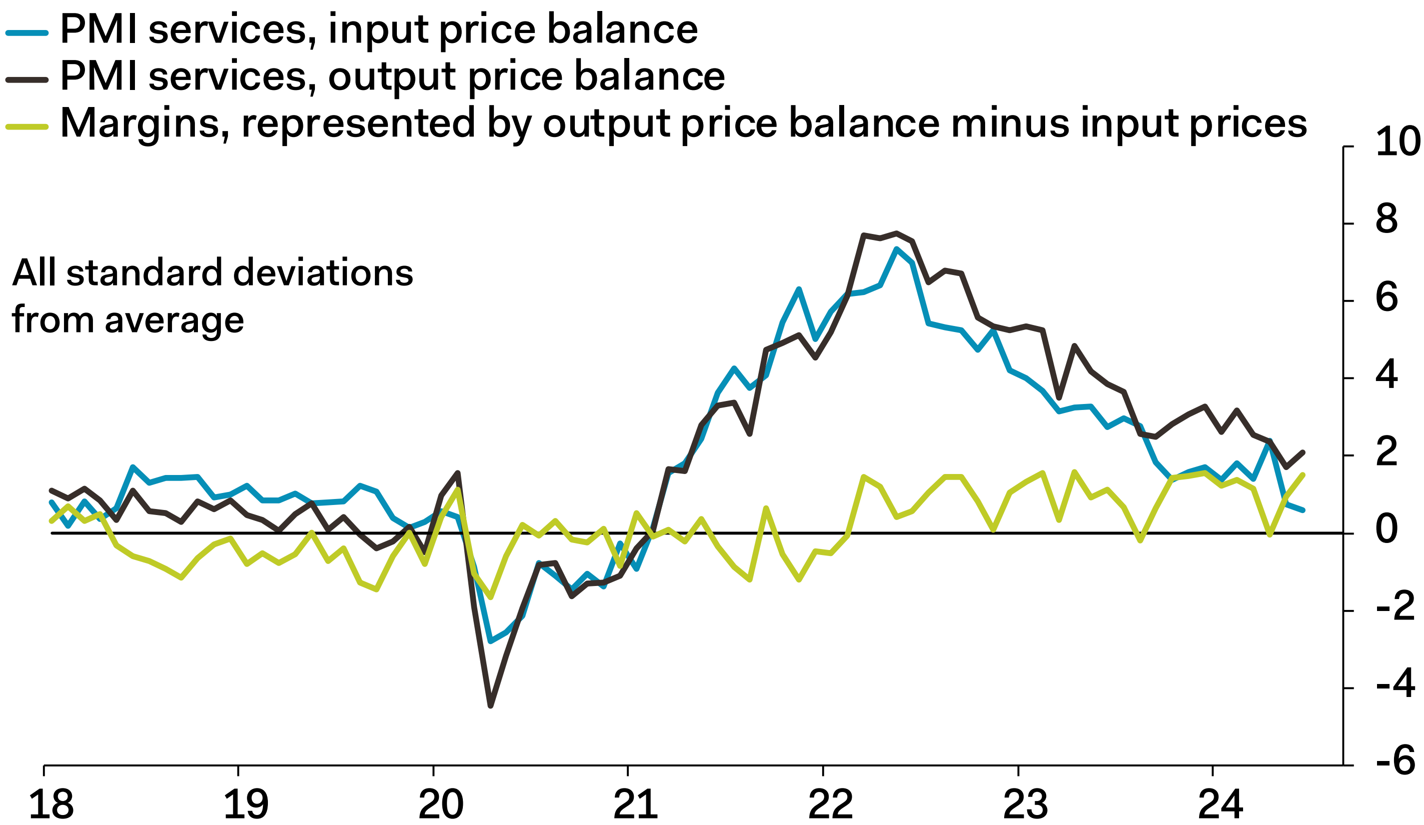
S&P Global composite PMI, business activity balance
New orders balance
Future activity balance, seasonally adjusted by PM
4
3
2
1
0
-1
-2
-3
-4
18 19 20 21 22 23 24



Composite PMI, employment balance
Implied by the PMI business activity balance
60
58
56
54
52
50
48
46
44
42
40
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)
70
65
60
55
50
45
40
10
8
6
4
2
0
-2
VAT hikes
Above inflation mobile phone and broadband bill hikes
* excludes airfares, package holidays, rents and education
03
05
07
09
11
13
15
17
19
21
23
25



PMI services, input price balance
PMI services, output price balance
Margins, represented by output price balance minus input prices
All standard deviations from average
10
8
6
4
2
0
-2
-4
-6
18
19
20
21
22
23
24