

UK Services Business Activity Index





Sharper increases in activity and new orders as Omicron wave fades

Output price inflation hits fresh record

Fastest rise in employment in four months

Growth in the UK service sector accelerated sharply in February as the Omicron wave of the COVID-19 pandemic subsided. Rates of expansion in both business activity and new orders accelerated sharply, supporting stronger job creation.

Inflationary pressures also intensified, however. A range of inputs were up in cost, and the passing on of higher prices to customers led to the sharpest pace of charge inflation on record.

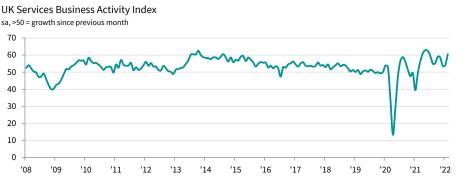
The headline seasonally adjusted IHS Markit/CIPS UK Services PMI[®] Business Activity Index rose sharply to 60.5 in February from 54.1 in January, signalling a steep rise in output that was the fastest since June last year.

Respondents indicated that market demand and client confidence improved alongside the reduction in pandemicrelated disruption, thereby supporting growth of activity. Similarly, new business increased at a much faster pace amid an easing of pandemic restrictions, and one that was the most marked in eight months.

The improved pandemic situation supported demand both domestically and internationally in February. New export orders rose for the second month running, and at a solid pace that was the joint-fastest since this question was added to the survey in September 2014. There were widespread reports of improvements in demand in the US, while higher new orders from European clients were also mentioned.

Rising workloads and the prospect of further growth in the months ahead led service providers to expand their staffing levels, extending the current sequence of job creation to a year. The latest rise in employment was the fastest since October last year.

continued...



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Contents

Overview

Comment

Activity and demand

Business expectations

Employment and capacity

Supplier performance

Prices

Purchased goods and services

Services sub-sectors

UK Composite PMI

International PMI

Survey methodology

Further information

Overview continued...

Although jobs growth was strong in February, there were still reports of difficulties securing staff. Added to this, material shortages and the strength of the expansion in new work led to a further accumulation of outstanding business. Moreover, the rise was the fastest in seven months.

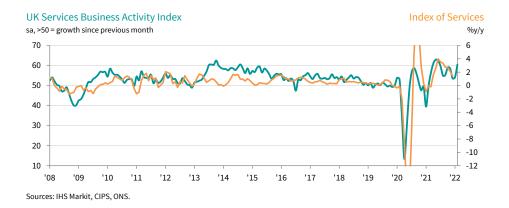
Input costs increased substantially in February, with the rate of inflation the second-fastest in more than a quarter of a century of data collection, second only to that seen in November last year. Respondents highlighted a range of inputs as having increased in cost, with salaries, fuel and utilities most widely mentioned. Food and other material costs were also reportedly higher amid supply shortages.

Service providers often passed through higher input costs to their customers by

way of increased charges. As a result, the rate of output price inflation hit a fresh record high for the second month running in February, with around one-third of respondents raising their selling prices during the month.

Strong optimism in the ability of the sector to recover over the course of 2022 was maintained in February amid expectations of improving client confidence as the pandemic recedes. Business investment plans are also set to support growth. Although sentiment ticked down from that seen in January, it remained above the series average.

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Comment

Andrew Harker, Economics Director at IHS Markit, which compiles the survey:

"The ebbing of the Omicron wave of the COVID-19 pandemic contributed to a rebound in growth in the UK service sector in February, with rates of expansion in activity and new business up sharply. With manufacturing also seeing growth quicken, the UK economy looks to have been expanding sharply midway through the first quarter of the year.

"Inflationary pressures remained acute, however, with selling prices rising at a fresh record pace for the second month running. This pass-through of costs to customers will very likely prompt the Bank of England to hike interest rates again at the next MPC meeting in March.

"Although the latest set of PMI data were encouraging, the inflationary picture still has the potential to limit growth, while it remains to be seen what impact the Russian invasion of Ukraine will have on the service sector and wider economy. As such, there are still downside risks even as disruption from the pandemic finally appears to be fading."

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

"A bullish rise in growth and momentum in the services sector in February as activity increased at the fastest rate for eight months. There was also a most encouraging uplift in job creation figures even if the search for quality candidates remained hampered, it reflected the positive feelings amongst businesses about the year ahead and potential market expansion.

