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

In one line: Slowing inflation will keep the MPC happy.

- The S&P Global composite PMI fell to 53.0 in May, from 54.1 in April, above the consensus and the first estimate, 52.8.
- The services PMI fell to 52.9, from 55.0 in April, matching the consensus and the first estimate,

52.9.

- Data were collected between 9 and 29 May.

The PMI continues to suggest robust growth, despite slipping back in May. The average composite PMI reading in April and May, 53.6, is consistent with 0.3% quarter-to-quarter GDP growth in Q2, above the MPC's forecast of 0.2%. The composite PMI drop in May was driven by services, where the output balance fell to 52.9, unrevised from the flash estimate and its lowest since

November last year. Services new orders growth slowed sharply, with the balance dropping to 51.7 from 54.4 in April and revised down 0.1 points from the flash release.

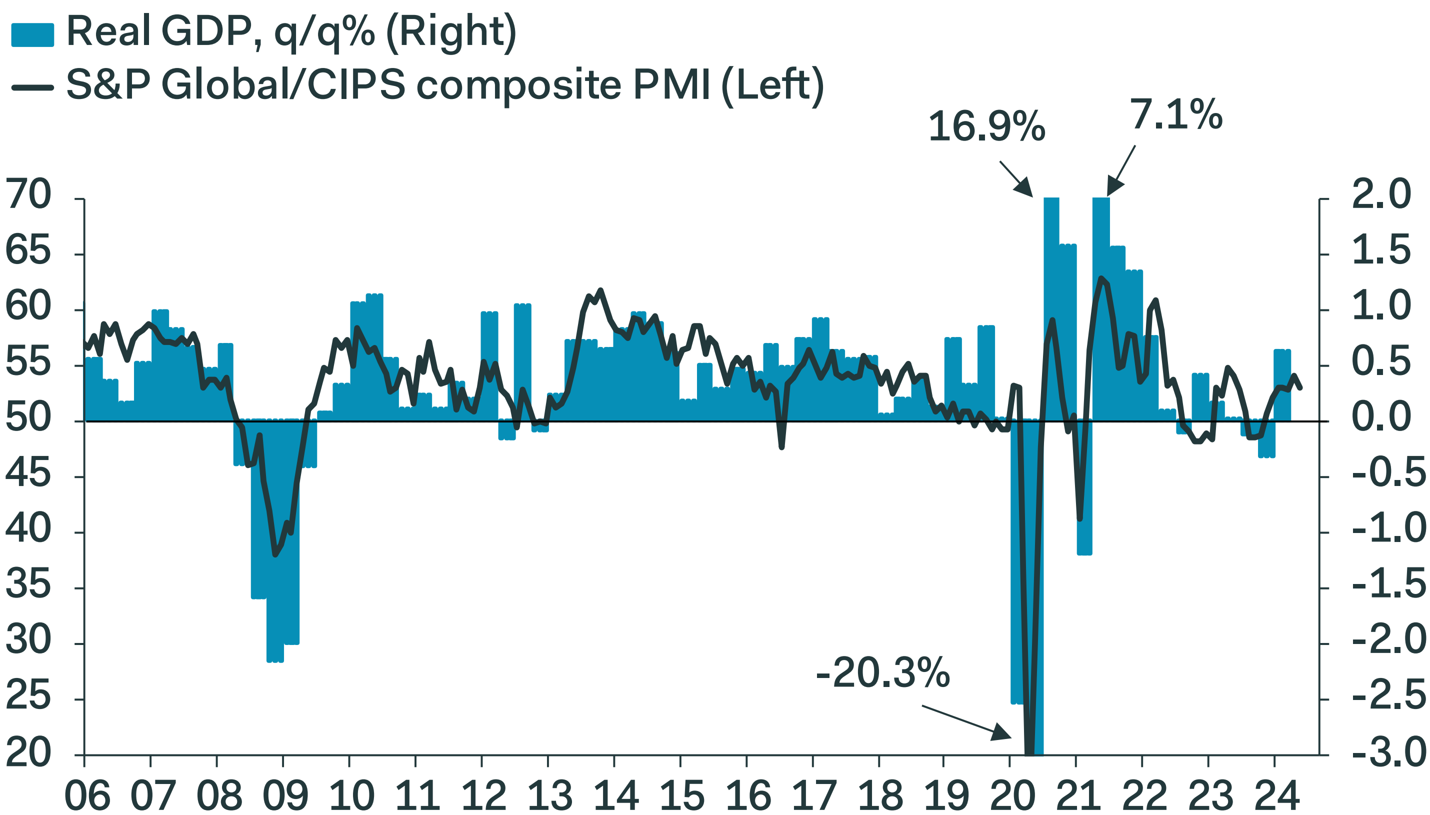
The PMI details suggest, however, that robust growth will continue. Composite future output expectations rose to 73.0, from 71.9 in April and revised up 0.4 points from the flash release. That was driven by a huge jump in manufacturing, but services future business expectations ticked up to 72.1

in May from 71.9, also revised up 0.4 points from the flash data. Solid output growth and expectations of more to come are boosting jobs gains, with the composite employment balance rising to 50.6 in May, from 50.1 in April, the strongest since January—albeit revised down 0.1 points from the flash release. That suggests the recent sharp falls in official measures of employment from the ONS will reverse soon.

