

Embargoed until 0930 BST (0830 UTC) 3 September 2021

IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Job creation hits record high, but supply shortages contribute to slowest output growth for six months

Key findings

Recovery in business activity eases further from May's peak

Fastest rise in employment numbers since survey began in July 1996

Business optimism climbs to three-month high

Data were collected 12-26 August 2021.

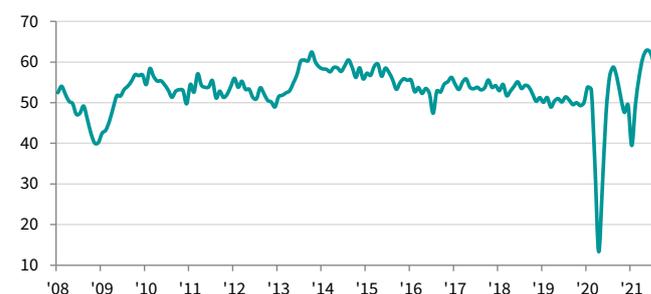
UK service providers signalled that August was the worst month for business activity growth since the current phase of recovery began in March. The slowdown partly reflected a normalisation of customer demand after the initial loosening of pandemic restrictions during the second quarter of 2021. However, there were also widespread reports that shortages of staff and disrupted supply chains had constrained growth in August.

Staff recruitment picked up to its strongest since the survey began in July 1996 as businesses sought to rebuild workforce numbers in response to rising sales. Competitive labour market conditions resulted in steep wage pressures during August. The overall rate of cost inflation eased since the previous month, but was the second-fastest seen over the past 25 years.

At 55.0 in August, the headline seasonally adjusted IHS Markit/ CIPS UK Services PMI® Business Activity Index was down from 59.6 in July and well below May's record high of 62.9. The index has registered above the 50.0 no-change value in each of the past six months, but the rate of expansion was the slowest since the service sector returned to growth after lockdown.

The recovery in new business volumes lost only a small amount of momentum in August. Softer new order growth was partly linked to the end of the full stamp duty holiday and a subsequent cooling in consumer demand arising from residential property transactions. Subdued export orders also weighed on overall new business intakes. Survey respondents often commented on a lack of inbound tourists, while some others cited Brexit trade frictions.

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



Sources: IHS Markit, CIPS.

August data pointed to a solid increase in backlogs of work across the service economy, which extended the current period of accumulation to six months. Rising volumes of unfinished work were overwhelmingly attributed to staff shortages. Survey respondents noted unexpectedly high levels of employee turnover, as well as absences due to COVID-19 isolation rules.

Capacity constraints encouraged additional staff recruitment during August. The rate of job creation surged higher than the previous record seen in June 2014 and a subsequent lack of candidates to fill vacancies led to steep increases in wages.

Strong pay pressures, rising fuel bills and greater transport costs were the main factors contributing to higher operating expenses in August. Around 44% of the survey panel reported an increase in overall cost burdens, while only 1% signalled a decline. Mirroring the trend for input prices, latest data indicated that prices charged inflation eased only slightly from July's peak.

Despite escalating costs and severe supply disruptions, service providers remain highly optimistic about the outlook for business activity growth during the next 12 months.

The proportion of survey respondents expecting an expansion (60%) exceeded those forecasting a decline (8%) by a wide margin. Moreover, the resulting index highlighted that business confidence rebounded to its strongest since May. Optimism was closely linked to positivity about the pandemic outlook and hopes that the roll back of COVID-19 restrictions would be sustained during the year ahead.

Comment

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

"The service sector lost momentum for the third consecutive month as the impact of looser pandemic restrictions faded in August. Many businesses suffered constraints on growth due to staff shortages, self-isolation rules and stretched supply chain capacity.

"Service providers signalled the sharpest rise in employment since data collection began 25 years ago. Additional staff recruitment typically reflected efforts to return workforce numbers to pre-pandemic levels after widespread job cuts last year. Many survey respondents commented on long wait times to fill vacancies and an unexpectedly high staff turnover as the UK economy reopened.

