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IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Service sector output growth slumps to ten-month low as Omicron variant slows recovery

Key findings

Worst month for service economy since February 2021

Export sales hard-hit by renewed pandemic restrictions

Service providers remain upbeat about year ahead prospects

Data were collected 6-21 December 2021.

UK service providers highlighted a considerable reversal of fortunes during December as the Omicron variant led to a steep fall in spending on face-to-face consumer services, escalating business uncertainty and disruptions due to staff absences. Business activity growth was the weakest since the rebound from lockdown measures began last spring.

On a more positive note, job creation remained relatively strong, cost pressures eased from November's peak and output growth expectations improved slightly. Around 55% of the survey panel anticipate a rise in activity over the course of 2022, while only 10% forecast a decline.

At 53.6 in December, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index was down sharply from 58.5 in November and the lowest since February. The latest reading was nonetheless comfortably above the neutral 50.0 threshold, which extended the current phase of output expansion to 10 months.

Where growth was reported, survey respondents commented on strong pipelines of work, helped by a sustained recovery in many parts of the UK economy. However, travel, leisure and hospitality businesses overwhelmingly cited a slump in activity due to tighter pandemic restrictions and cancelled events during the festive period.

Mirroring the trend for output volumes, latest data signalled a severe loss of momentum for new orders in December. The rate of expansion was the slowest since the current phase of recovery began in March. Reports from survey respondents indicated that subdued demand for consumer services and a reluctance to spend among businesses in response to

IHS Markit / CIPS UK Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

heightened pandemic uncertainty had negatively influenced sales volumes. Moreover, export orders declined for the first time in six months and at the steepest rate since February, largely due to renewed travel restrictions.

Softer demand conditions meant that strains on business capacity were less marked than in November. This was signalled by the weakest rise in backlogs of work since March. Companies reporting an increase in unfinished business often linked this to staff absences and ongoing supply shortages.

Higher prices for energy, fuel, transport and raw materials led to another sharp increase in average cost burdens in December. Service providers also widely commented on increased staff salaries amid highly competitive labour market conditions. Measured overall, the rate of input price inflation eased from November's record high and was the slowest for three months. Similarly, average prices charged by service sector companies increased rapidly in December but the speed of inflation decelerated for the first time since August.

Strong employment growth was maintained across the service economy at the end of 2021, despite shortages of available candidates and some reports citing the need to cut overheads. Around 26% of the survey panel reported an increase in workforce numbers, compared to only 10% that signalled a decline.

Robust job creation reflected upbeat business activity expectations for the year ahead. The degree of confidence edged up during December and was in line with that seen at the same time in 2020.

Comment

Tim Moore, Economics Director at IHS Markit, which compiles the survey:

"December data revealed a severe loss of momentum for the UK economy as many customer-facing businesses experienced a drop in demand due to escalating COVID-19 cases. Total new orders in the service sector increased at the weakest pace for 10 months. Mass cancellations of bookings in response to the Omicron variant led to a slump in consumer spending on travel, leisure and entertainment. Survey respondents also noted that renewed pandemic restrictions had slowed the recovery in business services.

"Despite concerns that economic growth has weakened as we head into the New Year, service providers signalled strong confidence about the longer-term business outlook. Around 55% of the survey panel anticipate a rise in output during 2022 as a whole, while only 10% expect a decline. The degree of optimism has held steady since the autumn, suggesting that most businesses are forecasting only a temporary hit to demand from the Omicron variant.

"The inflation outlook appeared to improve as input prices increased at the slowest pace for three months. Survey respondents again commented on considerable pressure from energy, fuel and staff costs. Output charge inflation eased only slightly from November's record high, however, as many businesses cited the need to pass on escalating costs to clients over the course of 2022."