The big news in the May PMI, however, was further signs of easing inflation pressure. Encouragingly for the MPC, the services output price balance dropped to 55.3, revised down from 55.8 in the flash release and the lowest since April 2021. The services input price balance also fell back sharply to 60.8 in May, revised down from 61.6 in the flash release and miles below April's minimum wage-boosted 67.1 reading. The prices charged index of the services survey points to three-month-on-three-month annualised growth in our seasonally-adjusted version of the MPC's new underlying services CPI—excluding airfares, package holidays, rents and education—slowing to 4.0% in the next three months. Accordingly, the PMI suggests April's blowout services inflation print was a flash in the pan and should not be taken as a sign of strong annualised inflation continuing. Slowing services inflation can keep the MPC on track to cut rates in August, as we expect.

The first chart shows that the PMI is consistent with around 0.4%

quarter-to-quarter growth in Q2. The second chart shows that a range of business surveys, as well as consumer confidence, point to improving growth. The third chart shows that the PMI signals slowing services CPI inflation.


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
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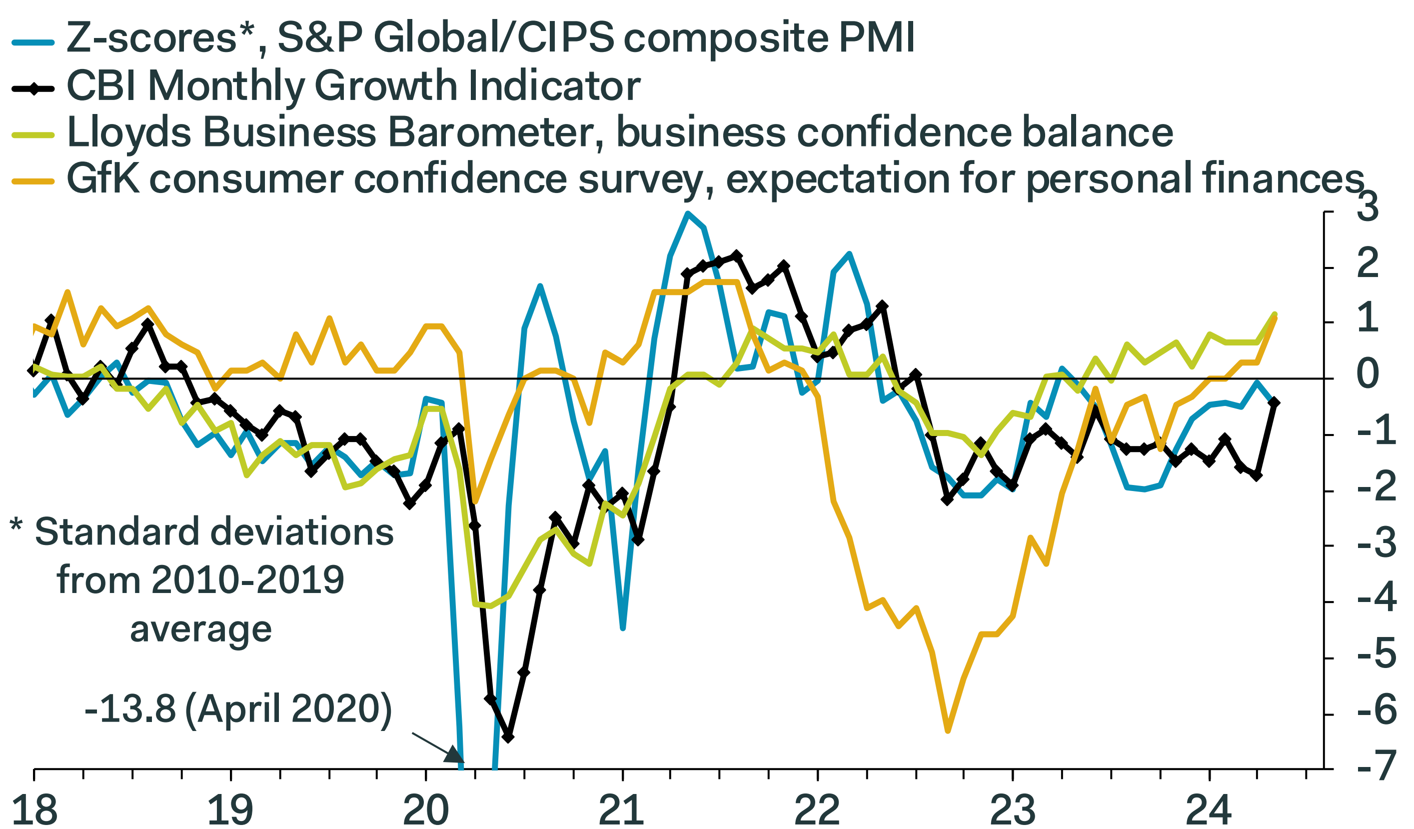
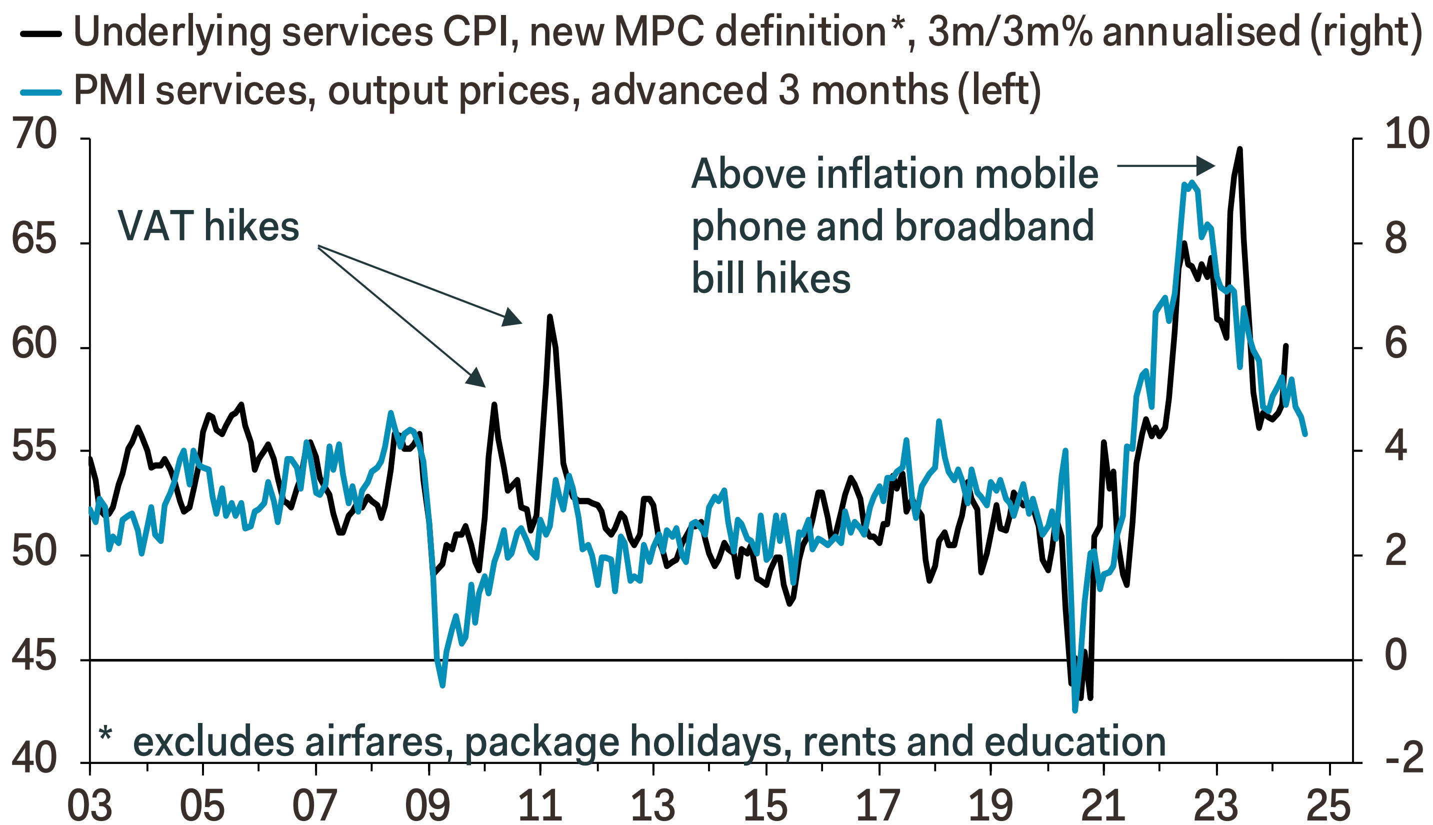

Z-scores*, S&P Global/CIPS composite PMI
CBI Monthly Growth Indicator
Lloyds Business Barometer, business confidence balance
GfK consumer confidence survey, expectation for personal finances
* Standard deviations from 2010-2019 average
-13.8 (April 2020)
3 2 1 0 -1 -2 -3 -4 -5 -6 -7
18 19 20 21 22 23 24


Underlying services CPI, new MPC definition*, 3m/3m% annualised (right)
PMI services, output prices, advanced 3 months (left)
VAT hikes
Above inflation mobile phone and broadband bill hikes
* excludes airfares, package holidays, rents and education
70
65
60
55
50
45
40
10
8
6
4
2
0
-2
03
05
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09
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