"With these improved economic conditions, the rate of new business orders was one of the quickest in the survey's history and a surprise leap in both domestic and overseas orders set the seal for the trend to continue especially in hospitality and travel.

"However, with the evolving geopolitical situation, companies may struggle to keep on top of this current momentum. If sourcing becomes disrupted and prices rise again to add to this month's near-record inflation, businesses may be back to square one and unable to pass on their higher costs to consumers who faced the strongest rise in prices in a generation this month."

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Activity and demand

Business activity

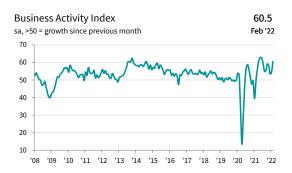
UK service providers registered a rebound in growth of business activity in February as the wave of the Omicron variant of the COVID-19 pandemic eased. Activity was up sharply and at the fastest pace since June last year. Alongside the improving pandemic situation, firms also linked higher activity to stronger market demand.

New business

In line with the picture for business activity, services companies also signalled a sharper increase in new orders during February. The rate of growth accelerated for the second month running and was among the fastest on record. A relaxation of COVID-19 restrictions helped to support demand, which reportedly improved among both domestic and international customers.

New export business

New export orders rose solidly midway through the first quarter, with the rate of growth the joint-sharpest since this question was added to the survey in September 2014. Improvements in demand in the US were widely reported, while companies were also able to secure new business from European clients.



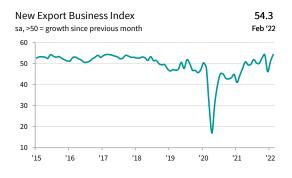
New Business Index





61.5

Feb '22



Business expectations



The prospect of improvements in customer confidence as the pandemic recedes and a subsequent recovery across the sector supported optimism in the year-ahead outlook for activity. Although ticking down from the previous month, sentiment remained above the series average. A number of respondents also projected that business investment plans would support growth.







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Employment and capacity

Employment

February data signalled a sharp increase in employment in the UK service sector as companies responded to rising workloads and confidence in the outlook by expanding their staffing levels. Workforce numbers have now increased on a monthly basis throughout the past year, with the latest expansion the most marked since last October.

That said, there were still some mentions from panellists of challenges sourcing additional staff.

Outstanding business

Shortages of staff, material supply issues and strong rises in workloads all combined to lead to a further increase in outstanding business in February. The rate of accumulation was marked, hit a seven-month high and was one of the sharpest on record.

Supplier performance

Service providers indicated that the performance of their suppliers deteriorated again in February, as has been the case in each of the four months since this question was added to the survey. Staff shortages at suppliers, material supply issues and shipping delays all contributed to worsening performance. That said, the latest deterioration was the least marked to-date.















Prices

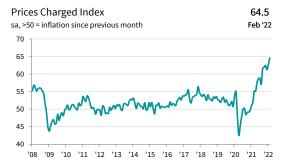
Input prices

The rate of input cost inflation accelerated to a three-month high midway through the first quarter and was the second-fastest in more than a quarter of a century of data collection. Around 63% of respondents signalled an increase in their input prices in February. A wide range of factors acted to push up input costs, most notably higher salaries and fuel prices. Rising costs for utilities, food and materials amid shortages were also mentioned.

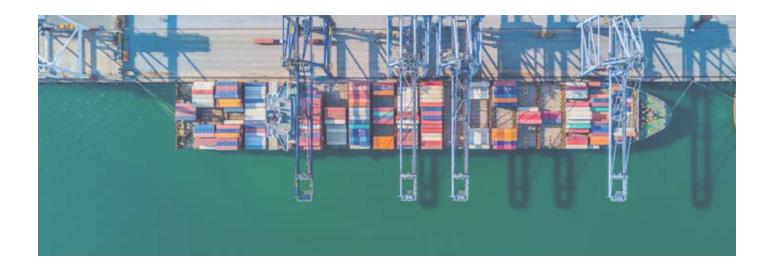
Prices charged

Higher input costs were often passed through to customers in February, resulting in a further substantial increase in selling prices in the service sector. Furthermore, the rate of inflation hit a fresh record high for the second month running as around one-third of respondents signalled an increase over the course of the month.





