Recovery loses momentum as supply constraints hit output growth in both the manufacturing and service sectors

Key data

Flash UK Composite Output Index
August: 55.3, 6-month low (July final: 59.2)

Flash UK Services Business Activity Index
August: 55.5, 6-month low (July final: 59.6)

Flash UK Manufacturing Output Index
August: 54.1, 6-month low (July final: 57.1)

Flash UK Manufacturing PMI
August: 60.1, 5-month low (July final: 60.4)

UK private sector companies experienced a sharp slowdown in output growth during August, according to the latest PMI® data compiled by IHS Markit and CIPS. Survey respondents widely reported constraints on business activity due to staff shortages and supply chain issues. Efforts to rebuild capacity and strong optimism towards the business outlook contributed to the fastest rise in employment numbers since the index began in January 1998. Nonetheless, backlogs of work increased for the sixth month in a row as businesses struggled to keep up with customer demand.

At 55.3 in August, down from 59.2 in July, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index dropped for the third month running. The latest reading was still above the crucial 50.0 no-change threshold, but signalled the slowest expansion of output since the UK private sector returned to growth in March.

Weaker recoveries were seen in both the manufacturing and service sectors, with the latter recording the greatest loss of momentum since July. Analysis of comments provided by survey respondents suggested that incidences of reduced output due to shortages of staff or materials were fourteen times higher than usual and the largest since the survey began in January 1998.

New order growth eased only slightly in August, with stronger export sales helping to cushion a slower recovery in domestic demand. Resilient new business volumes contributed to another accumulation of unfinished work, although the latest rise in backlogs was the weakest since April.

August data pointed to the steepest rate of private sector job creation
since the series began in January 1998, which was driven by a survey-record speed of hiring in the service economy. Extra recruitment was overwhelmingly attributed to the reopening of customer-facing parts of the service sector and efforts to replace staff that had departed at an earlier stage of the pandemic.

Inflationary pressures showed signs of easing in August, with input prices rising at the weakest pace for three months. However, many firms commented on higher wages due to tight labour market conditions. Severe shortages of raw materials and critical components also continued to push up purchasing prices, with UK goods producers signalling the sharpest overall downturn in supplier performance since April 2020.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers’ Index® (PMI®) – a composite single-figure indicator of manufacturing performance – registered 60.1 in August, down from 60.4 in July and the lowest since March.

Much weaker production growth was the main drag on the headline PMI, alongside a modest slowdown in job creation. Stock building had a positive influence on the headline index, with efforts to mitigate supply disruptions leading to the fastest rise in pre-production inventories since December 2020.

New order growth was little-changed since July and business expectations hit a three-month high. These positive signals suggested that the weaker trend for manufacturing production largely reflected temporary supply issues. Manufacturers also commented on a lack of staff availability due to self-isolation and long wait times to fill vacancies.

Latest data pointed to the second-sharpest downturn in supplier performance since the survey began in January 1992 (exceeded only by that seen in April 2020). There were widespread reports that escalating shipping costs and shortages of raw materials had led to intense price pressures. That said, the overall rate of input cost inflation eased to a four-month low during August. Moreover, factory gate charges increased at the slowest pace since May.

IHS Markit / CIPS Flash UK Services PMI®

At 55.5 in August, down from 59.6 in July, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index was above the 50.0 no-change mark for the sixth month running but signalled the weakest rate of expansion over this period.

Survey respondents attributed higher levels of activity to the reopening of the UK economy and subsequent improvement in demand for business and consumer services. However, there were reports that staff shortages had constrained the recovery, while others commented on less favourable demand conditions. Firms in the residential property sector often cited the end of the full stamp duty holiday as a factor leading to lower business activity.

Despite a slowdown in output growth during August, service providers signalled a robust and accelerated rise in employment numbers. The latest increase in staffing levels was the strongest since this index began in July 1996. Survey respondents typically commented on the need to boost workforce numbers in response to higher order books and depleted business capacity.

Improving optimism towards the year ahead business outlook also supported job creation in August. The latest survey indicated a rebound in business sentiment to its highest since May, which ended a four-month sequence of falling confidence.

Comment

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

“Although the PMI indicates that the economy continues to expand at a pace slightly above the pre-pandemic average, there are clear signs of the recovery losing momentum in the third quarter after a buoyant second quarter.

“Despite COVID-19 containment measures easing to the lowest since the pandemic began, rising virus case numbers are deterring many forms of spending, notably by consumers, and have hit growth via worsening staff and supply shortages.

“Supplier delays have risen to a degree exceeded only once before – in the initial months of the pandemic – and the number of companies reporting that output had fallen due to staff or materials shortages has risen far above anything ever seen previously in more than 20 years of survey history. In manufacturing, sectors including automotive production and electrical goods have fallen into decline due mainly to supply constraints.

“Prices have risen sharply again, albeit with the rate of inflation moving below July’s record high, as shortages once again fuelled a sellers’ market for many goods and services and wages rose further.

“More positively, business expectations for the year ahead perked up in August, encouraging a record jump in employment as furloughed workers were brought back to the workplace. However, demand and supply availability need to improve further for this rise in employment to be sustained in coming months”

Duncan Brock, Group Director at CIPS, said:

“An abnormally large slowdown in overall activity in August offers a stark warning to the UK economy that the accelerated levels of growth we’ve seen earlier this summer are not sustainable. It was the slowest output expansion for six months, and the worst shortages of staff and materials on record are mostly to blame.

“Finding the right skills was difficult for businesses, meaning that job seekers had the pick of the bunch in terms of opportunities. The service sector was hiring at a brisker pace than any time in the past 25 years and stronger wage demands followed suit, which resulted in business costs climbing again. Manufacturers paid more for shipping their goods, and supplier delivery times were rivaling the height of the disruption last year.

“The mood generally remained buoyant, however, especially amongst service companies as the end of pandemic restrictions improved business activity. It was also encouraging that export order growth picked up since July, as countries recovered at different speeds. However, it’s likely that cautious consumers will continue to remain an obstacle for UK businesses until full confidence returns.”
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 for manufacturing and services 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 with the same period a year ago.

The services index is a weighted average of the individual indices: Business Activity, New Orders, New Export Orders, Employment, Input Prices, Output Prices, and Future Activity.

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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