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Service economy returns to growth in March, spurred by sharp rise in new orders ahead of lockdown easing

KEY FINDINGS

Strong increases in output and incoming new work

Employment rises for first time since the pandemic began

Input price inflation accelerates to its highest for 33 months

March data were collected 12-29 March 2021.

UK service providers reported a strong rebound in business conditions during March, with activity, new orders and employment all picking up since the previous month. Renewed job creation in March represented the first overall expansion of staffing numbers across the service sector since the start of the coronavirus disease 2019 (COVID-19) pandemic.

The forthcoming easing of government stringency measures also contributed to another improvement in business expectations for the year ahead. Around 66% of the survey panel forecast an increase in activity over this period, while only 8% predict a fall. This signalled the strongest optimism since December 2006.

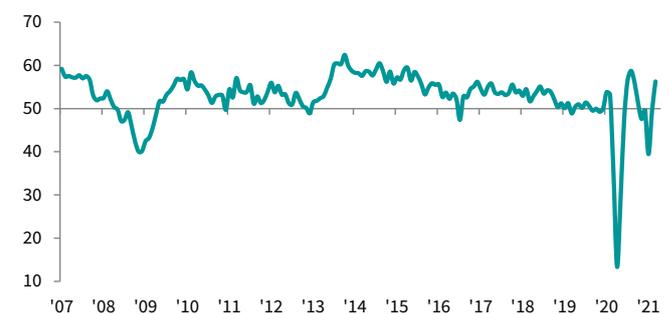
At 56.3 in March, up sharply from 49.5 in February, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index posted above the 50.0 no-change level for the first time since October 2020. Moreover, the latest reading signalled the fastest rate of output expansion for seven months.

Rising levels of activity were linked to a recovery in business and consumer spending, while some parts of the service economy commented on a boost from higher residential property transactions during March. Survey respondents often commented on pent up demand and work on projects that had been delayed at an earlier stage of the pandemic.

Stronger client demand and forward bookings ahead of easing lockdown measures contributed to an increase in total new work for the first time in six months. The rate of new

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

business expansion was the fastest since last August, despite a sustained reduction in export sales. Subdued orders from abroad were typically attributed to either international travel restrictions or Brexit issues with sales to EU customers. Where growth was reported, service providers mostly commented on rising demand from clients in Asia and the US.

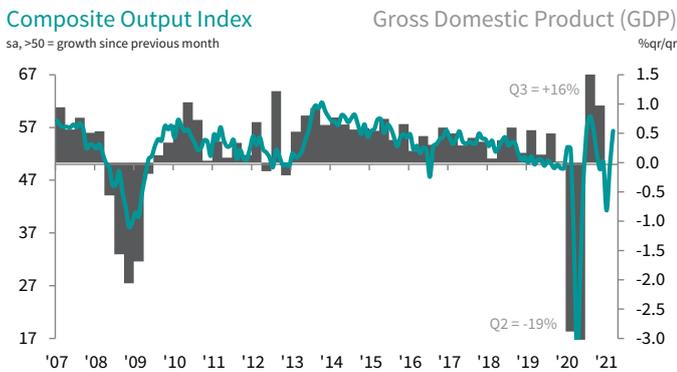
The sharp increase in new work recorded during March led to renewed pressure on business capacity. This was signalled by an accumulation of backlogs across the service sector for the first time since September 2020. Forward bookings and improving confidence about the business outlook encouraged staff hiring in March. Although only modest, the rate of job creation was the fastest since June 2019.

Meanwhile, the latest survey indicated a steep and accelerated increase in average cost burdens at service sector companies. The overall rate of input price inflation was the highest for nearly three years. Greater operating expenses were attributed to higher prices for a range of purchases, especially fuel, transportation and imported materials. As a result, prices charged by service providers rose at the sharpest pace since November 2017.

March data pointed to an improvement in business expectations for the fifth consecutive month. Optimism about growth prospects for the year ahead were overwhelmingly linked to the roadmap for looser pandemic restrictions and confidence about recovery prospects due to the successful UK vaccine rollout.

