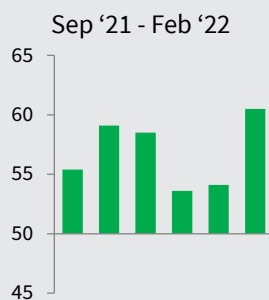




## UK Services Business Activity Index



### 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 pandemic-related 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...*

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



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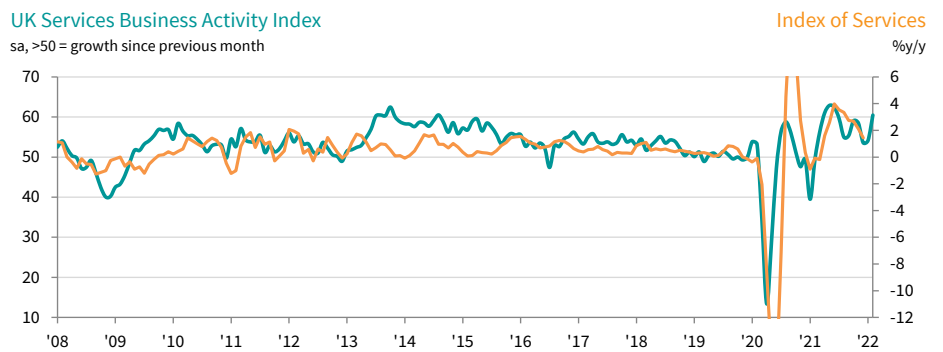
Although jobs growth was strong in February, there were still reports of difficulties securing staff. Added to this, material shortages and the strength of the expansion in new work led to a further accumulation of outstanding business. Moreover, the rise was the fastest in seven months.

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.



Sources: IHS Markit, CIPS, ONS.



## 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."*



## 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

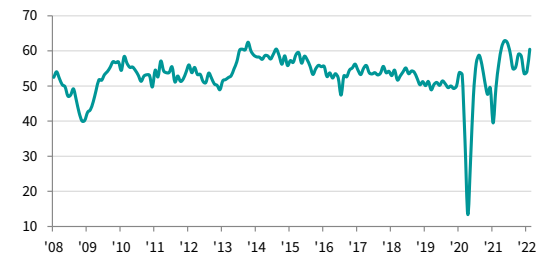
New export orders rose solidly midway through the first quarter, with the rate of growth the joint-sharpest since this question was added to the survey in September 2014. Improvements in demand in the US were widely reported, while companies were also able to secure new business from European clients.

### Business Activity Index

sa, >50 = growth since previous month

60.5

Feb '22

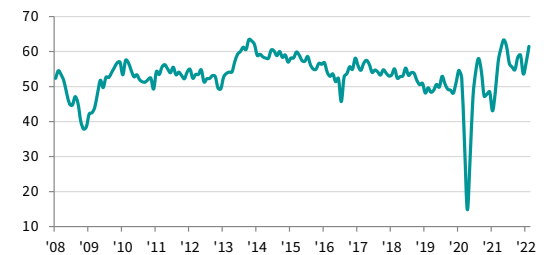


### New Business Index

sa, >50 = growth since previous month

61.5

Feb '22

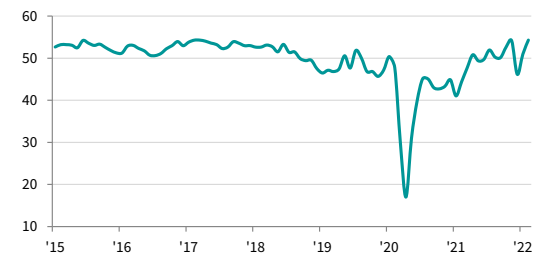


### New Export Business Index

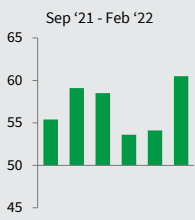
sa, >50 = growth since previous month

54.3

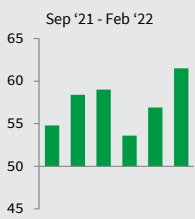
Feb '22



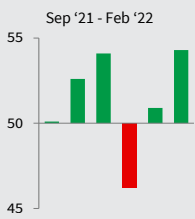
### Business Activity Index



### New Business Index

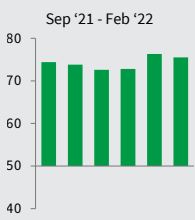


### New Export Business Index



## Business expectations

### Future Activity Index



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.

