

Embargoed until 0930 GMT (0930 UTC) 3 March 2022

# IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

## Growth of activity rebounds to eight-month high

### Key findings

Sharper increases in activity and new orders as Omicron wave fades

Output price inflation hits fresh record

Fastest rise in employment in four months

Data were collected 10-24 February 2022.

Growth in the UK service sector accelerated sharply in February as the Omicron wave of the COVID-19 pandemic subsided. Rates of expansion in both business activity and new orders accelerated sharply, supporting stronger job creation.

Inflationary pressures also intensified, however. A range of inputs were up in cost, and the passing on of higher prices to customers led to the sharpest pace of charge inflation on record.

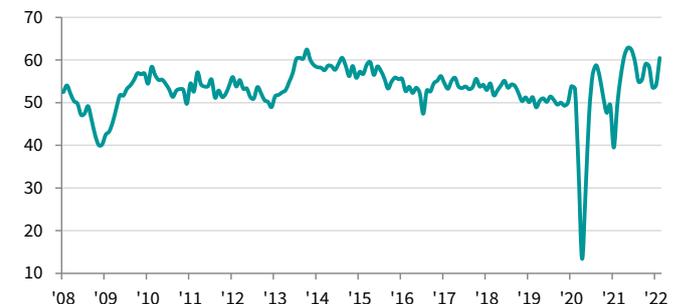
The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index rose sharply to 60.5 in February from 54.1 in January, signalling a steep rise in output that was the fastest since June last year.

Respondents indicated that market demand and client confidence improved alongside the reduction in pandemic-related disruption, thereby supporting growth of activity. Similarly, new business increased at a much faster pace amid an easing of pandemic restrictions, and one that was the most marked in eight months.

The improved pandemic situation supported demand both domestically and internationally in February. New export orders rose for the second month running, and at a solid pace that was the joint-fastest since this question was added to the survey in September 2014. There were widespread reports of improvements in demand in the US, while higher new orders from European clients were also mentioned.

Rising workloads and the prospect of further growth in the months ahead led service providers to expand their staffing levels, extending the current sequence of job creation to a year. The latest rise in employment was the fastest since

IHS Markit / CIPS UK Services PMI Business Activity Index  
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

October last year.

Although jobs growth was strong in February, there were still reports of difficulties securing staff. Added to this, material shortages and the strength of the expansion in new work led to a further accumulation of outstanding business. Moreover, the rise was the fastest in seven months.

Input costs increased substantially in February, with the rate of inflation the second-fastest in more than a quarter of a century of data collection, second only to that seen in November last year. Respondents highlighted a range of inputs as having increased in cost, with salaries, fuel and utilities most widely mentioned. Food and other material costs were also reportedly higher amid supply shortages.

Service providers often passed through higher input costs to their customers by way of increased charges. As a result, the rate of output price inflation hit a fresh record high for the second month running in February, with around one-third of respondents raising their selling prices during the month.

Strong optimism in the ability of the sector to recover over the course of 2022 was maintained in February amid expectations of improving client confidence as the pandemic recedes. Business investment plans are also set to support growth. Although sentiment ticked down from that seen in January, it remained above the series average.

## Comment

### Andrew Harker, Economics Director at IHS Markit, which compiles the survey:

"The ebbing of the Omicron wave of the COVID-19 pandemic contributed to a rebound in growth in the UK service sector in February, with rates of expansion in activity and new business up sharply. With manufacturing also seeing growth quicken, the UK economy looks to have been expanding sharply midway through the first quarter of the year.

"Inflationary pressures remained acute, however, with selling prices rising at a fresh record pace for the second month running. This pass-through of costs to customers will very likely prompt the Bank of England to hike interest rates again at the next MPC meeting in March.

"Although the latest set of PMI data were encouraging, the inflationary picture still has the potential to limit growth, while it remains to be seen what impact the Russian invasion of Ukraine will have on the service sector and wider economy. As such, there are still downside risks even as disruption from the pandemic finally appears to be fading."

### Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

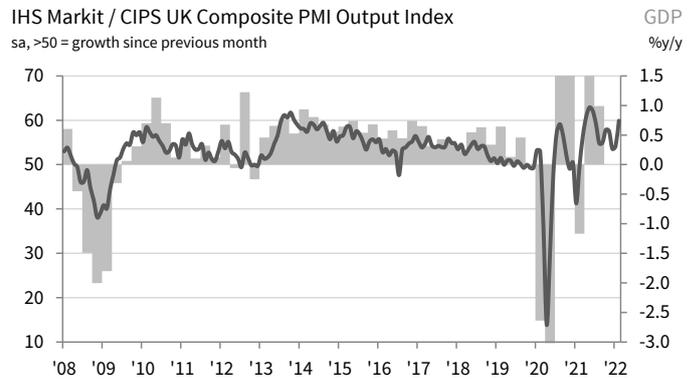
"A bullish rise in growth and momentum in the services sector in February as activity increased at the fastest rate for eight months. There was also a most encouraging uplift in job creation figures even if the search for quality candidates remained hampered, it reflected the positive feelings amongst businesses about the year ahead and potential market expansion.

"With these improved economic conditions, the rate of new business orders was one of the quickest in the survey's history and a surprise leap in both domestic and overseas orders set the seal for the trend to continue especially in hospitality and travel.

"However, with the evolving geopolitical situation, companies may struggle to keep on top of this current momentum. If sourcing becomes disrupted and prices rise again to add to this month's near-record inflation, businesses may be back to square one and unable to pass on their higher costs to consumers who faced the strongest rise in prices in a generation this month."

## IHS Markit / CIPS UK Composite PMI®

### Output growth hits eight-month high



The seasonally adjusted UK Composite Output Index rose sharply to 59.9 in February from 54.2 in January as the easing of the Omicron wave of the COVID-19 pandemic unleashed faster growth across both the manufacturing and services sectors. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

The rebound was particularly sharp in the service sector, with growth outpacing that seen in manufacturing. Accelerated increases in both new orders and employment were also recorded.

Inflationary pressures remained acute, however, with both input costs and output charges increasing at sharper rates than in January. In fact, selling prices rose at the steepest pace in the series history, mainly due to a record increase in the service sector.

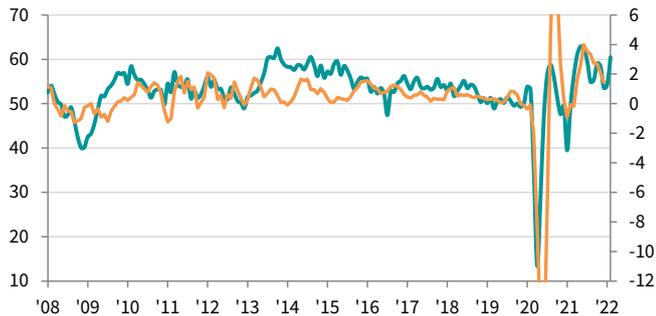
\*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

UK Services PMI Business Activity Index

sa, >50 = growth since previous month

Index of Services

% yr/yr



Sources: IHS Markit, CIPS, ONS.

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Survey methodology

The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit 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.

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](mailto:economics@ihsmarkit.com).

Survey dates and history

Data were collected 10-24 February 2022.

Survey data were first collected July 1996.

Flash vs. final data

Flash data were calculated from approximately 81% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.1 (0.3 in absolute terms).

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About PMI

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