

News Release

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S&P Global UK Services PMI[®]

Solid rate of service sector output growth maintained in February

Key findings

Fastest rise in new work since May 2023

Business optimism highest for two years

Input price inflation edges up amid strong wage pressures

UK service providers experienced a sustained increase in business activity in February, supported by stronger new order growth and aided by another modest rise in employment numbers. The overall rate of output growth was only slightly softer than January's eight-month high. Moreover, output growth projections for the year ahead were the most upbeat since February 2022.

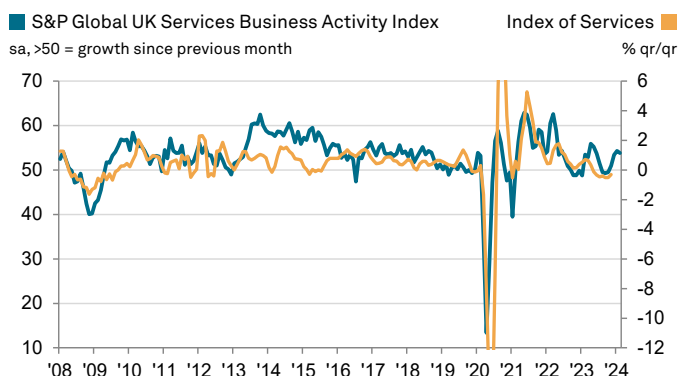
Input price inflation meanwhile accelerated in February and was the highest for five months, mostly due to elevated wage pressures. Some firms also noted rising shipping costs. Squeezed margins led to the second-fastest increase in prices charged by service providers for seven months, surpassed only by last December's reading.

At 53.8 in February, the seasonally adjusted final S&P Global UK Services PMI[®] Business Activity Index was down slightly from 54.3 in January and lower than the earlier 'flash' reading (54.3). However, the index was still higher than at any time in the second half of 2023. Moreover, the index has now posted above the crucial 50.0 no-change value for four months in a row, therefore highlighting a sustained rebound in business activity after last autumn's downturn.

Higher levels of business activity were supported by a solid increase in new order volumes during February. The latest survey indicated the sharpest rate of new business growth since May 2023. Service providers commented on rising business and consumer spending, linked to more supportive economic conditions. Some firms also cited the prospect of lower interest rates as a factor driving a turnaround in customer demand.

Improving export sales helped to boost total order books in February. New work from overseas clients has now increased for five months in a row and the latest expansion was the strongest since June 2023. Survey respondents often cited higher demand from the US and Asia, alongside a tentative upturn in European export orders.

February data highlighted a modest increase in staffing numbers across the service economy, although the latest expansion was fastest recorded since July 2023. Additional



Sources: S&P Global PMI, ONS.
Data were collected 12-27 February 2024.

Comment

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

"Another solid expansion of business activity across the service sector in February adds to signs that the UK economy has turned a corner after entering a technical recession during the second half of 2023.

"New business intakes were a particularly bright spot as service providers reported the fastest order book growth since May 2023. Survey respondents cited rising business and consumer spending, linked to improved optimism towards the broader economic outlook. Resilient export sales also provided support to service sector growth, as signalled by the strongest rise in new work from abroad for eight months.

"A turnaround in customer demand and the prospect of interest cuts on the horizon helped to boost business optimism across the service economy. Business activity expectations were the highest since February 2022, with nearly six-in-ten survey respondents forecasting output growth in the year ahead. However, job creation remained relatively subdued as elevated wage pressures meant that cautious hiring strategies prevailed for most businesses.

"Higher salary payments and rising shipping costs contributed to the strongest rate of input price inflation across the service sector since September 2023. Adding to signs of robust domestic inflationary pressures, prices charged by service providers increased at one of the fastest rates since last summer as many firms commented on the need to pass on higher staff costs."

