UK private sector growth at four-month low as shortages of staff and materials hinder recovery in July

Key data

Flash UK Composite Output Index
July: 57.7, 4-month low (June final: 62.2)

Flash UK Services Business Activity Index
July: 57.8, 4-month low (June final: 62.4)

Flash UK Manufacturing Output Index
July: 57.1, 4-month low (June final: 61.1)

Flash UK Manufacturing PMI
July: 60.4, 4-month low (June final: 63.9)

July data were collected 12-21 July 2021.

July PMI® data compiled by IHS Markit and CIPS signalled a sharp slowdown in business activity growth across the UK private sector. The speed of recovery was the weakest since March, with survey respondents widely reporting staff and raw material shortages due to the pandemic. Concerns about the loss of momentum contributed to the lowest degree of optimism towards the business outlook for nine months.

At 57.7 in July, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index registered above the 50.0 no-change value for the fifth consecutive month. However, the latest reading was down from 62.2 in June and the lowest since the easing of lockdown restrictions began during March.

Around 32% of the survey panel indicated a rise in business activity during July, compared to 16% that signalled a decline. Where growth was reported, this was attributed to looser pandemic restrictions, a boost to consumer spending from staycations, rising demand for business services, and strong order books in the manufacturing sector. Those signalling a drop in output mostly commented on severe shortages of raw materials and the impact of COVID-19 isolation on staff availability (some also cited extended absences as employees took up unused holidays).

Disruptions to business operations among clients contributed to weaker new order growth across the UK private sector in July. The latest rise in new work was the slowest in the current five-month period of expansion. Some firms cited a drop in business and consumer confidence due to the pandemic situation, while others continued to report Brexit-related difficulties with export sales.

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Weaker new business growth provided some opportunities to clear backlogs in July, and the latest overall rise in unfinished work was the least marked for three months. However, difficulties recruiting staff remained a key factor holding back efforts to boost business capacity. Employment growth eased to its slowest since March, with survey respondents often citing a lack of candidates to fill vacancies and an unusually large number of staff departures.

Average cost burdens increased at the fastest pace since the survey began in January 1998, fuelled by a steeper rise in the service sector. This was linked to wage inflation, higher transport bills and price hikes by suppliers. Manufacturers also recorded another rapid upturn in purchasing prices, but the rate of inflation eased from June's all-time high.

UK private sector firms remain optimistic overall about their prospects for business activity growth in the coming 12 months. That said, the degree of confidence dropped to its lowest since October 2020. Survey respondents reported concerns about the enduring impact of the pandemic, especially in relation to staff availability, while some manufacturers noted a natural slowdown as customers had brought forward orders due to supply shortages.

IHS Markit / CIPS Flash UK Manufacturing PMI®

At 60.4 in July, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers’ Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was down from 63.9 in June and the lowest since March. The drop in the headline PMI reading mostly reflected weaker rates of output and new order growth during the latest survey period.

Manufacturers reported strong demand from both domestic and export clients in July, with shortages of materials and other critical components the main factor holding back production volumes. Those reporting a rise in new work from abroad often cited improved sales to clients in the US and Asia, while some noted that Brexit issues had constrained exports to the EU.

The index measuring suppliers’ delivery times continued to signal severe supply chain delays across the manufacturing sector, but the latest downturn in vendor performance was the least marked since April. Input price inflation also eased from June’s peak, but factory gate charges increased at the fastest pace since this index began in November 1999.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index dropped for the second month running in July. At 57.8, down from 62.4 in June, the latest reading was the lowest since March.

New business volumes increased at the slowest rate for five months in July, despite a rise in export sales for the first time since April. Survey respondents often commented on the impact of COVID isolation rules and other restrictions due to the pandemic. There were also reports that the end of the stamp duty holiday had led to softer demand for services related to residential property transactions.

Employment numbers increased for the fifth month running in July. The rate of job creation eased from June’s recent peak, largely due to difficulties filling vacancies. A subsequent increase in wage inflation added to pressure on operating expenses across the service economy. Measured overall, input prices rose at the fastest pace since this index began in July 1996.

Comment

Chris Williamson, Chief Business Economist at IHS Markit, said:

“July saw the UK economy’s recent growth spurt stifled by the rising wave of virus infections, which subdued customer demand, disrupted supply chains and caused widespread staff shortages, and also cast a darkening shadow over the outlook.

“Although business activity continued to grow, aided by the easing of lockdown restrictions to the lowest since the pandemic began, the rate of expansion slowed sharply to the weakest since March.

“Transport, hospitality and other consumer-facing services companies were the hardest hit, though manufacturing also saw growth weaken markedly during the month.

“Although the July flash survey only covered three days of the full easing of covid restrictions, any imminent re-acceleration of growth in August looks unlikely due to a steep slowing in overall new order growth recorded during July.

“Concerns over the Delta variant have meanwhile overshadowed the passing of ‘freedom day’; and were a key factor alongside Brexit and rising costs behind a sharp slide in business expectations for the year ahead, which slumped to the lowest since last October.

“The PMI indicates that GDP growth will likely have slowed in the third quarter, after having rebounded sharply in the second quarter.

“Firms’ costs rose at a rate unprecedented in over 20 years of survey history as supply shortages pushed up the price of goods, suppliers of services hiked prices and employee pay continued to rise.”

Duncan Brock, Group Director at CIPS, said:

“Acute material and staff shortages in certain sectors interrupted the rhythm of recovery in private sector business as signs of malaise crept in affecting output, new orders and business optimism.

“The upturn this month was the weakest since March as pipelines of new work, the slowest since February, took the heat out of a blistering spring of activity but gave more breathing space for companies to catch on backlogs.

“Inflation continued its march upward with the fastest increase since January 1998 driven largely by services costs and higher wage bills to retain a dwindling pool of candidates. Shortages of labour availability were made worse as many staff self-isolated, took other job opportunities or caught up on annual leave entitlements. Manufacturing companies clawed back their margins by balancing higher input costs with the fastest rise in factory prices since this PMI data was first collected in November 1999.

“As a more subdued recovery pace took over, optimism about the next 12 months fell to October 2020 levels. Brexit is still affecting EU trade and adding to the pandemic’s consequences, so firms are reflecting on how to manage shortages and build stock as different regions in the world open up for business at alternative speeds.”
Survey methodology

The IHS Markit / CIPS Flash UK Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to survey panels of around 650 manufacturers and 650 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by IHS Markit as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.


A diffusion index is calculated for each manufacturing and services 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.

Composite indices are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the ‘Composite PMI’ but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared to one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average difference between final and flash index values for the headline indices are:

- Composite Output Index: +0.1 (absolute difference 0.6)
- Services Business Activity Index: +0.1 (absolute difference 0.7)
- Manufacturing PMI: +0.0 (absolute difference 0.4)

Underlying final 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.

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