### Future Activity Index

>50 = growth expected over next 12 months

75.5

Feb '22



## 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.

### Employment Index

sa, >50 = growth since previous month

57.8

Feb '22

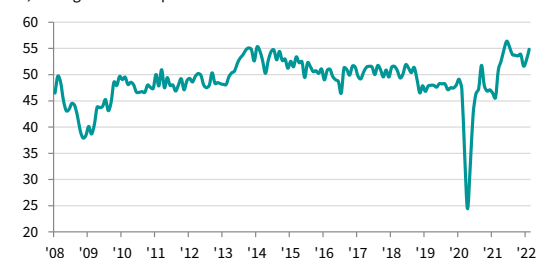


### Outstanding Business Index

sa, >50 = growth since previous month

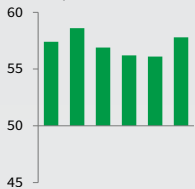
54.8

Feb '22



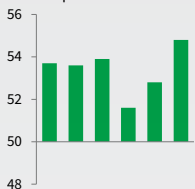
### Employment Index

Sep '21 - Feb '22



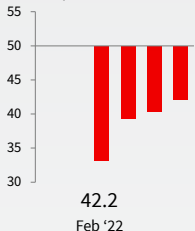
### Outstanding Business Index

Sep '21 - Feb '22



### Supplier Performance Index

Sep '21 - Feb '22



## 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

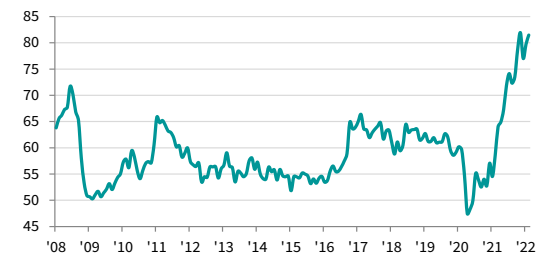
Higher input costs were often passed through to customers in February, resulting in a further substantial increase in selling prices in the service sector. Furthermore, the rate of inflation hit a fresh record high for the second month running as around one-third of respondents signalled an increase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

### Input Prices Index

sa, >50 = inflation since previous month

81.5

Feb '22

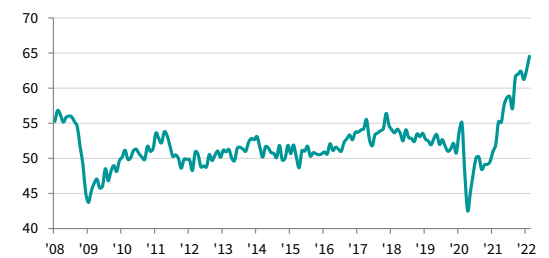


### Prices Charged Index

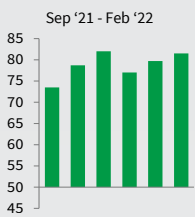
sa, >50 = inflation since previous month

64.5

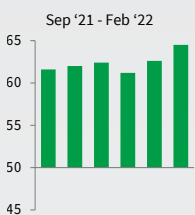
Feb '22



Input Prices Index



Prices Charged Index



# Purchased goods and services

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 table with columns for SIC codes and corresponding industry names such as Hotels & Restaurants, Banking, Research and Development, etc.

## Up in price

Table of goods and services that are up in price, categorized by SIC code (Metals, Metal Manufactures, Electrical/Electronic, Chemicals, Plastics, Paper/Timber, Packaging, Rubber, Textiles/Fabrics, Energy, Drainage Products, etc.).

Table of goods and services that are up in price, including Travel, Truck, Utilities, Vehicles, and Waste Collection.

## Down in price

Table of goods and services that are down in price, including Metals (Mild Steel), Chemicals (Explosives), Plastics (Disposable Latex Gloves), Paper/Timber (Timber), Energy (Fuel), and Miscellaneous (Air Fares).

