

News Release

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S&P Global / CIPS UK Services PMI[®]

UK service sector gains momentum, despite fastest rise in output charges since the survey began in July 1996

Key findings

Strongest rise in business activity since May 2021

Business optimism slips to 17-month low

Output charge inflation hits fresh record high

UK service providers signalled an exceptionally strong increase in business activity during March and the rate of expansion accelerated to its fastest for 10 months. Survey respondents widely noted that the removal of pandemic restrictions and return to offices had led to a sharp rebound in customer demand.

However, business expectations for the year ahead dropped for the second month running and were the lowest since October 2020. Weaker optimism was mainly linked to the war in Ukraine and subsequent economic uncertainty. Severe cost pressures also weighed on confidence and led to a rapid rise in output charges. The rate of prices charged inflation was the steepest since the index began in July 1996.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index rose for the third month running to reach 62.6 in March, up from 60.5 in February. This highlighted a continued rebound in output growth from the Omicron-related slowdown seen at the end of last year. Moreover, the rate of expansion was the second-strongest since May 1997 (exceeded only by the post-lockdown recovery in May 2021).

Higher levels of business activity were supported by a strong rise in new work during March. More than twice as many survey respondents (31%) reported an increase in new orders as those that signalled a fall (15%). Businesses operating in the travel, leisure and entertainment sectors commented on especially strong demand during the latest survey period.

Greater business requirements and robust long-term expansion plans fuelled another month of strong job creation in March. The latest rise in staffing numbers was the fastest since October 2021. Survey respondents suggested that tight labour market conditions had made it difficult to fill vacancies and pushed up starting salaries.

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



Source: S&P Global, CIPS.
Data were collected 11-29 March 2022.

Recruitment difficulties, capacity constraints and worsening supplier performance all contributed to an increase in backlogs of work across the service economy in March. Higher levels of unfinished business have been recorded in each of the past 13 months, although the latest rise was the slowest so far in 2022.

An unprecedented 40% of the survey panel reported an increase in their average prices charged in March, while only 3% signalled a decline. The resulting seasonally adjusted Prices Charged Index pointed to the strongest rate of inflation since the survey began in July 1996.

Another rapid rise in output charges was overwhelmingly linked to higher salary payments and increased prices paid for energy, fuel and raw materials. Around 65% of the survey panel reported a rise in their operating expenses in March, while less than 1% noted a decline. The latest index reading signalled the second-fastest rate of input cost inflation since the survey began (exceeded only by the record high seen last November).

Concerns about the impact of escalating inflationary pressures on household budgets acted as a brake on growth expectations across the service sector in March. Survey respondents also cited uncertainty related to the war in Ukraine and greater hesitancy among clients. The overall degree of positive sentiment regarding the business outlook dropped to its lowest for 17 months.

Comment

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

"UK economic growth continued to surge higher in March after an Omicron-induced slowdown at the turn of the year. Service sector companies led the way as business activity expanded at the fastest pace since the post-lockdown recovery seen last May. There were widespread reports citing a boost to business and consumer spending from the roll back of pandemic restrictions. Survey respondents commented on stronger demand arising from the return to offices, alongside a resurgence in the travel, leisure and entertainment sectors.

"However, the near-term growth outlook weakened in March, with optimism dropping to its lowest since October 2020 as the war in Ukraine and global inflation concerns took a considerable toll on business sentiment.

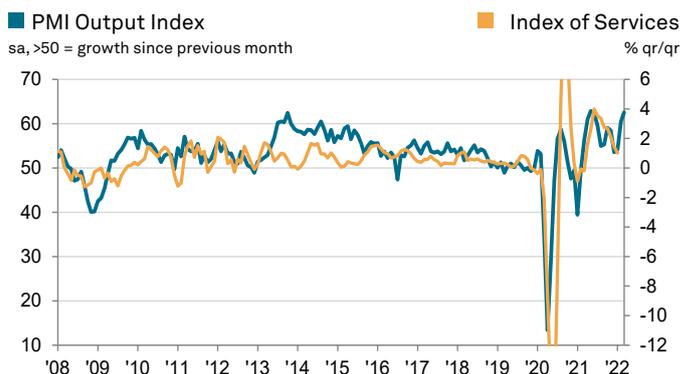
"Service providers experienced the second-fastest rise in business expenses since this index began in 1996, driven by higher wages, energy bills and fuel prices. Soaring costs meant that output charges were increased to the greatest extent for more than 25 years in March. Many survey respondents commented that the full extent of the recent spike in their operating costs had yet to be passed on to customers."

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

"Regardless of how glum service providers were feeling in March about the year ahead, with the lowest levels of optimism since October 2020, the sector still managed the second fastest rise in business activity since May 1997. People returned to work and had a flutter of spending on hospitality and entertainment before energy and fuel prices increase in April and potentially purse strings are tightened again.

"New orders rose at a rate close to February's 8-month high and to match this recovering demand, job hiring accelerated to the highest levels for five months. This was good news for job seekers, though businesses found challenges in hiring for talent and agreed to wage demands which pushed up their business costs at the second highest level since 1996.

"There were fewer reasons to be cheerful this month though the overall figure showed a stellar recovery in the sector. This speed of growth is unlikely to be maintained as supply issues still exist, the costs of living surge higher and now stuttering supply on certain goods are predicted to follow as the Russian invasion of Ukraine continues to unfold."



UK Services PMI Employment Index



UK Services PMI Input Prices Index



S&P Global / CIPS UK Composite PMI®

Private sector output growth quickens in March, despite a sharp slowdown in manufacturing

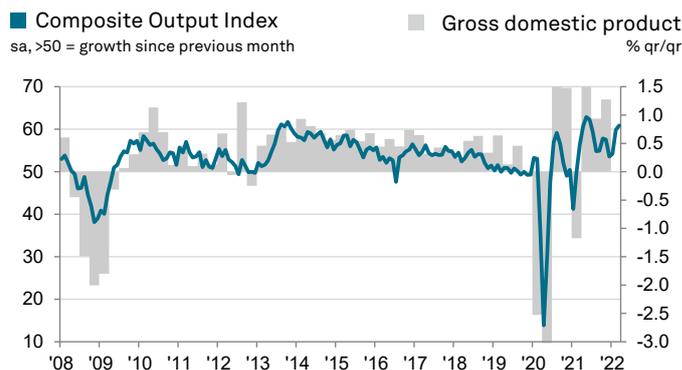
At 60.9 in March, up from 59.9 in February, the seasonally adjusted S&P Global / CIPS UK Composite PMI Output Index* signalled the fastest rise in private sector activity since June 2021. The index has registered above the crucial 50.0 no-change threshold in each of the past 13 months.

Stronger economic growth in March reflected a sharp and accelerated upturn in service sector output. In contrast, manufacturing production (index at 51.8, down from 56.9 in February) increased at the slowest pace since October 2021.

Rising workloads and constrained business capacity resulted in another robust expansion of private sector employment numbers during March. The latest increase in staffing levels was the strongest for seven months.

March data pointed to faster rates of input cost inflation in both the manufacturing and service sectors. Measured overall, operating expenses at private sector businesses rose at the second-fastest pace on record (exceed only by that seen in November 2021).

*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: S&P Global, CIPS, ONS.

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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 82% 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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