

News Release

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S&P Global / CIPS UK Services PMI[®]

New order growth drops to 16-month low in June as economic uncertainty and rising inflation hit discretionary spending

Key findings

Solid rise in business activity, but new work loses momentum

Business expectations slump to weakest since May 2020

Input cost inflation holds close to May's survey-record high

UK service providers signalled a solid increase in business activity during June, although less favourable demand conditions meant that the rate of growth remained much weaker than seen in the first quarter of 2022. Moreover, new orders rose to the smallest extent since February 2021, with survey respondents suggesting that cost of living concerns and pessimism about the economic outlook had led to subdued spending.

Stubbornly high inflationary pressures and signs of weaker customer demand led to another fall in business expectations for the year ahead. The latest survey pointed to the lowest degree of optimism since May 2020.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index registered 54.3 in June, up slightly from 53.4 in May and above the 50.0 no-change mark for the sixteenth month running. However, the average reading in the second quarter of 2022 (55.6) was well below that seen in the first three months of the year (59.1).

A number of survey respondents noted a boost to activity from rising consumer spending on travel, leisure and events. At the same time, there were also many reports citing lower spending on discretionary items, largely due to stretched household finances and risk aversion among corporate clients.

Higher inflation and worries about the economic outlook led to hesitancy in relation to new orders during June. The overall rate of new business expansion was only marginal and the weakest seen for 16 months. Export sales bucked the trend in June, with growth the strongest since February as some firms benefited from the removal of pandemic restrictions in overseas markets and the resumption of international business travel.

Despite a considerable loss of momentum for total new orders, latest data signalled the greatest accumulation of unfinished business for three months. Increased backlogs

S&P Global / CIPS UK Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global, CIPS.
Data were collected 13-28 June 2022.

of work were mainly attributed to staff shortages as a lack of candidates to fill vacancies continued to hinder business capacity.

June data pointed to a robust rate of job creation across the service economy, although survey respondents once again noted severe difficulties with recruitment and retention. Some firms noted mid year pay increases for employees in response to cost of living concerns and competitive pressures.

Around 68% of the survey panel reported a rise in their average cost burdens in June, which was mostly linked to higher prices paid for energy, fuel and staff wages. Latest data pointed to the second-fastest rate of input cost inflation since the survey began in July 1996 (exceeded only by that seen in May).

Average prices charged by service providers continued to rise at a rapid pace in June, with the rate of inflation only fractionally lower than May's record high. Some 37% of the survey panel indicated an increase in their output charges during June, while only 2% noted a reduction. Anecdotal evidence suggested that escalating fuel costs, greater wage bills and imbalanced demand and supply were all factors contributing to higher prices.

Meanwhile, output growth expectations across the service economy continued to moderate in June. The degree of positive sentiment regarding year-ahead prospects was the lowest since May 2020. Reports from survey respondents suggested that recession risks, worries about persistently high inflation and the impact of rising interest rates on demand had led to less upbeat business activity projections.

Comment

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

"The service sector remained in expansion mode during June, but persistently high inflation has started to dent discretionary spending and negatively influence demand projections across the board. New order growth was the weakest since the national lockdown in early-2021, with survey respondents reporting business and consumer hesitancy in response to the uncertain economic outlook."

"June data highlighted the second-fastest rise in input prices since the survey began 26 years ago, driven by intense wage pressures and rapid increases in fuel costs. Staff shortages added to demand and supply imbalances, with subsequent constraints on business capacity acting as a further incentive to defend margins from escalating operating expenses. Around 37% of the survey panel reported an increase in their charges since May and many commented on plans to push through further price rises in the second half of 2022."

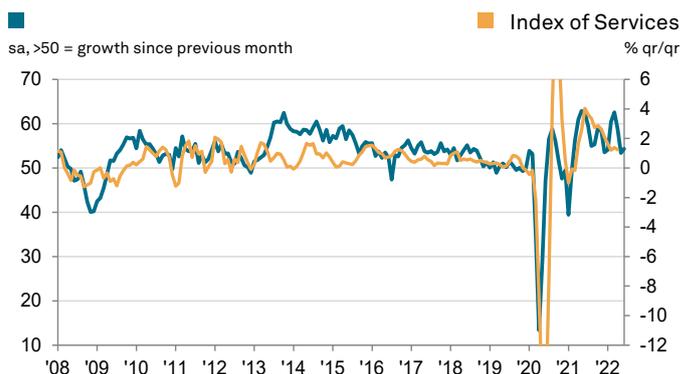
"Service providers are casting a nervous eye over their sales momentum and forward bookings, which led to a slump in business activity expectations to their lowest since May 2020. Comments from survey respondents indicated that inflation worries and the uncertain impact of higher interest rates on customer demand have replaced COVID-19 restrictions as the key factor affecting business confidence across the service economy."

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

"The relative calm demonstrated by the slight uplift in the headline figure belies the underlying picture of businesses weighed down by rising costs, the struggle to build operating capacity and a shortage of raw materials caused by war and continuing supply chain disruption."

"Another deterioration in the UK marketplace meant new order growth dropped for a fourth month in a row to its weakest since February 2021, indicating the direction of travel for service activity in the coming months. This is unlikely to change any time soon as consumer reluctance to spend will increase with cost-of-living pressures dominating priorities, and purchases perceived as non-essential going on the back burner for now."

"Staff hiring continued at a fair clip for work in hand, but recruiters complained of talent shortages and the inability to secure the right candidates to bolster their business needs. With inflation in June close to May's survey record and rising at the second-fastest rate since 1996, this all compounded to create the lowest business optimism since May 2020."



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 growth remains subdued in June

The seasonally adjusted S&P Global / CIPS UK Composite PMI Output Index* registered 53.7 in June, up slightly from 53.1 in May but still the second-weakest reading so far this year. A slowdown in manufacturing production growth to its lowest since May 2020 (index at 50.3 in June) was offset by a modest acceleration in service sector activity (index at 54.3).

Total new business volumes increased only marginally in June, with the rate of expansion the weakest since the current phase of growth began 16 months ago. Export sales stabilised in June as solid growth in the service economy helped to counterbalance another marked decline in the manufacturing sector.

Input price inflation across the UK private sector economy eased slightly since May. However, the latest increase in cost burdens was still the second-fastest since this index began in January 1998. Meanwhile, output charge inflation slipped to a four-month low amid a slowdown in the speed of factory gate price rises during June.

*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.

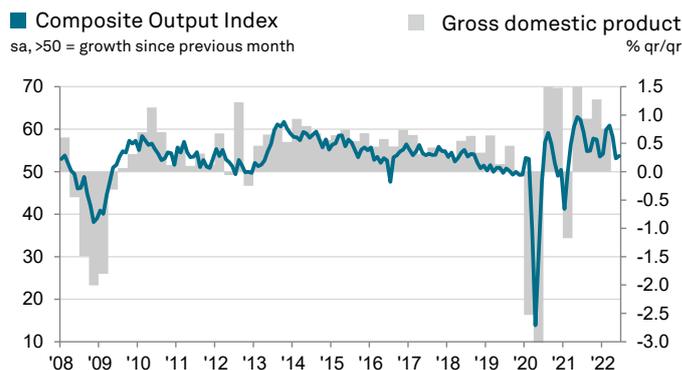
Flash vs. final data

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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