News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0930 GMT (0930 UTC) 24 March 2022

S&P Global / CIPS Flash United Kingdom PMI®

Faster service sector growth boosts UK economy in March, but prices charged inflation hits record high and business optimism slumps to 17-month low

Key findings:

Flash UK PMI Composite Output Index(1) at 59.7 (Feb: 59.9). 2-month low.

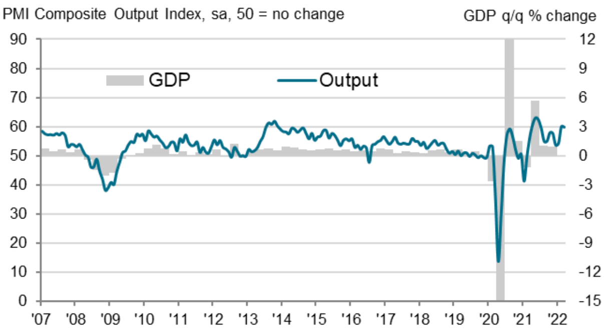
Flash UK Services PMI Business Activity Index(2) at 61.0 (Feb: 60.5). 9-month high.

Flash UK Manufacturing Output Index(3) at 52.6 (Feb: 56.9). 5-month low.

Flash UK Manufacturing PMI(4) at 55.5 (Feb: 58.0). 13-month low.

Data were collected 11-22 March

S&P Global / CIPS Flash UK PMI Composite Output Index



Sources: S&P Global, CIPS, Office for National Statistics

UK private sector output expanded at a sharp pace in March and the speed of recovery eased only fractionally since the previous month. However, escalating fuel, energy and staff costs resulted in the steepest rise in prices charged since this index began in November 1999. Escalating inflationary pressures and concerns related to Russia's invasion of Ukraine meanwhile led to a slump in business optimism to its lowest since October 2020.

The headline seasonally adjusted **S&P Global / CIPS Flash UK Composite Output Index** registered 59.7 in March, down slightly from February's eight-month high of 59.9. A stronger contribution from service sector activity (index at 61.0, up from 60.5) helped to offset weaker manufacturing sector growth (52.6 in March, down from 56.9).

Manufacturing production increased at the weakest pace since October 2021, which survey respondents linked to ongoing supply shortages and greater caution among clients. Some firms also noted that escalating inflationary pressures had held back demand.

Service sector activity increased at a steep and accelerated pace in March, with the removal of COVID-19 restrictions helping to fuel the strongest growth since June 2021. There were reports that the return to offices and customer events had boosted business activity in the service economy, alongside pent up demand for travel, leisure and entertainment.

New business received by UK private sector firms increased sharply in March, although the rate of growth eased from February's eight-month peak. The slowdown was most acute in the manufacturing sector, with new orders expanding at the weakest pace since February 2021. Goods producers often noted softer demand conditions and greater uncertainty among clients due to Russia's invasion of Ukraine.

March data highlighted a robust rise in private sector **employment**, with the pace of job creation accelerating to its fastest since August 2021. Greater hiring in the service economy more than offset a slowdown in the manufacturing sector, according to the latest survey data. Companies reporting an increase in their payroll numbers mostly cited efforts to boost business capacity. However, there were sporadic reports among survey respondents that higher operating expenses had led to the non-replacement of departing staff.

A combination of weaker new order growth and stronger job creation helped to alleviate some of the strain on business capacity in March. As a result, **backlogs of work** across the private sector economy were accumulated at the slowest pace for 12 months.

Pressure on manufacturing supply chains continued to ease in March, with **supplier delays** the least widespread since October 2020. However, survey respondents continued to note that shortages of raw materials, staff absences and shipping delays had held back production growth. Manufacturers also reported concerns that the Ukraine war would lead to renewed shortages and fragile supply chains in the months ahead. This contributed to a solid degree of **inventory accumulation** and a further marked increase in

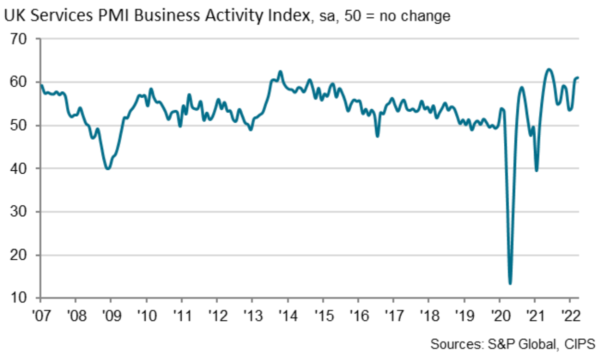
input buying across the manufacturing sector.