## In short supply

Table of goods and services that are in short supply, including Metals (Aluminium, High Carbon Steel), Metal Manufactures (Aircraft, Bolts), Electrical/Electronic (Barcode Scanners), and Energy (Electricity, Oil).

Table of goods and services including Electronics (Equipment with Microchip), Chemicals (Agricultural Chemicals), Plastics (EVA), Paper/Timber (Paper), Packaging (Cartons), Textiles/Fabrics (Imported Linens), and Energy (Electricity, Oil).

Miscellaneous SIC table listing various goods and services such as Accommodation, Bookkeeper, Building Materials, Cars, Catering Supplies, Cement, and many others.

## Services sub-sectors: Three-month moving average

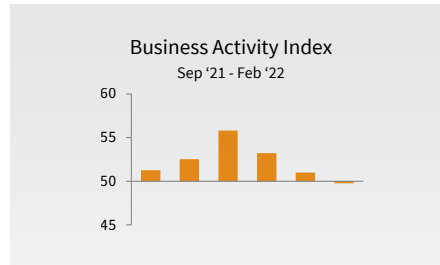
### Hotels, restaurants & catering



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.

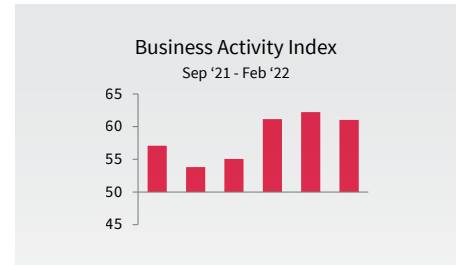
### Transport & communication



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.

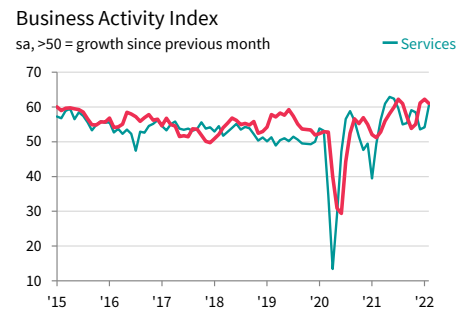
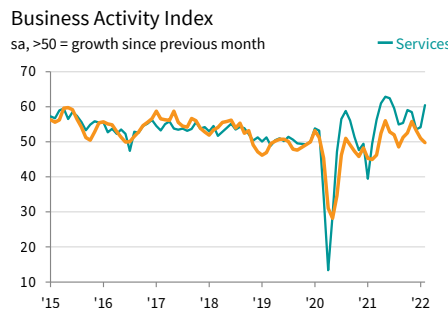
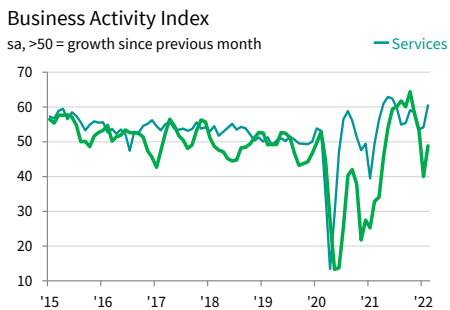
On the price front, the rate of input cost inflation was sharp despite easing, while charge inflation also softened but remained elevated.

### Computing & IT services



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.



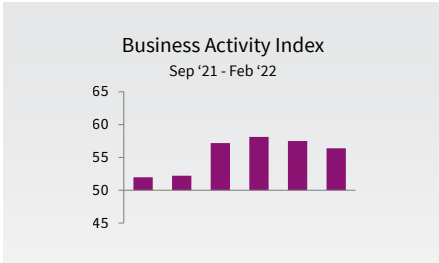
Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.





## Services sub-sectors: Three-month moving average

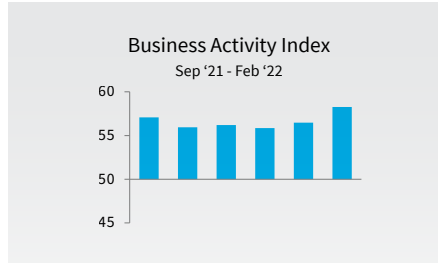
### Financial intermediation



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

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

### Business-to-business services



Growth momentum continued to strengthen at Business-to-business service providers in the latest survey period, with both output and new orders rising at sharper rates.

