

Embargoed until 0930 GMT (0930 UTC) 3 February 2022

IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Prices charged inflation hits survey-record high in January

Key findings

Fastest rise in charges since the survey began more than 25 years ago

Output and new business growth pick up at start of 2022

Growth projections strongest since May 2021

Data were collected 12-27 January 2022.

The recovery in UK service sector output gained momentum during January as constraints from the Omicron variant began to ease and customer demand rebounded.

However, a faster recovery in business activity was accompanied by steeper cost pressures at the start of 2022. Subsequent efforts to pass on higher energy bills, transport costs and staff salaries led to the steepest rate of prices charged inflation since the survey began in July 1996.

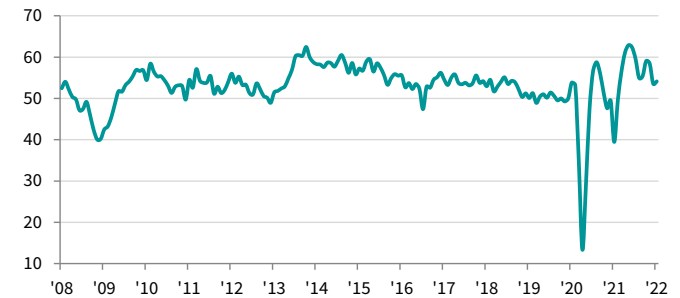
The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index picked up to 54.1 in January, after hitting a 10-month low of 53.6 in December. Output growth was nonetheless weaker than seen on average in 2021 (56.0) as customer-facing service providers continued to report an adverse impact from pandemic restrictions.

Total new business growth accelerated sharply during January, with survey respondents noting that forward bookings had picked up as clients looked beyond near-term disruptions linked to the Omicron variant.

Export sales also rebounded at the start of the year, although the rate of expansion was only marginal. Service sector firms typically cited rising demand from Asia and the US, but there were also reports that Brexit-related difficulties had acted as a headwind to sales in EU markets.

Stronger new order intakes and positive sentiment towards the year ahead outlook led to another robust rise in employment numbers in January. Increased staffing levels have been recorded in each month since March 2021. Survey respondents continued to note severe difficulties with finding suitably skilled candidates to fill vacancies and there were

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



Sources: IHS Markit, CIPS.

widespread reports citing staff departures due to higher salary offers from competitors.

Longer wait times to recruit new employees and widespread staff absences due to COVID-19 cases contributed to another increase in backlogs of work across the service economy in January. Higher levels of unfinished business have now been recorded for 11 months running.

January data pointed to a rapid increase in business expenses, with the overall rate of input cost inflation accelerating to its second-highest since the survey began (exceeded only by that seen in November 2021). Survey respondents typically commented on multiple sources of cost inflation at the start of the year, especially in relation to staff wages, logistics, energy bills and raw material prices.

Around one-in-three service providers (32%) reported an increase in their average prices charged in January, while only 3% signalled a decline. The resulting seasonally adjusted index pointed to the strongest rate of inflation since the survey began more than 25 years ago. Survey respondents commented on persistent margin pressures in the second half of 2021 alongside a strong round of annual salary increases, which led to efforts to pass on higher business overheads.

Despite another month of severe cost pressures and disruptions to business operations due to COVID-19 cases, the latest survey data pointed to a strong improvement in growth projections for the year ahead. Around 61% of firms forecast a rise in activity, compared to just 9% that expect a decline. Confidence was the highest since May 2021 and often reflected optimism about the pandemic outlook.

Comment

Tim Moore, Economics Director at IHS Markit, which compiles the survey:

"The latest PMI data provide good news about prospects for the UK economy in 2022 as demand has started to recover from the impact of Omicron restrictions and most businesses expect only a temporary slowdown from cancelled bookings and staff absences at the turn of the year. Growth expectations for the next 12 months picked up in January and are now the highest since last spring, with staff recruitment difficulties often the only major source of anxiety.