"Tight labour market conditions pushed up wages as service sector companies sought to attract and retain employees. The overall rate of input cost inflation remained steep, but eased from the record high seen in July.

"Business optimism edged up to a three-month high during August, suggesting that service providers have become slightly more confident about longer-term prospects for demand and supply availability."

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

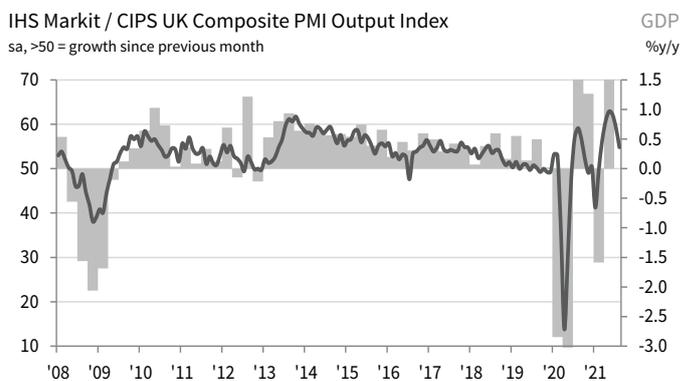
"The third consecutive monthly fall in growth in the services sector showed that a lack of staff and raw materials in August continued to rein back on recovery, after the spring surge.

"Service businesses were particularly hit by lockdowns and the loss of workforces, so it was no surprise that the opening of the UK economy led to the fastest levels of job creation in the sector since July 1996. Job seekers had the pick of the crop in terms of opportunities, but employers had to offer higher wages and more benefits to relieve the restrictions in operating capacity leading to another rapid rise in business costs. This in turn resulted in higher prices to customers and it's difficult to say how long supply imbalances in the economy will persist.

"With the third monthly fall in a row, new order growth failed to impress and work from overseas barely rose. Brexit continued to make its mark and supply shortages and logistics difficulties will pile on the pressure in the coming months but service companies remained buoyant about future opportunities."

IHS Markit / CIPS UK Composite PMI®

Private sector output growth eases considerably since July



At 54.8 in August, the seasonally adjusted UK Composite Output Index fell from 59.2 in July and therefore signalled a much slower speed of recovery across the private sector economy. The composite index has registered above the 50.0 no-change threshold in each month since March, but the latest reading was the weakest over this period.

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

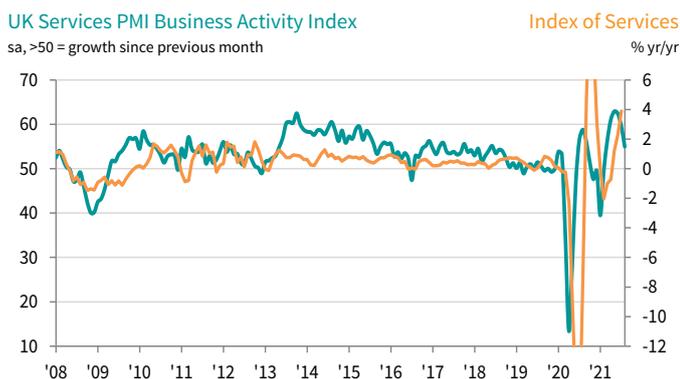
Service sector activity (index at 55.0) increased at a quicker rate than manufacturing output (54.1). Both sectors signalled the weakest growth for six months.

Private sector employment numbers increased at the fastest pace since this index began in January 1998, largely fuelled by a rapid rise in recruitment across the service economy.

Shortages of staff and raw materials acted as a constraint on the recovery in August, with supply chain disruption leading to an especially sharp rise in backlogs of work at manufacturing companies.

Strong inflationary pressures continued in August, but the latest rise in overall cost burdens was the slowest for three months. Meanwhile, prices charged inflation eased since July in both the manufacturing and service sectors.

*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.



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 12-26 August 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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