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Purchased goods and services

Textiles/Fabrics

The following lists show bought-in goods and services reported as being up in price, down in price or in short supply during the latest survey period. Items may be listed as having both risen and fallen in price. This may reflect alternative supply sources (e.g. domestic versus imported), or differences in unit prices due to differing volumes ordered. The lists also show the reporting sector for each item, according to Standard Industry Classification codes (SIC) codes.

SIC codes

- 55 Hotels & Restaurants
- 60 Land Transport and Pipelines
- 61 Water Transport
- 62 Air Transport
- 63 Supporting Transport Activities
- 64 Post and Telecommunications
- 65 Banking
- 66 Insurance and Pensions
- 67 Other Financial Services
- 70 Real Estate
- 71 Renting of Goods

SIC

- 72 Computer Services
- 73 Research and Development 74 Other Business Activities
- 93 Other Service Activities

60

- 80 Education
- 85 Health Care
- 91 Membership Organisations
- 92 Recreational, Cultural and Sporting Activities

Electronics

Equipment with Microchip 66

Up in price

Metals	SIC
Base Metal	70
Metals Stainless Steel	60, 74 61
	5, 61, 71, 74
Metal Manufacture	s SIC
Aluminium Trims	74
Cast Metal Parts Metal Products	60 63
Radiators	74
Steel Trims Wire Items	74 74
Electrical/Electron	
	5, 70, 72, 74
Data Cables	64, 72
Electronic Compon	ents 72, 74, 92
Electronics	60
Hardware	72
Information Techno	6, 72, 74, 92
IT Network Hardwa	re 72
Light Emitting Diod Oscillators	es 63 74
Semiconductors	72
Software	65, 74
Sound Systems	92 SIC
Chemicals Alcohols	92
Beer	55
Building Adhesives	74
Chemicals Lubricating Oils	60, 70, 74 71
Medicines	70
Oleochemicals	74
Plastics	SIC
Decoupling Membra Mastics	anes 74
Mastics Plastic	anes 74 71 74, 92
Mastics Plastic Plastic Cups	anes 74 71 74,92 71
Mastics Plastic	anes 74 71 74, 92
Mastics Plastic Plastic Cups Plastic Trims	anes 74 71 74, 92 71 74 74
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Mastics Plastic Cups Plastic Cups Plastic Trims RPET Silicone based proce Paper/Timber Cardboard Cartons Pallets Paper 65, 70, 7 Pulp Stationery Timber Wood Packaging 50 Tape Rubber	anes 74 74,92 74,92 74 92 63 74 1,72,74,92 63 74 1,72,74,92 55 5,63,74,92 63 SIC 5,63,74,92 63