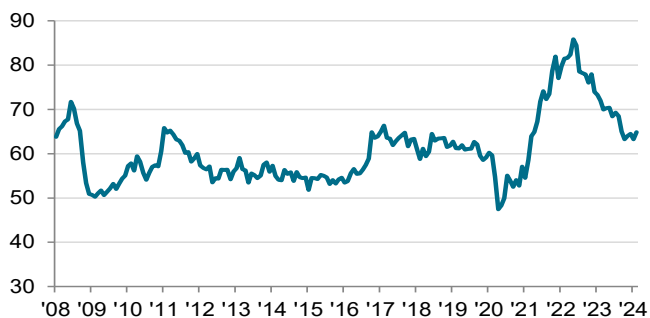
PMI[®]

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UK Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global PMI.

recruitment was linked to long-term business expansion plans and the need to boost operating capacity, but a number of firms also cited constraints on hiring due to strong wage pressures. A sustained increase in total workforce numbers helped to deplete backlogs of work for the ninth consecutive month.

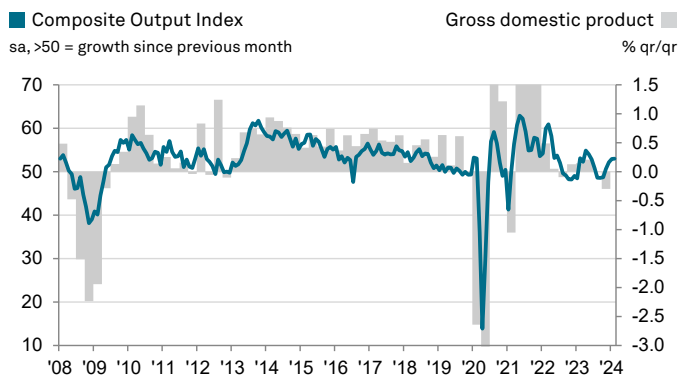
Business activity expectations for the year ahead strengthened further from October's low. Around 59% of the survey panel forecast a rise in business activity during the next 12 months, while only 9% predict a decline. This signalled the most upbeat business optimism since February 2022. Survey respondents noted a turnaround in business conditions so far this year, as well as hopes of interest rate cuts and the positive impact of planned investment spending. Service sector companies however noted challenges arising from elevated economic and political uncertainty around the world.

Meanwhile, the latest survey indicated that strong cost pressures persisted across the service economy. Overall input price inflation accelerated to its highest since September 2023, primarily driven by higher wage bills. A number of firms also reported increased costs due to shipping surcharges.

Prices charged by service providers increased at a robust pace in February. Around 22% of survey respondents reported a rise in their output charges, while only 4% signalled a decline. This pointed to the second-fastest rate of prices charged inflation since July 2023 (surpassed only by last December). Anecdotal evidence suggested that resilient customer demand had allowed firms to pass on higher business expenses, with many citing upward pressures from rising wages.

S&P Global UK Composite PMI®

Fastest rise in UK private sector output for nine months



Sources: S&P Global, ONS.

*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.

The seasonally adjusted final S&P Global UK PMI Composite Output Index* registered 53.0 in February, up fractionally from 52.9 in January but lower than the earlier 'flash' reading (53.3). The index has now posted above the neutral 50.0 threshold for four months running. Moreover, the latest reading signalled a solid upturn in private sector output that was the fastest since May 2023.

Service providers continued to outperform the manufacturing sector by a considerable margin. That said, the latest reduction in output levels among manufacturing firms was the slowest for three months.

On the inflation front, latest data indicated the strongest rise in input costs across the UK private sector since August 2023. Inflationary pressures intensified in both the manufacturing and service sectors in February, with the latter again posting a much faster overall rise in business expenses. Similarly, a sharp increase in prices charged by service providers contrasted with only a marginal rise in factory gate prices across the manufacturing sector.

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Survey methodology

The S&P Global 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@spglobal.com.

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi

Flash vs. final data

Flash services data were calculated from 79% 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).