

News Release

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S&P Global / CIPS UK Services PMI®

Weakest service sector performance since February 2021 as rising inflation hits customer demand

Key findings

Business activity expansion eases for second month running

Input cost and prices charged inflation hit fresh record highs

Growth projections lowest since October 2020

May data pointed to a difficult month for the UK service sector as business activity growth eased considerably since April and margins were squeezed again by rising inflation. Survey respondents often noted that concerns about the economic outlook and heightened risk aversion had taken a toll on customer demand. As a result, service providers signalled that growth expectations for the year ahead dipped for the fourth month running to the lowest since October 2020.

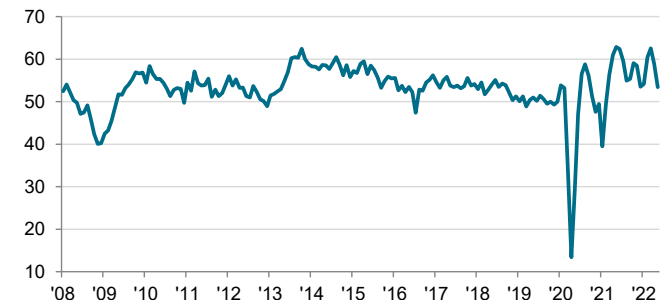
At 53.4 in May, down from 58.9 in April, the headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index pointed to the slowest rise in output volumes since the current period of expansion began 15 months ago. The month-on-month loss of momentum (5.5 index points) was larger than any seen since the survey began in July 1996, aside from those due to COVID-19 lockdowns.

The weakest headline index reading since February 2021 mostly reflected subdued business and consumer confidence, with worries about the economic outlook also contributing to softer demand patterns in May. Travel, leisure and entertainment was the main exception, with hospitality businesses widely commenting on strong consumer demand due to the removal of pandemic restrictions.

In line with the trend for business activity, latest data signalled a further slowdown in new order growth across the service economy as a whole. The rate of new business expansion was the weakest since December 2021. Some service providers noted that steep rises in their prices charged had exerted a negative influence on demand, while others suggested that supply shortages had constrained customer spending.

Despite a loss of momentum for output and new business growth in May, the latest survey highlighted another robust increase in staffing numbers. The rate of job creation was unchanged since April, with many firms commenting on

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



Source: S&P Global, CIPS.
Data were collected 12-27 May 2022.

efforts to rebuild business capacity and realign workforce numbers with the recovery in client demand. Survey respondents once again commented on severe shortages of candidates to fill vacancies, which led to rising wages and acted as a brake on growth.

A lack of spare capacity resulted in a modest rise in backlogs of work across the service sector in May. Higher levels of unfinished work have now been recorded for fifteen consecutive months. Supply shortages and lengthy wait times for deliveries also contributed to rising backlogs, according to survey respondents.

Escalating energy, fuel and raw material costs, alongside strong wage pressures, led to another steep increase in average input prices during May. Moreover, the rate of cost inflation was the steepest since the survey began in July 1996. Around 70% of the survey panel reported a rise in their average costs since April, while only 1% noted a decline. May data also pointed to a survey-record increase in prices charged by service providers. Survey respondents nonetheless continued to cite considerable pressure on margins, largely due to rapid rises in energy bills and other purchasing costs.

Signs that rising prices charged have started to negatively impact on customer demand led to a further decline in business expectations for the year ahead. Around 47% of the survey panel anticipate a rise in business activity in the next 12 months, while 14% predict a decline. This pointed to the weakest overall degree of optimism since October 2020. Service sector companies noted that worries about the cost of living crisis and the uncertain global economic outlook had acted as a brake on growth projections.

Comment

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

"May data illustrate a worrying combination of slower growth and higher prices across the UK service sector. The latest round of input cost inflation was the steepest since this index began in July 1996, while the monthly loss of momentum for business activity expansion was a survey-record outside of lockdown periods.

"There were bright spots in customer-facing parts of the economy during May, buoyed by a rapid recovery in consumer spending on travel, leisure and entertainment. However, hospitality businesses widely reported constraints on recovery from a lack of candidates to fill vacancies and difficulties meeting demand due to ongoing global supply chain disruption.

"Service providers are increasingly concerned about the near-term business outlook, with price resistance among consumers and escalating cost of living pressures set to dampen spending during the second half of 2022. Growth expectations have dropped in each month since the invasion of Ukraine and are now the weakest since October 2020."