Carpets S Food S Beef Beverage Beverage S5, Chocolate Coffee Flowers Food Food 55, 74, 80, 85, Freish Food Freish Fruit Meat Milk Pig Feed Soft Drinks Spirits Vegetables Vater Usesel 55, 60, 63, 65, 70, 74, 85, Electricity 55, 60, 63, 64, 66, 70, 74, 85, Fuel 55, 60, 63, 64, 66, 70, 74, 85, Fuel 55, 60, 63, 64, 66, 70, 74, 85, 90, Gas 55, 63, 67, 74, 85, 91, Heating Oil 60, Petrol 74, 85, 90,
Beef Beverage 55, Champagne 55, Chocolate Coffee Flowers Food 55, 74, 80, 85, Fresh Food Fruit Mata Milk Pig Feed Soft Drinks Soft Drinks Spirits Vegetables Water 55, 60, 63, 67, 74, 85, 92, Diesel 55, 60, 63, 65, 70, 74, 95, Energy S Diesel 55, 60, 63, 67, 74, 85, Fuel 55, 63, 67, 74, 85, 91, Heating Oil 60, Oil 60, 74, 74, 85, 91,
Beverage 55, Champagne Chocolate Coffee Flowers 55, 74, 80, 85, Fresh Food 55, 74, 80, 85, Fresh Food Fruit Meat Meat Milk 91 Pig Feed Soft Drinks Spirits Vegetables 95, 60, 613, 65, 70, 74, 85, Water 55, 60, 63, 65, 70, 74, 85, Energy 55, 60, 63, 64, 66, 70, 74, 85, 90, 74, 85, 90, 74, 85, 91, Heating Oil 06, Petrol 74,
Food 55, 74, 80, 85, Fresh Food Fresh Food Fresh Food Fruit Meat Milk Pig Feed Soft Drinks Soft Drinks Spirits Vegetables Water 55, 74, 40, 40, 40, 40, 40, 40, 40, 40, 40, 4
Wine S Energy S Diesel 55, 60, 60, 61, 65, 70, 74, 85, Energy 55, 60, 63, 65, 70, 74, 85, 91, Fuel 55, 60, 63, 64, 66, 70, 74, 85, 90, 63, 65, 63, 67, 74, 85, 91, Heating Oil Gas 55, 63, 67, 74, 85, 91, Heating Oil 60, 92, 94, 96, 96, 96, 96, 96, 96, 96, 96, 96, 96
Diesel 55, 60, Electricity 55, 63, 67, 74, 85, Energy55, 60, 63, 65, 70, 74, 85, Fuel 55, 60, 63, 64, 66, 70, 74, 85, 90, Gas 55, 63, 67, 74, 85, 91, Heating Oil 60, Oil 60, Petrol 74,
Diesel 55, 60, Electricity 55, 63, 67, 74, 85, Energy55, 60, 63, 65, 70, 74, 85, Fuel 55, 60, 63, 64, 66, 70, 74, 85, 90, Gas 55, 63, 67, 74, 85, 91, Heating Oil 60, Oil 60, Petrol 74,
Fuel 55, 60, 63, 64, 66, 70, 7 74, 85, 90, 74, 85, 90, Gas 55, 63, 67, 74, 85, 91, Heating Oil 60, Oil 60, Petrol 74, 4,
Oil 60, Petrol 74,
Power 55.
Road Fuel
Miscellaneous S
Accommodation Advertising 70, Agency Labour 63, Bags
Bank Charges 65, Building Materials55, 70, 74, Building Product 65,
Building Product 65, Capital Equipment 60, Car Servicing
Cars Catering Equipment Catering Supplies 74, 80,
Ceramic Tile Cleaning Products 55,
Commodities 70, Components 63, 70, 72, Computer Consumables
Construction Products
Consultancy 66, 70, Consumables 65, 74, Contract Labour 60, 64, 70, 7
Contracted services 60, Cosmetics Courier Delivery Services
Crockery Crystals
Direct Marketing 74, Disposable items