UK private sector firms indicated another rapid rise in their **average cost burdens** in March, with the index signalling the second-fastest rate of inflation for more than two decades (exceeded only by the peak seen in November 2021). Survey respondents reported an exceptionally wide range of items as rising in price during March, with energy costs, fuel bills, logistics and salary payments the most commonly cited.

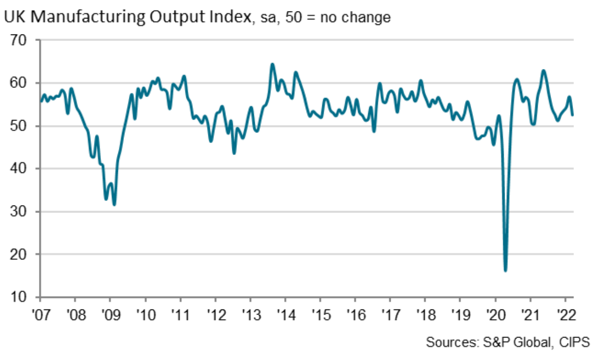
Another round of steep cost inflation was passed on to customers in March. Latest data indicated the steepest increase in **average prices charged** since this index began in November 1999. This was driven by a sharp acceleration in output charge inflation across the service sector as businesses sought to pass on unprecedented rises in their operating expenses.

Worries about escalating inflationary pressures and the impact of the war in Ukraine on customer demand resulted in a sharp drop in **business optimism**. The index dropped from 76.1 in February to 71.4 in March, to signal the lowest level of confidence since October 2020. Moreover, the monthly fall in business expectations (down 4.7 index points) signalled by far the greatest setback since the start of the pandemic and reflected much weaker year ahead growth projections in both the manufacturing and services sectors.

S&P Global / CIPS Flash UK Services PMI Business Activity Index



S&P Global / CIPS Flash UK Manufacturing Output Index



Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global said:

"The UK PMI surveys indicated a sustained robust pace of expansion in March as the further reopening of the economy from COVID-19 containment measures helped offset headwinds from the Ukraine war, Brexit and rising prices. However, the outlook darkened as concerns over Russia's invasion exacerbated existing worries over soaring prices, supply chains and slowing economic growth. Business expectations are now at their lowest for almost one and a half years, pointing to a marked slowing in the pace of economic growth in coming months.

"Meanwhile, prices pressures have spiked higher due to increased energy and commodity prices resulting from the invasion. With March seeing by far the largest rise in selling prices for goods and services ever recorded by the survey, consumer price inflation is set to rise further in the months ahead.

"The survey indicators point to potentially sharply slower growth in the coming months, accompanied by a further acceleration of inflation and a worsening cost of living crisis, which paints an unwelcome picture of 'stagflation' for the economy in the months ahead."

Duncan Brock, Group Director at CIPS, said:

"Though private sector business had been travelling along quite nicely in recovery since the beginning of the year, a hard brake turnaround in confidence and soaring prices held back further gains in March.

"Manufacturers reported unpredictable delivery times as some products were easy to get hold of whilst others disrupted production lines by failing to materialise. Even though supplier performance was the best since October 2020 when the pandemic was in full flow, firms are likely to resort to inventory building to beat prices and disruption as the cost ceiling will be some way off especially as higher energy bills rip through supply chains. The services sector however was fuelled by customers returning to hospitality and providers were creating jobs at a standout rate.

"Optimism at private sector companies fell to its lowest since October 2020 with client hesitation returning as a result of businesses passing on their costs to their customers at the highest rate for more than 20 years. With the ripple effects from the Ukraine invasion likely to hit supply lines further, companies will have to get even more agile to survive this period of turbulence."

-Ends-

News Release

Contact

S&P Global
Tim Moore
Director
Telephone +44-1491-461-067
Email: tim.moore@spglobal.com

Joanna Vickers
Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@spglobal.com

Note to Editors

Final March data are published on 1 April for manufacturing and 5 April for services and composite indicators.

The S&P Global / CIPS Flash UK Composite PMI® is compiled by S&P Global from responses to questionnaires sent to survey panels of around 650 manufacturers and 650 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.

Services: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

A diffusion index is calculated for each manufacturing and services 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.

Composite indices for are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the 'Composite PMI' but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers' Index® (PMI®). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

Composite Output Index = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.2 (absolute difference 0.7)

Manufacturing PMI = 0.0 (absolute difference 0.4)

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@ihsmarkit.com.

Notes
1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"
4. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.

S&P Global (NYSE: SPGI)

S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

PMI® by S&P Global

CIPS Chartered Institute of Procurement & Supply

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. To learn more go to https://ihsmarkit.com/products/pmi.html .

If you prefer not to receive news releases from S&P Global, please contact joanna.vickers@spglobal.com. To read our privacy policy, click here.