"However, record price increases in the service economy are set to add to the cost of living crisis for UK households. Input cost inflation accelerated again in January and service providers responded by increasing their prices charged at the fastest rate since the index began in July 1996. Nearly one-in-three survey respondents reported higher average prices charged than in December, with rising salary payments, energy bills and logistics costs the most commonly cited reasons."

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

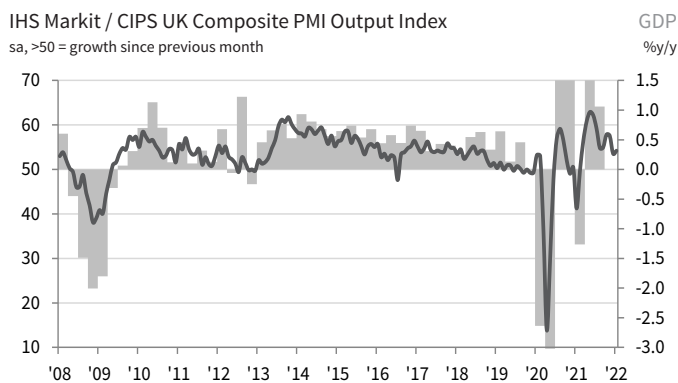
"There were some positive outcomes in January's results. Business activity picked up in the biggest sector making up the UK economy as customer footfall improved and Omicron restrictions were wound up and put away. The improvement was slight but brought better news compared to the previous month's falls, with an uplift in new business and a few more overseas orders coming though.

"Over 60% of service providers were optimistic about trade in 2022 as job creation resumed in earnest but a worker shortfall remained. Great news for job hunters looking for their next opportunity but a headache for businesses trying to reach full capacity amongst strong competition for staff should recovery speed up.

"With the highest inflation for prices charged since July 1996 leading to a considerable squeeze on household budgets, the consumer appetite for services they missed over the pandemic may be short-lived. No part of supply chains in service firms were immune from higher costs for shipping, escalating staff wages or raw materials which businesses were then forced to pass on. As decisions are made over interest rate rises in the UK, the biggest challenge for policy-makers will be reining back price pressures before they spiral out of control and call a halt to further progress."

IHS Markit / CIPS UK Composite PMI®

Faster rise in private sector output in January

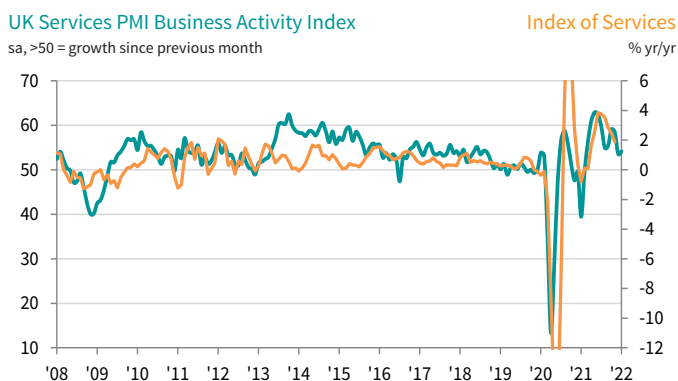


UK private sector growth accelerated slightly in January, after the 10-month low seen during December. This was highlighted by a rise in the seasonally adjusted UK Composite Output Index from 53.6 to 54.2 in January. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Manufacturing sector growth (54.5) outpaced that seen in the service economy (54.1), with production rising to the greatest extent since July 2021.

Latest data signalled a steeper rise in business expenses across the UK private sector and the rate of inflation was the second-highest since this index began in January 1998. Stronger cost pressures in the service economy contrasted with a modest slowdown in 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.



Sources: IHS Markit, CIPS, ONS.

Contact

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761576
trudy.salandiak@cips.org

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.

Survey dates and history

Data were collected 12-27 January 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).

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2022 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please contact joanna.vickers@ihsmarkit.com. To read our privacy policy, click [here](#).

About CIPS

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 200,000 in over 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.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.