Drainage Products	55
Driver Wages	74
Engineering Parts	71
Far East Imports	72
Fashion Goods	63
Ferry costs	63
Fertilizer	70
	63
Flights Furniture	63
Glassware	55
Groceries	63
	93
Hairdressing Products	
Haulage	60
Heaters	74 60
HGV Vehicles	
Household Items	63
Imported Goods 55,	
Income Protection Insura	
	74
	70, 74
Insurance 64, 66, 74,	
	74,91
	65, 74
Janitorial Products	71
Laundry	55
Liability Insurance	67
Licensed Products	74
	60, 92
Maintenance 55, 63,	
Manufactured Parts	60
Materials	70
Membership Subscription	
Office Equipment	74
Office Rent	74
Offshore Outsourcing	66
Operating Expenses	66 74
Operating Expenses Overheads	66 74 63, 91
Operating Expenses Overheads Parking	66 74 63, 91 74
Operating Expenses Overheads Parking Parts	66 74 63, 91 74 92
Operating Expenses Overheads Parking Parts Plants	66 74 63, 91 74 92 55
Operating Expenses Overheads Parking Parts Plants Postage	66 74 63, 91 74 92 55 74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink	66 74 63, 91 74 92 55 74 74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Printing Plates	66 74 63, 91 74 92 55 74 74 74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Printing Plates Professional Fees	66 74 63, 91 74 92 55 74 74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity	66 74 63,91 74 92 55 74 74 74 74 70
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Fees Professional Indemnity Insurance	66 74 63,91 74 92 55 74 74 74 74 70 74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector	66 74 63,91 74 92 55 74 74 74 70 74 92
Operating Expenses Overheads Parking Parks Plants Postage Print Ink Printing Plates Professional Indemnity Insurance Profector Property Maintenance	66 74 63,91 74 92 55 74 74 74 70 74 92 55
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71,	66 74 63,91 74 92 55 74 74 74 70 74 92 55 72,74
Operating Expenses Overheads Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment	66 74 63,91 74 92 55 74 74 74 70 74 92 55 72,74 70
Operating Expenses Overheads Parking Parks Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs	66 74 63,91 74 92 55 74 74 74 74 70 72,74 70 63,85
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Print Ink Print Ink Print Ink Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property	66 74 63,91 74 92 55 74 74 74 74 70 74 92 55 72,74 70 63,85 65
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Indemnty Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries 63,	66 74 63,91 74 92 55 74 74 74 74 70 74 92 55 72,74 70 63,85 65,74
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Printing Plates Professional Frees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries 63, Security Services	66 74 63,91 74 92 55 74 74 74 74 70 74 92 55 72,74 63,85 65 66,74 55
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Printing Plates Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries 63, Security Services Services 65,	66 74 74 63, 91 74 92 55 74 74 74 70 74 92 55 75 74, 70 63, 85 66, 74 55 74, 92
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries 63, Security Services 65, Software Developers	66 74 63, 91 74 92 55 74 74 74 74 74 70 74 75 55 72, 74 70 63, 85 65 66, 74 55 74, 92 72, 74 70 74 72 72 72 72
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Security Services Services Services Services Software Developers Software Licences	66 74 63, 91 74 92 55 74 74 74 74 70 74 92 55 72, 74 70 74 92 55 75, 74 74 92 55 76, 74 74 92 55 55 74 74 74 74 74 74 74 74 74 74 74 74 74
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries 63, Security Services Software Licences Staff 60, 63, 70,	66 74 63, 91 74 92 55 74 74 74 74 70 74 92 55 75 74 74 92 55 75 74 74 92 55 76 74 74 72 72 74 72 74
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Residential Property Salaries Services Software Developers Software Developers Software Licences Staff 60, 63, 70, Stone	66 74 63,91 92 55 74 74 74 70 70 74 92 55 72,74 70 63,85 66,74 72,74 72,74 72,74
Operating Expenses Overheads Parking Parking Parts Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Salaries Salaries Security Services Services Software Developers Software Licences Staff 60, 63, 70, Stone	66 74 63, 91 74 92 55 74 74 74 74 70 74 92 55 72, 74 70 63, 85 65 66, 74 72 72, 74 74 92 55 72, 74 70 74 92 55 72, 74 70 74 72 72 72 74 72 72 74 74 72 72 72 72 74 74 72 74 74 74 74 74 74 74 74 74 74 74 74 74
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Operating Expenses Overheads Parking Parking Parking Parts Plants Postage Print Ink Print Ink Printing Plates Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Security Services Software Developers Software Developers Software Developers Software Go, 63, 70, Staff Support Services Support Services Technical Books	66 74 63,91 74 92 55 55 74 74 74 74 72,74 70 74 92 55 55 72,74 70 63,85 66,74 92 72,74 72,74 72,74 72,74 72,74
Operating Expenses Overheads Parking Parking Parking Parking Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Salaries Salaries Salaries Salaries Salaries Salaries Salaries Salaries Salaries Software Developers Staff 60, 63, 70, Stone Subcontractors Supcont Services Technical Beoks	66 74 63, 91 74 92 55 55 74 74 74 74 70 74 92 55 55 75, 74 70 63, 85 66, 74 92 72, 74 70 63, 85 55 55 74, 92 72, 74 72, 74 74 72, 74 74 72, 74 74 74 70 74 74 70 74 74 74 74 74 74 74 74 74 74 74 74 74
Operating Expenses Overheads Parking Parking Parks Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Security Services Services Services Software Developers Software Dievenes Staff 60, 63, 70, Stone Subcontractors Support Services Technical Books Technical Books Technical Books	66 74 3, 91 74 92 55 55 72, 74 74 74 70 74 92 55 72, 74 74 70 74 92 55 72, 74 74 72 72 74 72 74 72 74 74 72 72 74 74 72 74 74 72 74 74 74 74 74 74 74 74 74 74 74 74 74
Operating Expenses Overheads Parking Parking Parking Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Software Developers Software Licences Staff 60, 63, 70, Stone Subcontractors Support Services Technical Books Technical Services Temporary Staff Trades	66 74 74 92 55 74 74 74 74 70 74 72 55 72,74 74 72,74 74,92 72 74,92 72 74,92 72,74 74,72 74,92 72,74 74,72 72,74 74,72 72,74 74,72 72,74 74,92 72,74 74,92 72,74 74,92 72,74 74,74
Operating Expenses Overheads Parking Parking Parks Plants Postage Print Ink Printing Plates Professional Fees Professional Indemnity Insurance Projector Property Maintenance Raw Materials 55, 70, 71, Recruitment Repairs Residential Property Salaries Security Services Services Services Software Developers Software Dievenes Staff 60, 63, 70, Stone Subcontractors Support Services Technical Books Technical Books Technical Books	66 74 74 92 55 74 74 74 74 70 74 72 55 72,74 74 72,74 74,92 72 74,92 72 74,92 72,74 74,72 74,92 72,74 74,72 72,74 74,72 72,74 74,72 72,74 74,92 72,74 74,92 72,74 74,92 72,74 74,74