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

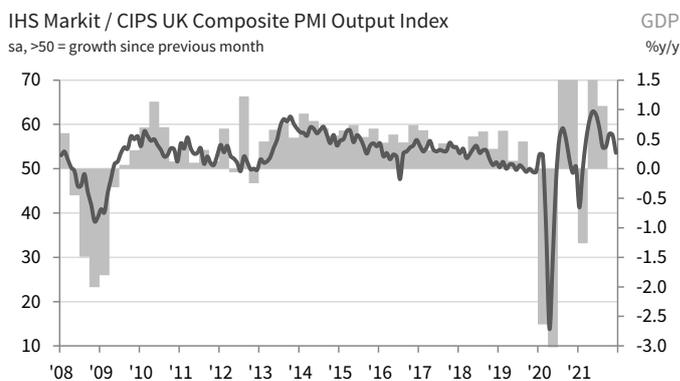
"Uncertainty and volatility in the services sector returned at the end of last year with a sudden drop in demand and overall activity growth was the lowest since February 2021. This not unexpected turn of events was the direct result of increased pandemic restrictions as the number of festive activities were reduced by covid-concerned consumers.

"Ongoing Brexit customs delays and supply shortages also added to depressed activity in the sector. Exports orders were also affected by reduced international travel with sales falling for the first time since June 2021. However, this did not deter businesses from strong levels of job creation and retaining hard-won staff in a challenging hiring environment. Service providers anticipate a short pause for the recovery and optimism remained strong with the expectation that customers would return in higher numbers in the coming months.

"The subtle easing in inflationary pressure to a three month low was also welcomed by service providers struggling to retain margins but prices charged remained near the survey record. With the Bank of England's consumer price inflation forecast predicted to hit 6% in April, a thirty-year high, prices charged to consumers by service providers may have to be held in check to tempt those customers back and the effects of the new IHU variant come over the horizon with more potential disruption."

IHS Markit / CIPS UK Composite PMI®

Weakest rise in private sector output since the recovery began in March



December data signalled a marked slowdown in UK private sector growth as weaker momentum in the service economy more than offset a quicker pace of recovery among manufacturing companies.

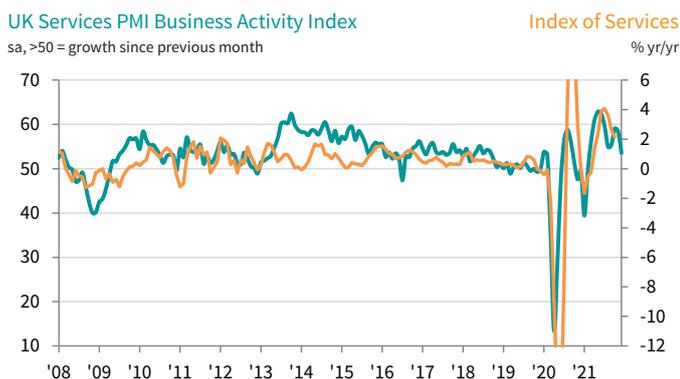
At 53.6, down from 57.6 in November, the seasonally adjusted UK Composite Output Index registered above the 50.0 neutral threshold for the tenth month running. However, the latest reading signalled the weakest pace of expansion since the current phase of growth began in March. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

For the first time since May, service sector growth (index 53.6 in December, down from 58.5 in November) failed to outpace that seen among manufacturing companies (index at 53.6 in December, up from 52.7). The latest rise in manufacturing production was the fastest since August.

UK private sector companies indicated another steep increase in their average cost burdens in December, but the rate of inflation eased from November's record high. Manufacturers and service providers alike saw the least marked rise in operating expenses for three months.

Softer cost pressures resulted in a slowdown in output charge inflation across the private sector for the first time since August.

*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: IHS Markit, CIPS, ONS.

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Survey methodology

The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit 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.

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.

Survey dates and history

Data were collected 6-21 December 2021.

Survey data were first collected July 1996.

Flash vs. final data

Flash data were calculated from approximately 73% 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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