UK recovery regains momentum in October, but supply shortages hit manufacturing growth and cost inflation reaches new record high

Key data

Flash UK Composite Output Index
October: 56.8, 3-month high (September final: 54.9)

Flash UK Services Business Activity Index
October: 58.0, 3-month high (September final: 55.4)

Flash UK Manufacturing Output Index
October: 50.6, 8-month low (September final: 52.7)

Flash UK Manufacturing PMI
October: 57.7, 2-month high (September final: 57.1)

October data were collected 12-20 October 2021.

October PMI® data highlighted a robust and accelerated increase in UK private sector business activity, with growth the strongest for three months. Survey respondents widely reported buoyant business and consumer spending due to the roll back of pandemic restrictions. Service providers led the recovery, but manufacturers signalled another slowdown in production growth due to severe shortages of staff and materials.

Stronger wage pressures and the worsening global supply chain crisis contributed to the fastest rate of input price inflation at UK private sector companies since this index began in January 1998.

At 56.8 in October, up from 54.9 in September, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index was the highest since July and remained well above the neutral 50.0 mark.

There were divergent growth trends by sector, largely due to the impact of supply shortages on manufacturing companies in October. Service sector activity (index at 58.0) outpaced manufacturing production (50.6) by the widest margin since February 2009. The latter saw its weakest output performance for eight months. Goods producers widely commented on difficulties meeting customer demand due to capacity constraints resulting from lengthy supplier lead times and shortages of staff. Around 64% of UK manufacturers reported worsening supplier delivery times in October, while only 1% saw an improvement.

Measured overall, new business volumes increased at a strong pace in October and the rate of expansion was the fastest for three months. A combination of rising demand and constrained capacity led to increased backlogs for the eighth month running. Manufacturers

continued...
recorded a particularly steep rise in unfinished work, with the rate of backlog accumulation the fastest since June.

Employment numbers continued to rise sharply in response to improving customer demand and strong confidence towards the business outlook. The rate of job creation was close to the record high seen in August, although survey respondents widely commented on difficulties finding candidates to fill vacancies.

Higher wages and worsening supply shortages resulted in a rapid pace of input cost inflation during October. The latest increase in average cost burdens was the fastest since the index began in January 1998. Survey respondents often cited rising fuel, transport and energy bills, alongside steep price increases for items in short supply around the world (especially semiconductors and other electronic components). Output charges at UK private sector firms increased in response to escalating input costs, with the latest rise the steepest since the index began more than two decades ago.

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 57.7 in October, up from 57.1 in September. The latest PMI reading was boosted by faster rates of new order and employment growth, alongside a steeper rise in stocks of purchases and lengthier supplier lead times. In contrast, a softer rise in production volumes held back the headline index.

Output growth was only marginal overall and eased to the weakest since February. Manufacturers reporting a drop in production during October overwhelmingly linked this to capacity constraints and disruptions at their plants amid severe staff and raw material shortages, as well as falling export sales. Stocks of finished goods were depleted at a rapid pace as goods producers struggled to keep up with customer demand. At the same time, efforts to mitigate global supply shortages contributed to the steepest accumulation of pre-production inventories since December 2020. Meanwhile, input cost inflation picked up for the first time in four months during October. The latest increase in purchasing prices was the fastest since the survey began in January 1992. Manufacturers commented on sharply rising energy bills, higher freight costs and steep price increases for a range of raw materials.

IHS Markit / CIPS Flash UK Services PMI®

At 58.0 in October, up from 55.4 in September, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index registered above the crucial 50.0 no-change value for the eighth consecutive month. The latest expansion was the strongest since July, although still softer than the peak seen in May (62.9).

Service providers mostly commented on a sustained boost to client spending following the roll back of pandemic restrictions, including an expansion of export sales. There were still reports that staffing and supply chain difficulties had held back growth.

New business volumes expanded at the fastest pace since June. This was driven by strong domestic demand for business and consumer services. October data nonetheless signalled the second-best month for export sales since the pandemic began, helped by looser restrictions on international travel.

Finally, latest data signalled by far the steepest rise in cost burdens since the survey began in July 1996. Around 59% of the survey panel reported higher input prices than in September.

Comment

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

“The UK economy picked up speed again in October, but the expansion is looking increasingly dependent on the service sector, which in turn looks prone to a slowdown amid the recent rise in COVID-19 cases. Growth is also being accompanied by an unprecedented rise in inflationary pressures, which will inevitably feed through into higher consumer prices in coming months.

“The news comes at a time when the Bank of England is already leaning towards hiking interest rates to safeguard against inflationary expectations becoming entrenched. The record readings of the PMI survey’s price gauges will inevitably pour further fuel on these inflation worries and add to the case for higher interest rates.

“However, the economic growth signals from the PMI remain less convincing from a policy standpoint. The service sector is clearly in something of a sweet spot as the UK has seen more people’s lives and livelihoods return closer to normal. Some of the growth momentum will therefore fade as this rebound passes. Moreover, rising COVID-19 case numbers pose a downside risk to growth in the coming months, potentially deterring some services-oriented activity among consumers in particular and potentially leading to the renewed enforcement of health restrictions as winter draws in.”

Duncan Brock, Group Director at CIPS, said:

“It seems the two sectors were recuperating at different speeds in October resulting in a lopsided recovery in the UK economy. The services sector had the most productive month since July in terms of output and with new orders the highest since June. Whereas browbeaten manufacturers were again struggling to maintain their momentum leaving their customers unsatisfied as the balance between supply and demand in skills and materials remained skewed.

“Bumpy supply lines meant manufacturing production was at its weakest since February as 64% of supply chain managers reported elongated delivery times. Savage price rises for energy and raw materials meant cost inflation rose to its fastest since January 1992.

“Service businesses were mostly kept afloat by a rebound in confidence as consumers spent their pandemic savings on a few treats. The trick is whether firms will be able to meet any ongoing demand as continuing global disruption to logistics fed into the growing shortage of goods, and whether consumers tolerate rising prices.

“A chill has appeared in the post-lockdown economic landscape with so many obstacles still to be navigated. As businesses run down their inventories to meet current demand, there may be slim pickings in the month ahead to keep business rolling.”
UK Composite Employment Index

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 with 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 up-to-date, accurate and often unique monthly indicators of economic trends.

Survey dates and history
Final manufacturing data are published on 1 November 2021, and final services and composite data on 3 November 2021. Data collection began in January 1992 for manufacturing, July 1996 for services and January 1998 for the composite index.

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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