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IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Service sector recovery slows again in July, while inflationary pressures hit new record high

Key findings

Weakest rise in business activity since March

Strongest input cost inflation in 25 years of data collection

Staff shortages constrain business capacity and recruitment

Data were collected 12-28 July 2021.

UK service providers recorded an increase in business activity for the fifth month running during July, but the rate of growth was the weakest since March. Staff shortages and supply issues were a severe constraint on business capacity, which led to another strong rise in backlogs of work.

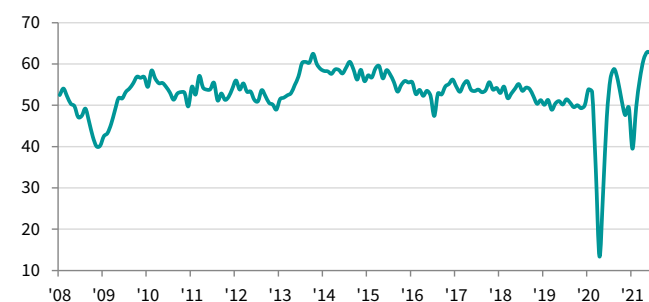
Tight labour market conditions led to greater wage pressures across the service economy and this contributed to the fastest increase in overall input costs since the survey began in July 1996. Prices charged by service sector companies also rose at a survey-record pace.

At 59.6 in July, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index posted above the crucial 50.0 no-change mark and was above the earlier 'flash' reading (57.8), but dropped from 62.4 in June. The index was the lowest since March and therefore signalled the slowest rate of expansion since the end of the winter lockdown. Staff shortages, supply chain issues and the end of the full stamp duty holiday for residential property sales were cited as factors leading to a slowdown since June.

A substantial loss of momentum was seen for new business growth during July, with this index the lowest since February. While many firms commented on strong consumer spending and a sustained recovery in demand for business services, there were also reports that COVID-19 isolation rules had negatively influenced sales volumes.

New export orders returned to growth in July, helped by looser pandemic restrictions in overseas markets. The rate of growth was the strongest since June 2018, but still much weaker than seen for overall new work. Those reporting a drop in new

IHS Markit / CIPS UK Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

work from abroad overwhelmingly cited tight restrictions on international travel.

Backlogs of work increased for the fifth successive month in July and the rate of accumulation was only slightly slower than June's record high. Many service providers commented on staff shortages due to COVID-19 isolation rules. Anecdotal evidence also highlighted ongoing difficulties rebuilding business capacity due to supply issues and lengthy wait times to fill vacancies.

Job creation continued at a brisk pace in July, reflecting strong demand for staff across the service economy. However, the rate of employment growth slipped to a three-month low, which survey respondents often attributed to unexpected staff departures and delays with finding suitably skilled candidates.

Wage pressures, higher fuel prices and greater transport bills were the most commonly cited factors pushing up input costs in July. The overall rate of inflation was the steepest since the survey began 25 years' ago. A combination of rising input prices and stronger demand meant that service providers increased their average charges at a survey-record pace in July.

Finally, the latest survey indicated that service sector companies remain highly upbeat about their growth prospects for the year ahead. Around 57% predict an expansion, while only 9% anticipate a decline in business activity. However, the degree of confidence has now slipped for four months in a row and the latest reading was the lowest since January. Some firms noted that the peak phase of recovery had passed, and others cited concerns about capacity constraints.

Comment

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

"July data illustrates that recovery speed across the UK economy has slowed in comparison to the second quarter of 2021. More businesses are experiencing growth constraints from supply shortages of labour and materials, while on the demand side we've already seen the peak phase of pent up consumer spending.

"The full easing of pandemic restrictions appears to have helped limit the overall loss of momentum towards the end of July. At 59.6, the PMI reading for services output was much stronger than our earlier 'flash' figure of 57.8 in July, largely due to the final index covering an extra five working days since 'freedom day'.