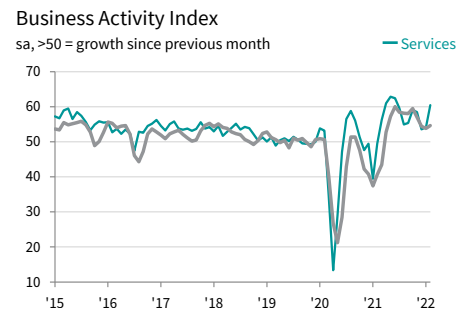
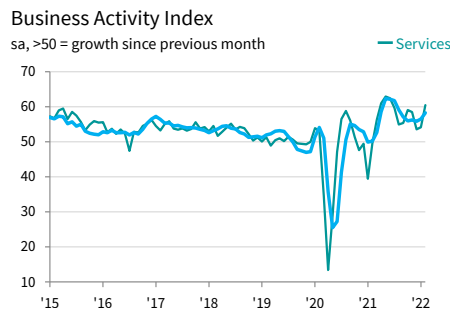
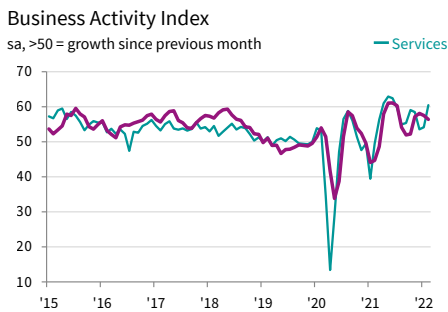
Business confidence also strengthened, supporting a further substantial increase in staffing levels.

### 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.



Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



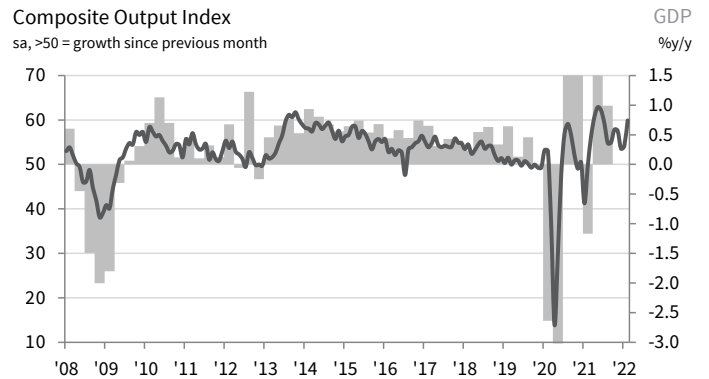
IHS Markit / CIPS UK Composite PMI®

# 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\*.

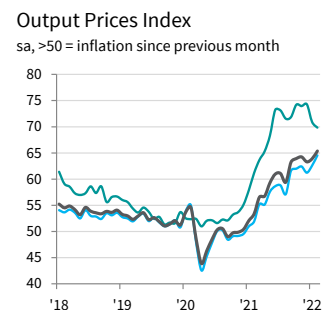
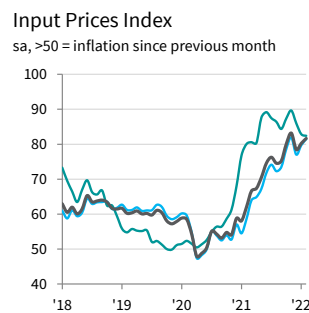
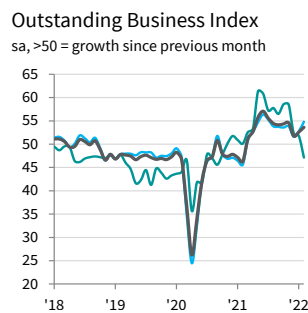
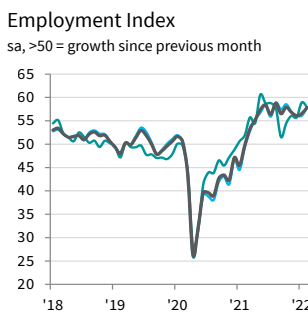
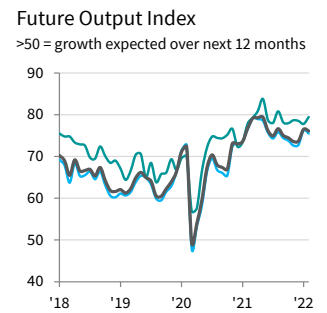
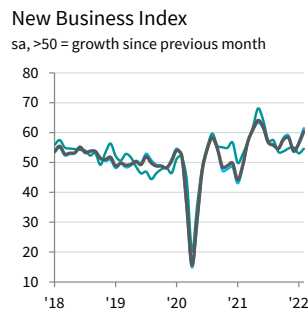
The rebound was particularly sharp in the service sector, with growth outpacing that seen in manufacturing. Accelerated increases in both new orders and employment were also recorded.