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Down in price	
Metals	SIC
Mild Steel	74
Chemicals	SIC
Explosives Polyphenyl Ether	74 60, 74

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Explosives Polyphenyl Ether	74 60, 74
Plastics	SIC
Disposable Latex Gloves	71
Paper/Timber	SIC
Timber	74
Energy	SIC
Fuel	74
Miscellaneous	SIC
Air Fares Air Freight Entertainment Expenses Haulage Lateral Flow Tests	66 63 74 63 60
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74 74

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Rent

Travel

In short supply

Metals	SIC
Aluminium High Carbon Steel Metals Steel	63 74 74 70, 71
Metal Manufactures	SIC
Aircraft Bolts Drive Fasteners Fixings Lawn mowers Light Commercial Vehicl New Fleet Vehicles Reinforcing Steel Screws Steel Products	60 71 60 71 74 71 65 60 74 71 74
Electrical/Electronic	SIC
Barcode Scanners Circuit Boards Computer Hardware Computer Servers Electrical Cable Electronic Components	72 60 65, 67, 72,74 65 74 61 72

Equipment with Microchi Hardware Information Technology (72
66, 7 Light Emitting Diodes Memory Chips Microchips Microcomputers Oscillators Printed Circuit Boards Semiconductors Two-way Radios Xenon Projector Lamps	72, 92 63 65 72 74 74 74 74 72 64 92
Chemicals	SIC
Agricultural Chemicals Chemicals 6 High Density Polyurethan Foam (HDPF) Oleochemicals	70 53, 74 e 74 74
Plastics	SIC
EVA Plastic Plastic Bottles Silicone	74 72 55 63
Paper/Timber	SIC
Card Paper 55, 74, 9 Paper Products Stationery Timber Tree Stock Wood	55 74 74 74 74 63 70
Packaging	SIC
Cartons Packaging (Cardboard) Shipping Containers Tape	63 55 74 63
Rubber	SIC
Foam rubber Tyres	63 71
Textiles/Fabrics	SIC
Imported Linens Towels	93 93
Food	SIC
Alcoholic beverages Beverage Bread Chips Chocolate Flour Food Frozen Fruit Fruit Pastry Spirits Vegetables	92 55 55 74 55 55 55 55 92 55 55 92

Miscellaneous SIC Accommodation 63 Bookkeeper 74 Building Materials55, 60, 74, 92 Building Product 65, 71 Cars 65, 70 Carsing Supplies 92 Carsing Supplies 92 Cement 71 Ceramic Tile 74 Commercial Vehicles 65 Commodities 55 Commodities 55 Commodities 74 Contract Labour 55, 60, 74 Contract Labour 60 Fabrication Work 74 Door 70 Equipment 60 Gass 70 Grussias 70 Glassware 55 Got 61 Glassware 52 Parts 60 Manufactured Parts 70 Nail Products 93 Overseas Imports 52 Parts 60 Showroon Staff 74		
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Vehicles 63, 70, 71, 74 Wages 74	Vans	63,71 ts 55,
		71, 74
		60, 74



SIC 61

55

Energy

Electricity Oil

Services sub-sectors: Three-month moving average

Hotels, restaurants & catering



Transport & communication

60

55

50

45



Business Activity Index

Sep '21 - Feb '22



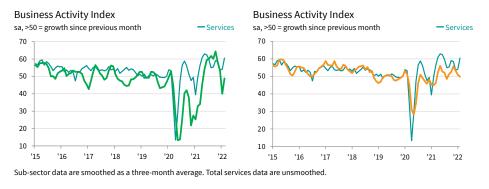


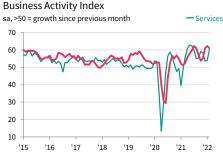
The Hotels, Restaurants & Catering sector saw a recovery of business activity in the latest survey period, meaning that the three months to February saw only a modest fall following a substantial contraction at the start of the year. Meanwhile, new orders returned to growth.