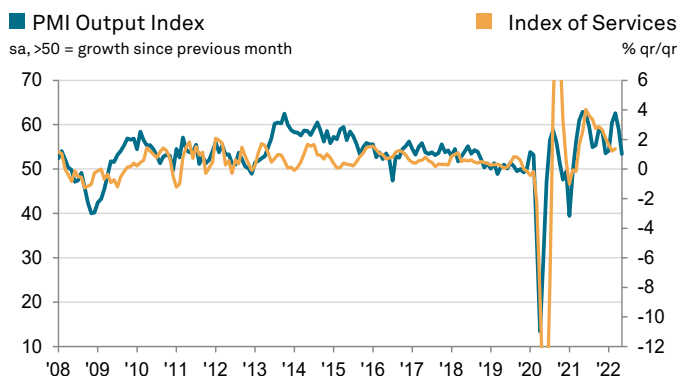
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

"Last month's slowing trajectory continued into May as output growth in the services sector dropped again and input inflation rose especially for energy, fuel and salaries, taking another turn for the worst.

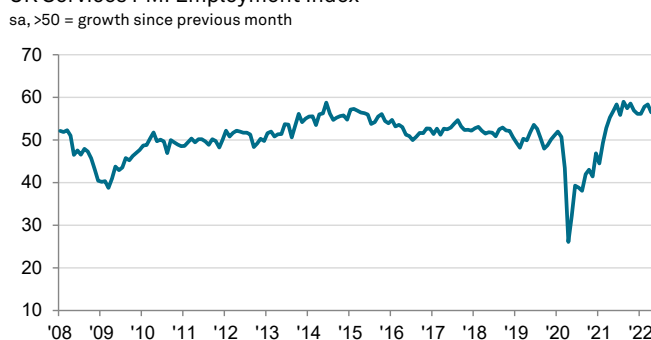
"The highest rises in prices charged since 1996 and consumer concern over the state of the UK economy in turn affected business orders which rose at the slowest pace since December 2021. Though there was a glimmer of hope with export orders which were not as flat as in previous months, Brexit customs restrictions and war in Ukraine continued to impact overseas confidence still further.

"One bright spot was strong employment levels. Job seekers still had the pick of the bunch in terms of roles and requested salaries but as capacity levels are reached and new order gaps appear, the window of opportunity is starting to close.

"The sudden fall in the overall index is a cause for worry and was reflected in the sector's optimism which was the lowest since the height of the pandemic in October 2020. Recessionary fears are growing bigger and stronger amid the realisation that 2022 as the year of stable recovery has not materialised yet."



UK Services PMI Employment Index



UK Services PMI Input Prices Index



S&P Global / CIPS UK Composite PMI®

Private sector output growth slows for the second month running in May

At 53.1 in May, down from 58.2 in April, the seasonally adjusted S&P Global / CIPS UK Composite PMI Output Index* signalled another slowdown in output growth across the private sector economy. Higher levels of activity have been recorded in each month since March 2021, but the latest expansion was the weakest seen during this period.

Softer rates of growth were seen in both manufacturing (index at 51.6) and services (53.4) during May. Latest survey data also signalled a slowdown in new order gains across the private sector, with the overall pace of expansion the weakest seen so far in 2022.

Input price inflation accelerated to a fresh survey-record high in May. Stronger cost pressures in the service economy more than offset a slight moderation in the manufacturing sector. Efforts to alleviate the squeeze on margins led to another steep rise in average prices charged, with this index signalling only a fractionally slower rate of inflation than April's record high.

*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.

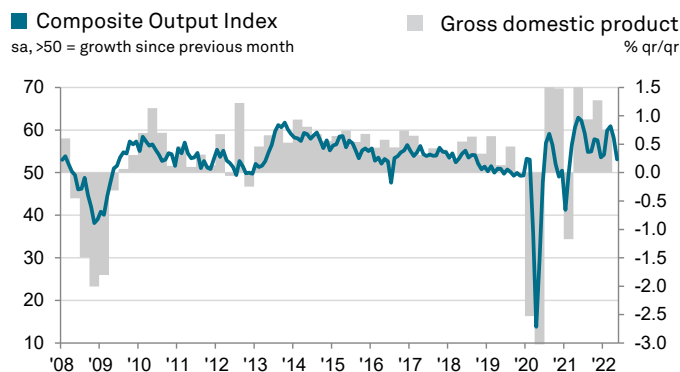
Flash vs. final data

Flash services data were calculated from 77% 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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