

News Release

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S&P Global / CIPS UK Services PMI[®]

Fastest rise in service sector business activity for 12 months, but strong inflationary pressures continue during April

Key findings

Sharpest expansion of output levels since April 2022

Demand conditions continue to improve

Higher salary payments contribute to steeper cost inflation

Business activity growth regained momentum during April, fuelled by the strongest upturn in new orders since March 2022. Resilient demand and rising optimism regarding the business outlook also resulted in a solid increase in employment numbers.

Elevated energy prices and robust pay pressures contributed to another steep rise in average cost burdens. Moreover, efforts to pass on higher business expenses led to an acceleration in the rate of prices charged inflation from March's 19-month low.

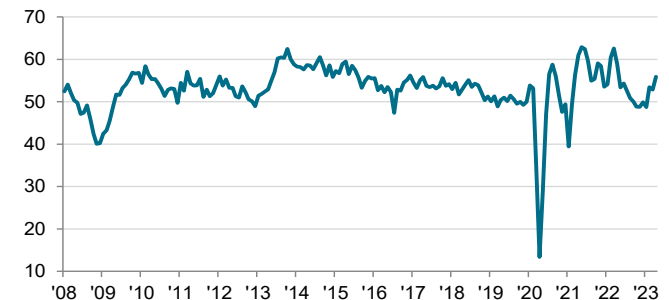
At 55.9 in April, up from 52.9 in March, the headline seasonally adjusted S&P Global / CIPS UK Services PMI[®] Business Activity Index signalled a strong rise in output levels across the service economy. The headline index has now registered above the neutral 50.0 value for three months running and the latest reading pointed to the fastest rate of growth since April 2022.

Survey respondents often noted that stronger consumer spending was a factor boosting business activity during April, especially those operating in the travel, tourism and leisure sub-sectors. There were also reports citing a turnaround in demand for business services, despite pressure on budgets from intense cost inflation.

Total new work increased at the strongest rate for 13 months in April, supported by improving domestic demand and another upturn in export sales. New business from abroad has now expanded for five consecutive months. Service providers cited greater numbers of international arrivals and a general recovery in demand from EU and US clients.

Improving sales pipelines and rising business confidence helped to maintain job creation across the service economy in April. The rate of employment growth was the fastest since September 2022. Staff recruitment also reflected efforts to backfill vacancies and process unfinished workloads. Service providers nonetheless continued to report tight labour market

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



Source: S&P Global, CIPS.
Data were collected 12-26 April 2023.

conditions, with difficulties finding suitably skilled candidates adding to wage pressures.

Higher salary payments were by far the most cited reason for increased business expenses in April, followed by elevated energy prices. Around 48% of the survey panel reported a rise in input costs, while only 3% signalled a fall. Moreover, the overall rate of input price inflation accelerated for the first time since last November.

A combination of stronger demand and rapidly rising business expenses led to a faster rate of prices charged inflation during April, following the 19-month low seen in March. Some 34% of service sector firms noted an increase in their average prices charged, compared to just 5% that indicated a reduction. Anecdotal evidence suggested that wage pressures remained the main factor leading to higher prices charged.

April data highlighted that service providers remain upbeat about their growth prospects for the year ahead, with the respective index reaching its highest level since March 2022.

More than half of the survey panel (52%) expect an increase in business activity during the year ahead, while just 12% predict a decline. The degree of optimism has increased in each month since last November, supported by resilient consumer spending and improving confidence regarding the global economic outlook. Some firms also noted that planned productivity enhancements and long-term business expansion plans had underpinned their forecasts for output growth.

Comment

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

"A strong rate of service sector growth meant that the UK economy started the second quarter of 2023 in positive fashion. Overall private sector output expanded at the fastest pace for one year, despite another fall in manufacturing production during April.

"Service providers experienced the steepest upturn in new work for 13 months as resilient consumer spending combined with a turnaround in demand for business services to boost overall order books. Survey respondents often cited an improvement in clients' willingness to spend, helped by greater confidence with regards to the near-term economic outlook.

"Strong growth in spending on travel, tourism and leisure was a tailwind for the service economy in April, alongside a sustained recovery in international visitors. Total new orders from abroad have now increased for five months running, in contrast to the protracted decline in export sales reported by goods producers.

"While the growth outlook has improved considerably for the service economy this spring, a swift rebound in customer demand appears to have reignited inflationary pressures. Both input costs and average prices charged increased at faster rates in April, which service providers overwhelmingly attributed to greater staff wages. Some 34% of the survey panel reported a rise in their prices charged in April, which was around three times higher than the pre-pandemic average."