Price pressures in the sector were substantial, and comfortably outpaced those seen in the other categories covered by the survey. Business activity in the Transport & Communication sector ticked down in the three months to February, thereby ending a five-survey sequence of expansion. New orders also fell, but employment continued to increase.

On the price front, the rate of input cost inflation was sharp despite easing, while charge inflation also softened but remained elevated. Continuing the trend from recent months, the Computing & IT services sector posted the sharpest expansion in activity in the latest survey period. This was despite the rate of growth ticking down from that seen in January.

With rates of expansion in output and new orders remaining elevated and pandemic concerns abating, firms were increasingly optimistic in the 12-month outlook.





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Services sub-sectors: Three-month moving average

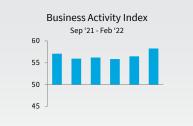
Financial intermediation

signalled

in

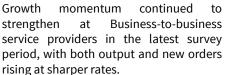


Business-to-business services



Data for the three months to February а further improvement strengthen business activitv at Financial Intermediation companies, supported by the strongest rise in new orders since the middle of last year.

turn, companies also raised In employment at a sharper pace. On a less positive note, inflationary pressures intensified.



Business confidence also strengthened, supporting a further substantial increase in staffing levels.

Services

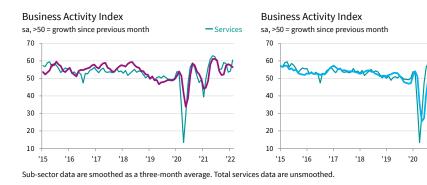
'21 '22

Other personal & community services



Other Personal & Community Services saw growth of business activity remain relatively muted in the three months to February. However, the rate of expansion in new orders accelerated and was sharp.

Growth of activity was restricted by ongoing falls in employment, with backlogs of work increasing as a result.



Business Activity Index sa, >50 = growth since previous month Services 70 60 50

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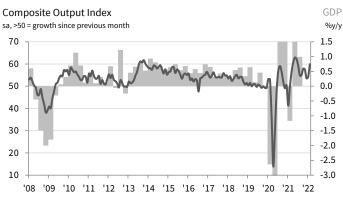
IHS Markit / CIPS UK Composite PMI®

Output growth hits eight-month high

The seasonally adjusted UK Composite Output Index rose sharply to 59.9 in February from 54.2 in January as the easing of the Omicron wave of the COVID-19 pandemic unleashed faster growth across both the manufacturing and services sectors. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

The rebound was particularly sharp in the service sector, with growth outpacing that seen in manufacturing. Accelerated increases in both new orders and employment were also recorded.

Inflationary pressures remained acute, however, with both input costs and output charges increasing at sharper rates than in January. In fact, selling prices rose at the steepest pace in the series history, mainly due to a record increase in the service sector.

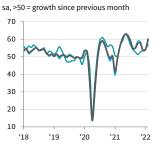




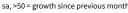
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Composite / Manufacturing / Services

Output Index

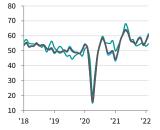


Employment Index

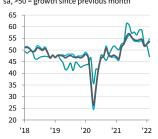




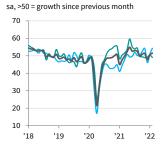
New Business Index sa, >50 = growth since previous month



