

News Release

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S&P Global / CIPS UK Services PMI[®]

Service sector returns to growth in February as business activity expands at fastest pace since June 2022

Key findings

Output levels rise for first time in six months

New order growth hits nine-month peak

Input cost inflation lowest since June 2021

February data indicated that the UK service sector gained considerable momentum, with business activity and incoming new work both expanding for the first time since August 2022. Survey respondents often cited signs of a turnaround in client confidence, helped by reduced political uncertainty and hopes that inflationary pressures would continue to ease in the months ahead.

The latest survey also highlighted that overall input cost inflation fell to its lowest since June 2021. That said, prices charged inflation was only fractionally lower than in January. Many firms commented on the need to limit the erosion of their margins and align pricing strategies with higher staff costs.

At 53.5 in February, up from 48.7 in January, the headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index posted above the 50.0 no-change value for the first time in six months. The latest reading signalled a solid increase in business activity and the rate of growth was the strongest since June 2022.

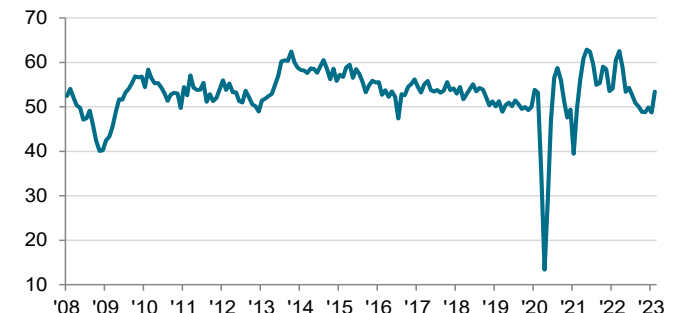
Mirroring the trend for business activity, service providers indicated that volumes of new work returned to expansion territory during February. Some firms noted a rebound in business investment among clients, partly due to the improving global economic outlook. However, there were also many reports citing growth headwinds from squeezed budget setting and cost of living pressures among households.

Measured overall, the rate of new business expansion was the strongest since May 2022. Rising export sales contributed to the rebound in total new orders in February. Higher levels of new work from abroad have been recorded for three months running, with the pace of expansion accelerating throughout this period. Service sector companies often noted stronger demand from clients in the US and western Europe.

A modest rise in employment numbers was reported during February, supported by increased customer demand and

S&P Global / CIPS UK Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global, CIPS.

Data were collected 10-24 February 2023.

long-term business expansion plans. The rate of job creation was nonetheless much softer than seen on average in 2022. Intense salary pressures and the need to cut costs were commonly cited as constraints on staff hiring. Meanwhile, ongoing shortages of suitably skilled candidates to fill vacancies contributed to a renewed increase in backlogs of work across the service economy during the latest survey period.

Higher staff wages and elevated energy costs remained the main factors leading to another month of historically strong input price inflation. The overall increase in costs was its lowest for 20 months, however, which was attributed to falling wholesale gas prices, reduced shipping rates and lower fuel bills.

Average prices charged by service providers continued to rise sharply in February, and the rate of inflation slowed to a much lesser extent than seen for input costs. Many service sector companies noted that rapid cost increases over the past two years had yet to be fully passed on to clients, especially in relation to food items and energy-intensive raw materials. Moreover, some firms suggested that expectations of further salary increases had limited their ability to discount prices.

Looking ahead, the proportion of service providers forecasting a rise in business activity over the next 12 months (50%) comfortably exceeded those predicting a decline (11%). The resulting index was the highest for 11 months and signalled a further rebound in business optimism from the low point seen in October 2022. Survey respondents often commented on greater positivity regarding the near-term economic outlook, although others continued to comment on growth constraints due to rising interest rates and low consumer confidence.

Comment

Tim Moore, Economics Director at S&P Global Market Intelligence, which compiles the survey:

"UK service providers moved back into expansion mode in February as fading recession fears and improving business confidence resulted in the strongest rise in new orders since May 2022. However, elevated borrowing costs and stretched household finances remained constraints on growth.

"There was clear evidence that input price inflation has peaked, with the latest increase in average cost burdens the weakest since June 2021. Service sector firms commented on lower fuel bills and transportation costs, alongside a gradual easing of broader inflationary pressures due to falling wholesale gas prices. However, many businesses also noted historically strong wage inflation and sharply rising food costs, especially those operating in the hotels and restaurants sector.

"Tight labour market conditions and the need to alleviate squeezed margins continued to limit the degree to which falling cost pressures were passed on to end consumers. The index measuring average prices charged by service sector companies has fallen by just 0.2 points over the past three months, compared to 5.9 points for input prices, which adds to signs of sticky inflationary pressures.

"Service providers appear confident that demand remains sufficiently resilient to pass on higher costs to clients. The latest survey indicated that business activity expectations rebounded to highest since March 2022, helped by reduced political uncertainty, an improving global economic outlook, and hopes that peak interest rates are on the horizon."

