

News Release

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S&P Global / CIPS UK Services PMI®

New order growth slows amid record cost pressures

Key findings

Input cost inflation hits fresh record high

Activity and new business continue to rise, but at reduced rates

Business confidence lowest in a year-and-a-half

Although the UK service sector remained firmly inside growth territory during April, there were signs that sustained increases in the cost of doing business and the war in Ukraine combined to limit the pace of expansion at the start of the second quarter. In particular, new business growth slowed sharply and was the weakest in the year-to-date. Meanwhile, business confidence dropped to the lowest for a year-and-a-half.

The evidence around the extent of inflationary pressures was stark. Input costs rose to the greatest extent in close to 26 years of data collection, with energy, fuel and wages all widely reported as being up in price over the month. In turn, companies raised their own charges at a pace that was only fractionally below March's record.

The headline seasonally adjusted S&P Global / CIPS UK Services PMI® Business Activity Index posted 58.9 in April, signalling another marked monthly expansion in activity and extending the current sequence of growth to 14 months in the process. That said, the reading was down from 62.6 in March and pointed to the softest rise in activity since January.

Anecdotal evidence suggested that companies continued to benefit from the lifting of COVID-19 related restrictions, with a number of firms highlighting the positive impact of freer international travel. That said, strong inflationary pressures and the war in Ukraine reportedly limited the pace of expansion.

These twin factors had an even more pronounced impact on new order growth in April, with the rate of expansion slowing sharply to the weakest in 2022 so far. Meanwhile, new business from abroad was broadly unchanged for the second month running. While a recovery in international travel reportedly helped some companies to secure greater volumes of new export orders, continued uncertainty acted to hinder efforts to secure new business from foreign customers.

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



Source: S&P Global, CIPS.
Data were collected 11-27 April 2022.

Service providers posted an unprecedented increase in their input costs at the start of the second quarter, with prices rising to the greatest extent since the survey began in July 1996. There were widespread reports from panellists of increased fuel costs, with higher energy charges and wages also key contributors to rising cost burdens. More than two-thirds of respondents noted a rise in input prices over the month.

In turn, companies continued to increase their charges at a rapid pace, with the rate of inflation only fractionally softer than March's series record.

Despite facing substantial cost pressures, service providers continued to expand their staffing levels sharply in response to rising new business volumes. Employment increased for the fourteenth month running, albeit at a slightly slower pace. A combination of this increase in capacity and slower new order growth meant that companies were able to keep backlogs of work broadly stable during April, following 13 months of accumulating outstanding business. That said, there were still some reports that staff shortages and difficulties securing materials led to delays completing projects.

The issues of rising living costs and the war in Ukraine dented confidence at the start of the second quarter, with sentiment dropping to the lowest in a year-and-a-half. That said, expectations remained positive overall as firms generally anticipate the post-COVID recovery to continue over the coming year.

Comment

Andrew Harker, Economics Director at S&P Global, which compiles the survey:

"The twin headwinds of the cost of living crisis and the war in Ukraine started to bite on the UK service sector during April, as evidenced by a sharp slowdown in new order growth to the lowest in the year so far. Worryingly, companies seem to be expecting impacts to be prolonged, with business confidence dropping to the lowest in a year-and-a-half."

"Indeed, cost pressures show little sign of abating, with inflation even accelerating in April to the strongest in almost 26 years of data collection. The feeding through of these cost pressures to charges for customers means that the spell of rapid inflation clearly has further to run."

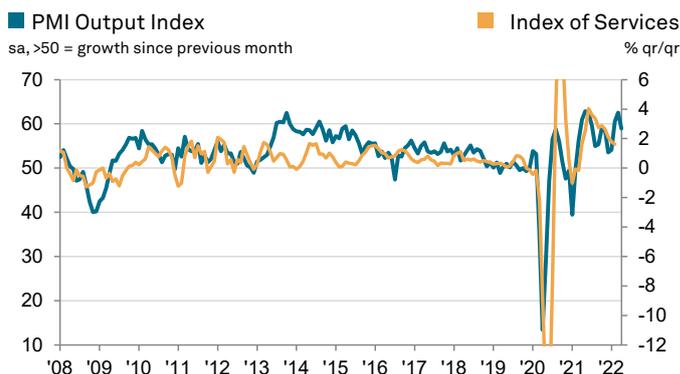
"While the aforementioned headwinds are of concern, companies were still able to generate growth of activity and new work as the sector continued to benefit from the relaxation of COVID-19 measures and in particular the easing of travel rules. Firms will be hoping that these benefits are not completely drowned out by the hit to demand from the cost of living crisis in particular."

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

"Though the headline index remained in growth territory, the services sector is showing signs of going off the boil as the drip drip effects of the highest prices for 26 years impacted on orders and business mood."

"New contract wins rose at the slowest pace so far this year as fears about the economy started to paralyse customer confidence, and service providers reported the lowest optimism since 2020 at the height of the pandemic."

"The invasion of Ukraine exacerbated the problem of disruption and cost increases, with driver shortages, clean access to borders and higher wages and energy hikes adding to these obstacles. Businesses were forced to pass on costs to consumers at a similar rate potentially reducing the pool of demand for hospitality and services in the coming months."



UK Services PMI Employment Index



UK Services PMI Input Prices Index



S&P Global / CIPS UK Composite PMI®

New order growth at four-month low amid record cost pressures

The seasonally adjusted S&P Global / CIPS UK Composite PMI Output Index* dipped to 58.2 in April from 60.9 in March. The rate of growth remained sharp, but eased to a three-month low. Although the rate of expansion in services activity softened at the start of the second quarter, it remained much faster than that seen for manufacturing production.

Similarly, new order growth was the softest in the year-to-date as services new business rose at a much weaker pace. The slowdown reflected intense cost pressures and the war in Ukraine.

In fact, input costs rose at the fastest pace in the history of the series which stretches back more than 24 years. Accordingly, output charges also increased at a record pace. Strong inflation was seen across both sectors, but was more pronounced in manufacturing.

Companies continued to expand staffing levels rapidly in April, albeit at a softer pace. Meanwhile, business confidence dropped to the lowest in a year-and-a-half.

*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 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.

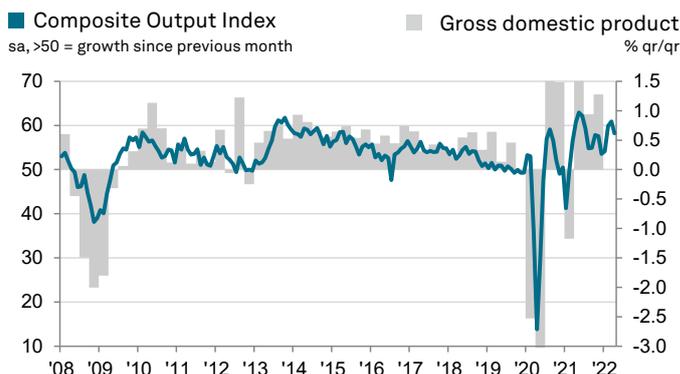
Flash vs. final data

Flash services data were calculated from 75% 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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