Outstanding Business Index sa, >50 = growth since previous month



New Export Business Index



Input Prices Index

100

90

80

70

60

50

40

'18

'19

'20

'21

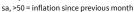
'22

sa, >50 = inflation since previous month

Future Output Index >50 = growth expected over next 12 months



Output Prices Index

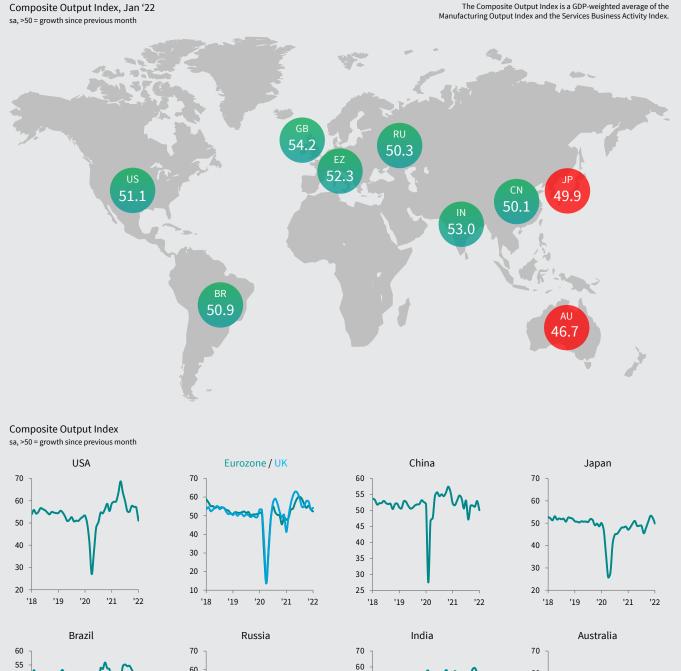








International PMI





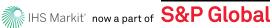








50



20

'18

'19 '20 '21 '22

'22

Survey panel size

650 companies

Index calculation % 'Higher' + (% 'No change')/2 + (% 'Lower') x 0

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.

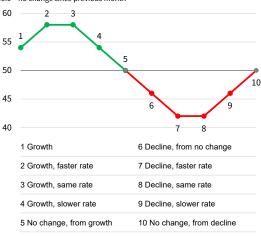
Survey dates and history

Data were collected 10-24 February 2022. Survey data were first collected July 1996.

Survey questions	
Business Activity	Employment
New business	Outstanding business
New export business	Input prices
Future activity	Output prices

Index interpretation

50.0 = no change since previous month



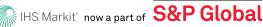
Sector coverage

Services PMI data include responses from companies operating in sectors classified according to the following ISIC Rev.4 codes:

- H Transportation and Storage
- I Accommodation and Food Service Activities
- J Information and Communication
- K Financial and Insurance Activities
- L Real Estate Activities
- M Professional, Scientific and Technical Activities
- N Administrative and Support Service Activities
- P Education*
- Q Human Health and Social Work Activities*
- R Arts, Entertainment and Recreation
- S Other Service Activities
- *Private sector







Index summary

Services

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Sep '21	55.4	54.8	50.1	74.4	57.4	53.7	73.5	61.6
Oct '21	59.1	58.4	52.6	73.8	58.6	53.6	78.7	62.0
Nov '21	58.5	59.0	54.1	72.6	56.9	53.9	82.0	62.4
Dec '21	53.6	53.6	46.2	72.8	56.2	51.6	77.0	61.2
Jan '22	54.1	56.9	50.9	76.3	56.1	52.8	79.7	62.6
Feb '22	60.5	61.5	54.3	75.5	57.8	54.8	81.5	64.5

Composite (manufacturing and services)

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Output	New Business	New Export Business	Future Output*	Employment	Outstanding Business	Input Prices	Output Prices
Sep '21	54.9	54.6	49.9	75.0	56.5	54.2	75.2	63.2
Oct '21	57.8	57.6	50.9	74.5	57.9	54.4	80.1	63.9
Nov '21	57.6	58.3	51.4	73.6	56.8	54.6	83.2	64.2
Dec '21	53.6	53.8	47.8	73.7	56.1	51.7	78.5	63.3
Jan '22	54.2	56.3	50.6	76.5	56.6	52.6	80.2	63.9
Feb '22	59.9	60.4	51.5	76.1	57.8	53.6	81.6	65.4

By sector, Feb '22

sa, 50 = no change over previous month (3mma). *50 = no change over next 12 months (3mma).

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Hotels, Restaurants & Catering	48.8	54.3	72.9	51.5	49.0	97.8	64.6
Transport & Communication Services	49.8	49.3	64.1	51.2	51.2	81.9	64.6
Computing & IT Services	61.0	58.0	85.4	59.1	51.5	73.2	67.2
Financial Intermediation	56.4	56.9	70.6	58.7	54.8	73.0	58.0
Business-to-Business Services	58.3	58.8	72.2	58.4	55.0	78.0	61.7
Other Personal & Community Services	54.6	62.0	74.8	47.5	51.1	78.1	58.1

About IHS Markit

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