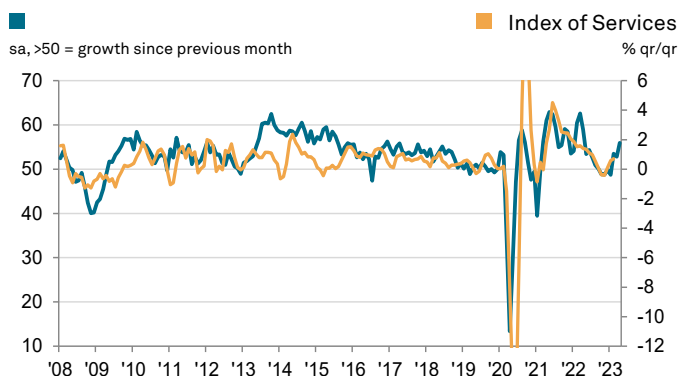
Dr John Glen, Chief Economist, Chartered Institute of Procurement and Supply (CIPS):

"The months spent inside during the pandemic live long in the memory and have led consumers to prioritise spending on holidays and experiences despite the cost-of-living crisis, with the strong demand for leisure activities helping the UK services sector begin Q2 with a spring in its step.

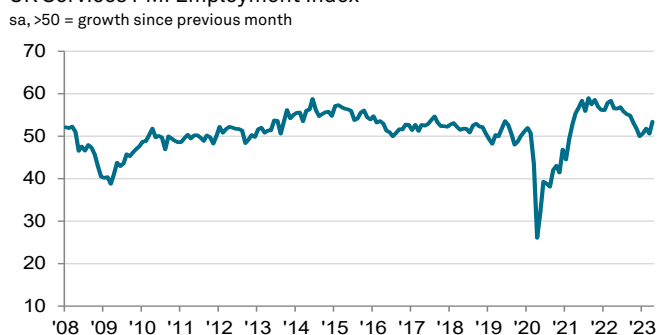
"April saw the strongest upturn in new orders since March 2022 due to a calming of the economic waters after the UK avoided a severe recession, and helped by consumers booking summer holidays. There was further positive news in the return of international tourists, with US travellers arriving in the UK ready to take advantage of the weak pound against the dollar.

"The boost in demand does come at the cost of higher inflationary pressures on the sector, and it is likely consumers will continue to see price increases for luxuries such as holidays and meals out. The difficulty in finding staff in a tight market also drove wages higher and was a significant contributor to the hike in prices.

"With the King's Coronation around the corner and three bank holidays in May, the sector is optimistic for continued strong demand as spring turns to summer."



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®

Service sector growth offsets sustained decline in manufacturing production

UK private sector output expanded for the third consecutive month in April, despite a back-to-back reduction in manufacturing production. Faster growth in the service economy meant that overall private sector output expanded at the strongest pace since April 2022. This was highlighted by the seasonally adjusted S&P Global / CIPS UK Composite PMI* posting 54.9, up from 52.2 in March and comfortably above the average seen in the first quarter of 2023 (51.3).

On the inflation front, there were also contrasting trends between the manufacturing and service sectors. The former posted the slowest rise in input costs since May 2020, helped by softer raw material price pressures and lower transportation bills. In contrast, service providers saw another rapid increase in business expenses, largely due to higher wages. Measured overall, the rate of input cost inflation across the private sector economy remained steep compared to its long-term average, but was unchanged from March's 23-month low.

*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 indicating a 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.

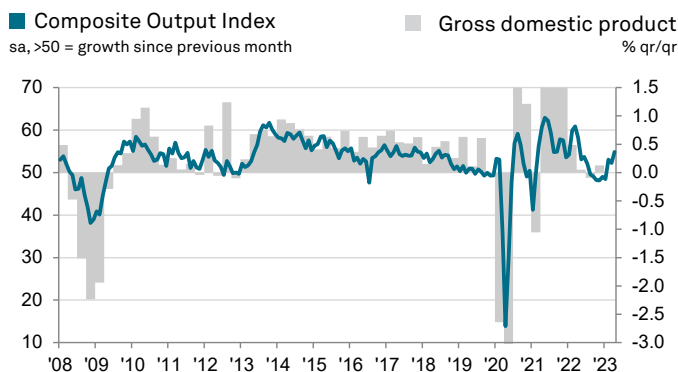
Flash vs. final data

Flash services data were calculated from 73% 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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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.