"Any re-acceleration of growth in August looks unlikely, however, as new orders increased at a much-reduced pace at the start of the third quarter. Moreover, business expectations softened again during July, with UK firms the least optimistic about the growth outlook since January. Survey respondents cited worries about recruiting staff to meet business expansion plans and some suggested that escalating costs would hinder the recovery."

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

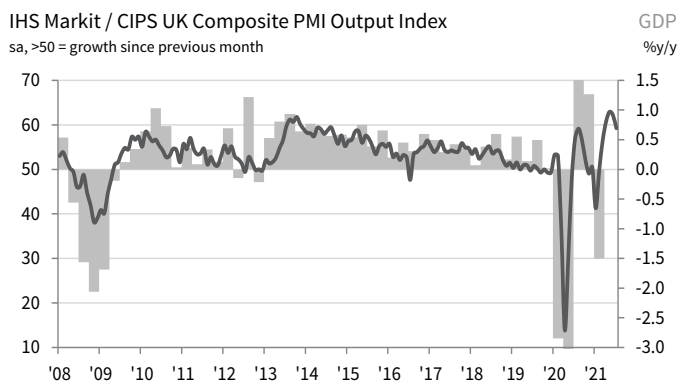
"With new orders the weakest since February, demand in the services sector appears to be waning along with business optimism as supply and staff constraints impacted on activity last month.

"Unfilled vacancies due to skills shortages and low stocks at suppliers meant further gains were obstructed and backlogs of work increased. Adding to capacity pressures, the relentless rise in input cost inflation to its highest for a quarter of a century meant businesses were paying more for wages, transport and food, and consumers were beginning to bear the brunt with onward price inflation the most elevated since the survey began in 1996.

"We suspect the best of the post-pandemic recovery could be behind us, especially if higher leisure and hospitality costs diminish appetite for consumer spending. Consumer Price Inflation reached 2.4% in June, surpassing the 2% target set by the Bank of England, and it is likely to go higher in the coming months as salary increases add pressure on prices through the summer."

IHS Markit / CIPS UK Composite PMI®

Weakest rise in private sector output since March



Sources: IHS Markit, CIPS, ONS.

The seasonally adjusted UK Composite Output Index dropped from 62.2 in June to 59.2 in July, thereby signalling the slowest rate of private sector expansion for four months.

The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Service sector activity (index at 59.6) rose at a faster pace than manufacturing production (57.1), but both sectors experienced a further slowdown in recovery momentum during July.

Supply shortages resulted in strong rises in backlogs of work across both the manufacturing and service sectors in July, with the former posting the faster rate of accumulation.

Average cost burdens increased at the sharpest rate since the composite index began in January 1998. Prices charged inflation across the UK private sector also hit a series-record high in July.

Manufacturers reported the stronger overall pace of inflation, but service providers drove the acceleration since June.

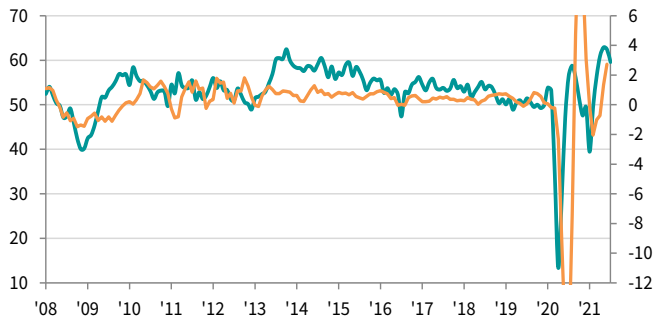
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

UK Services PMI Business Activity Index

sa, >50 = growth since previous month

Index of Services

% yr/yr



Sources: IHS Markit, CIPS, ONS.

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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 12-28 July 2021.

Survey data were first collected July 1996.

Flash vs. final data

Flash data were calculated from approximately 85% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.1 (0.3 in absolute terms).

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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.