IHS MARKIT UK COMPOSITE PMI®

Fastest rise in UK private sector output since September 2020



Sources: IHS Markit, ONS.

March data pointed to a renewed increase in business activity across the UK private sector as a whole, reflecting robust rises in manufacturing production and service sector output.

The seasonally adjusted UK Composite Output Index registered 56.4, up from 49.6 in February and above the neutral 50.0 threshold for the first time in 2021 to date. Moreover, the latest reading signalled the strongest rate of output growth for six months. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Manufacturing production (index at 56.6) picked up at a fractionally sharper pace than service activity during March (56.3). In both sectors, higher levels of output were supported by strong new business growth and additional staff hiring. Latest data indicated the greatest increase in private sector employment since February 2018.

Strong cost pressures continued in March, led by a rapid rise in purchasing prices across the manufacturing sector. Measured overall, input cost inflation across the UK private sector economy was the fastest for just over four years. Higher operating expenses were often passed on to clients in March, with average prices charged increasing at the strongest rate since November 2017.

*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.

COMMENT

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

"UK service providers were back in expansion mode in March as confidence in the roadmap for easing lockdown restrictions provided a strong uplift to new orders. Total business activity increased at the fastest rate since August 2020 and this return to growth ended a four-month sequence of decline."

"Forward bookings for consumer services and rising optimism about recovery prospects resulted in extra staff hiring across the service economy for the first time since the start of the pandemic. Business optimism improved for the fifth month running in March and was the highest since December 2006."

"Around two-thirds of the survey panel forecast an increase in output during the year ahead, which reflected signs of pent up demand and a boost to growth projections from the successful UK vaccine rollout. Of the small minority citing downbeat expectations in March, this was often linked to uncertainty about international travel restrictions."

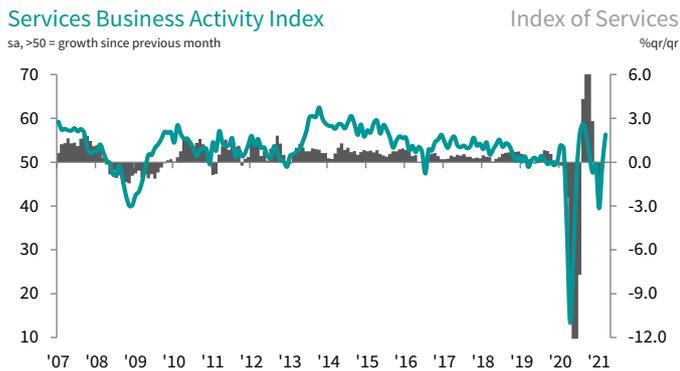
"There were further signs that strong cost pressures have spilled over from manufacturers to the service economy, especially for imported items. Higher prices paid for raw materials, alongside rising transport costs and utility bills, meant that operating expenses across the service sector increased at the strongest rate since June 2018."

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

"The dominant service sector moved up several gears into growth with a strong leap in overall output, topped off with a rise in job creation for the first time since the pandemic began at the beginning of 2020."

"Projects in suspension were re-started along with robust plans for future business as new orders rose at the strongest rate since August despite a marginal drop in exports which have remained stubbornly sluggish in recent months. The survey also offered more positive news in the form of the strongest business optimism since December 2006, though this has to be viewed in the context of many firms starting from a very low base given the devastation the service sector has suffered."

"However, regardless of whether the sector's glass is now half empty or half full, the acceleration in input price inflation to its highest in nearly three years is a worry. As prices charged also rose at a sharper rate, it appears that consumers are set to mop up additional costs for fuel, shipping and raw materials as services recoup some of their losses. Businesses will have to find the right balance between protecting margins and sustaining their operations in an increasingly competitive marketplace when consumer choice returns in abundance, otherwise this big spring step forward will take a few steps back."



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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.

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.

March data were collected 12-29 March 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

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