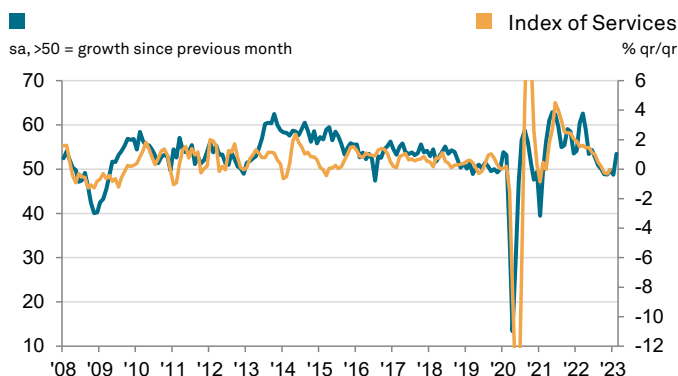
Dr John Glen, Chief Economist, Chartered Institute of Procurement and Supply (CIPS):

"Spring fever gripped the services sector early last month as supply chain managers reported a big leap in activity and the first improvement for half a year.

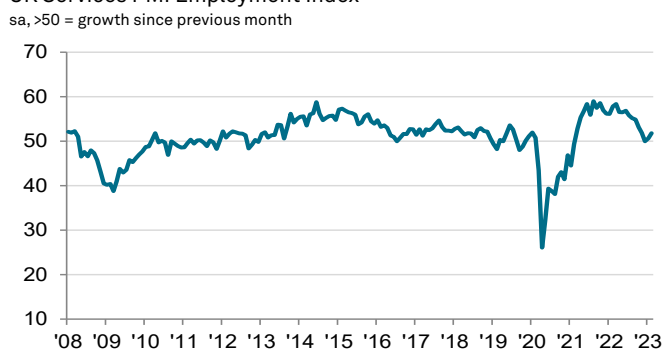
"Companies enjoyed renewed customer confidence with the highest level of new orders in nine months. Improvements in the global marketplace made the wheels of activity turn a little faster and levels of export business rose for the third month in a row despite some ongoing supply chain disruptions.

"Inflationary pressures still had a vice-like grip on some business costs such as energy prices and salary demands from workers struggling with their own cost of living crises. However, the slowest rise in total input prices since June 2021 offered some respite.

"As recessionary fears started to recede, there were expectations of improving business opportunities in the next 12 months resulting in the highest future optimism since March last year."

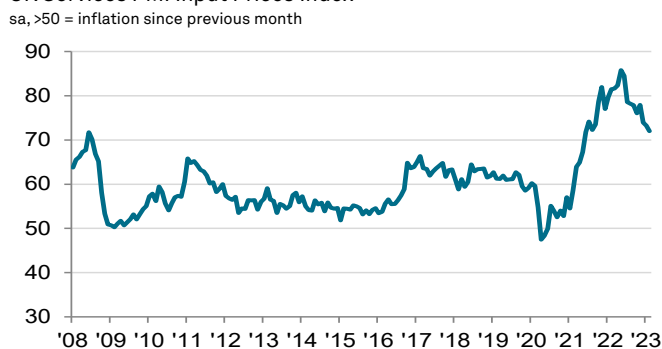


UK Services PMI Employment Index



Sources: S&P Global, CIPS.

UK Services PMI Input Prices Index



Sources: S&P Global, CIPS.

S&P Global / CIPS UK Composite PMI®

UK private sector output rises for first time in seven months

February data suggested that recession risks eased across the UK private sector economy. The seasonally adjusted S&P Global / CIPS UK Composite PMI* posted above the neutral 50.0 threshold, thereby ending a six-month period of decline. At 53.1 in February, up from 48.5 in January, the latest reading signalled the strongest increase in private sector output since June 2022.

Both manufacturing production and service sector activity returned to growth in February, with the former achieving an expansion for the first time in eight months. Service sector output nonetheless picked up at a notably faster pace than manufacturing production.

The latest survey indicated a renewed rise in total export sales, with growth in the service economy helping to offset a further reduction in the manufacturing sector. Similarly, a marginal upturn in private sector employment was driven by additional staff hiring by service providers.

Meanwhile, overall input cost inflation dropped to its lowest since April 2021, which was led by the manufacturing sector.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Survey methodology

The S&P Global / CIPS UK Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in July 1996.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey 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.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services 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 figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

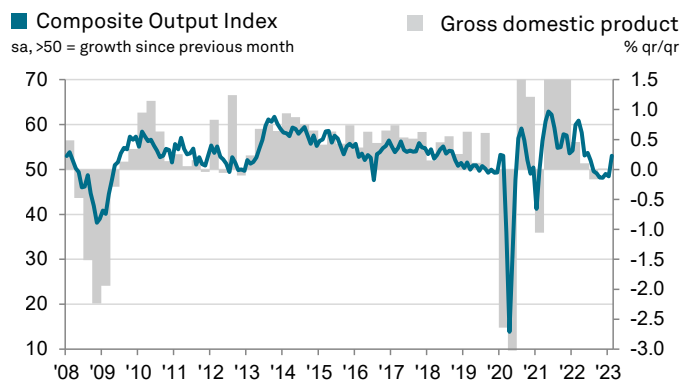
Flash vs. final data

Flash services data were calculated from 78% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.2 (0.7 in absolute terms).

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Sources: S&P Global, CIPS, ONS.

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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 over 60,000 members in 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

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