UK business activity hits four-month high as cost pressures ease

Activity across the UK's private sector grew to a four-month high in August, propped up by a "robust upturn" in new business, according to indicative data.

The S&P Global flash UK composite purchasing managers' index (PMI) reported a reading of 53.4 in August, up from 52.8 in July.

It came in ahead of the expectations of economists, who had pencilled in a reading of 52.9 for the latest survey.

The flash figures are based on preliminary data. Any score below 50 indicates activity is contracting, while any score above means it is growing.

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Chris Williamson, S&P Global Market Intelligence

Chris Williamson, chief business economist at S&P Global Market Intelligence, said: "August is witnessing a welcome combination of stronger economic growth, improved job creation and lower inflation, according to provisional PMI survey data."

Inflationary pressures eased across the private sector, with input costs rising at the slowest pace since January 2021, mainly driven by cost pressures softening in the services sector.

Survey respondents said more upbeat assessments of the domestic economic outlook of late have spurred efforts to boost business capacity.

The rate of employment growth was its fastest since June 2023, as "resilient demand conditions" contributed to an uplift in hiring.

Mr Williamson continued: "Both manufacturing and service sectors are reporting solid output growth and increased job gains as business confidence remains elevated by historical standards.

"Although GDP growth looks set to weaken in the third quarter compared to the impressive gains seen in the first half of the year, the PMI is indicative of the economy expanding at a reasonably solid quarterly rate of around 0.3%.

"Inflationary pressures have meanwhile moderated further in August, including notably in the service sector, which has been a key area of concern for the Bank of England.

"The latest survey data therefore help lower the bar for further interest rate cuts, although the still-elevated nature of inflation in the service sector suggests that policymakers will move cautiously.”

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Thomas Pugh, RSM UK

Last month, the Bank cut the base interest rate to 5%, a quarter-point reduction, prompting economists to speculate over whether another rate cut will come at the next meeting of the Monetary Policy Committee (MPC) in September or later in the year.

While input cost pressures eased, a sharp rise in output in the services sector could dissuade policymakers from cutting rates too quickly, economists said.

Thomas Pugh, economist at RSM UK, said the tick up combined with further evidence that hiring is starting to grow again, means the MPC “won’t be in any rush to cut rates again next month”.

However, he said the survey points to “an economy that is continuing to recover after last year’s recession”.

“There is nothing in the data that would prompt the MPC to bring forward its next rate cut to next month, but the underlying trends suggest the economy and price pressures are both moving in the right direction.

“That will open the door to one, or possibly two, rate cuts towards the end of the year.”