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.

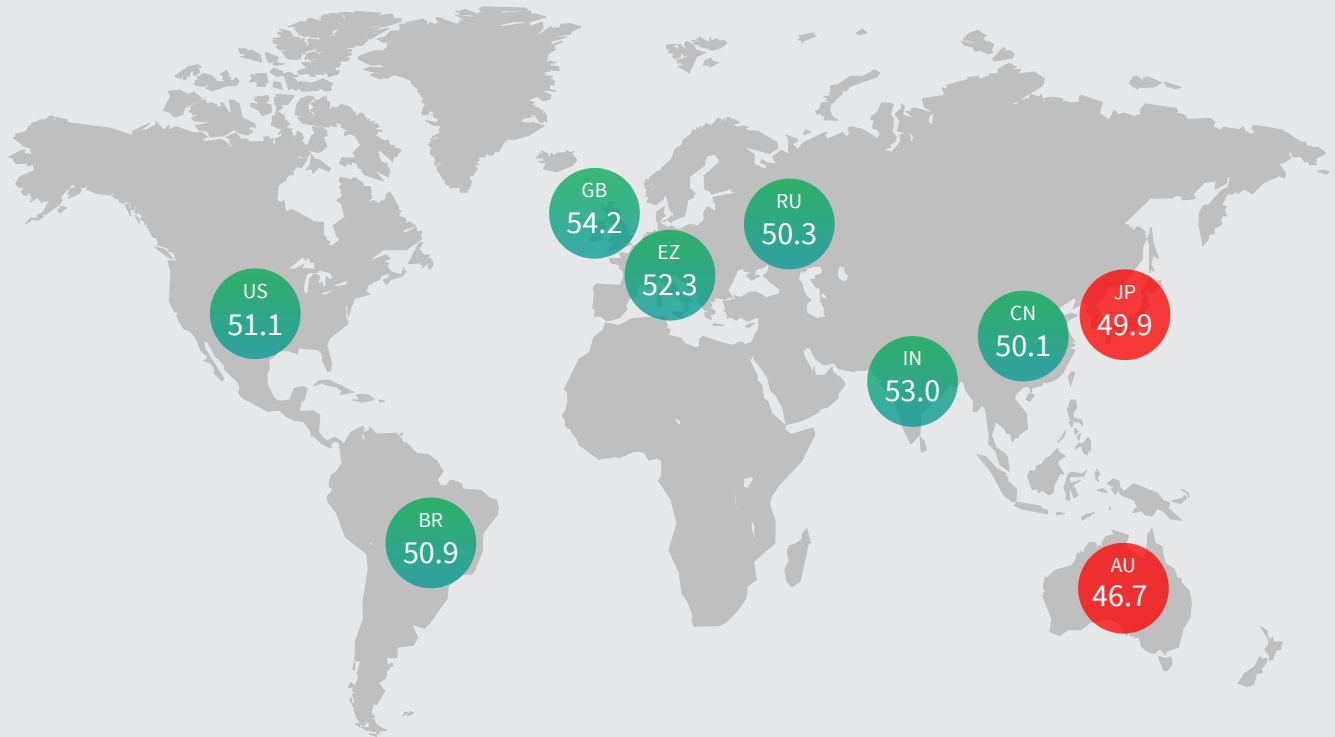
Composite / Manufacturing / Services



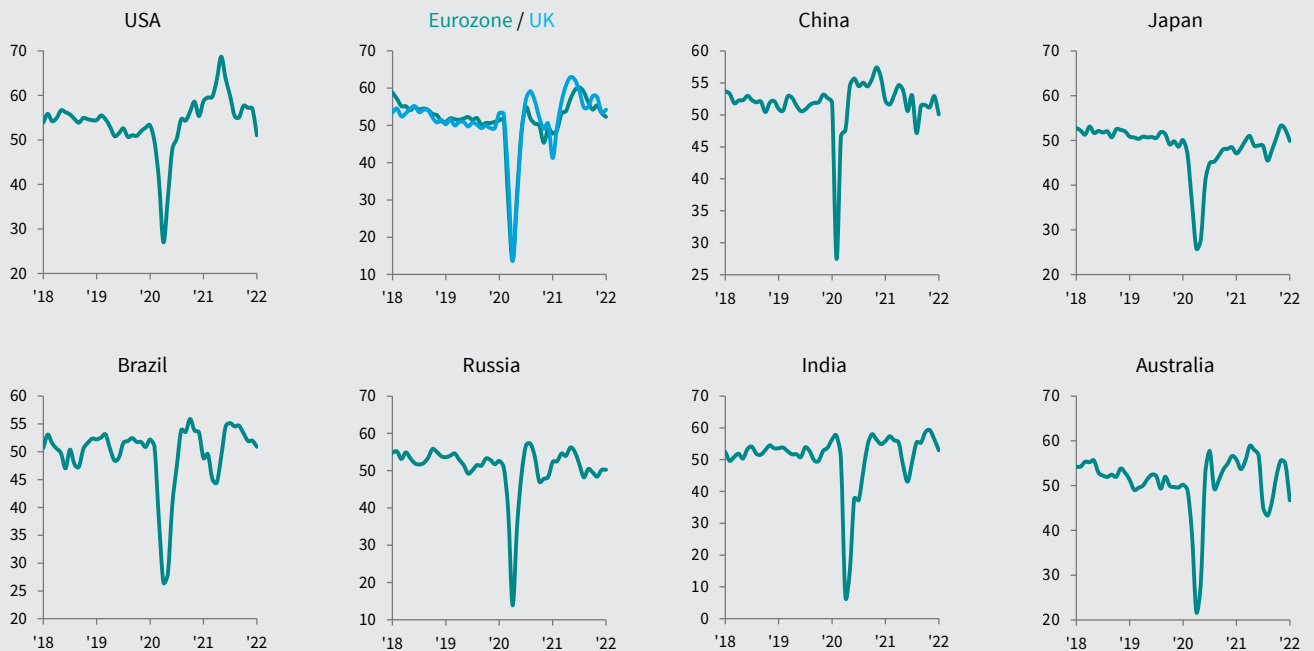
## International PMI

Composite Output Index, Jan '22  
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index  
sa, >50 = growth since previous month



Survey panel size

**650**

companies

Index calculation

$$\begin{aligned} & \% \text{ 'Higher' } \\ & + \\ & (\% \text{ 'No change' }) / 2 \\ & + \\ & (\% \text{ 'Lower' }) \times 0 \end{aligned}$$

## 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](mailto:economics@ihsmarkit.com).

### Survey dates and history

Data were collected 10-24 February 2022.

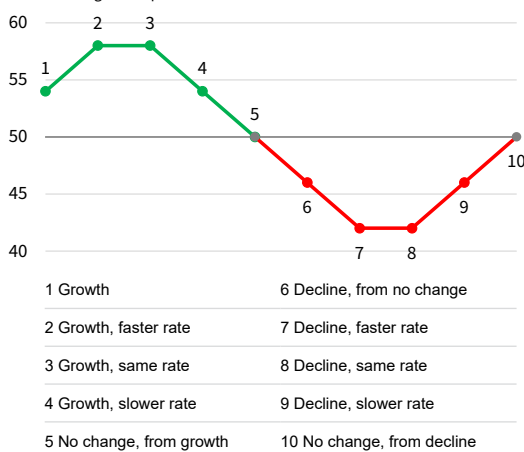
Survey data were first collected July 1996.

### 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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