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## IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

# Strong recovery in service activity continues, but cost inflation hits record high during June

### Key findings

Business activity growth eases slightly from May's 24-year high

Backlogs of work rise at fastest pace since survey began in 1996

Input cost and prices charged inflation both hit record highs

Data were collected 11-28 June 2021.

UK service providers reported another steep increase in business activity during June, with the speed of recovery only marginally slower than the peak seen in May. The rapid turnaround in business and consumer spending since the roll-back of pandemic restrictions led to the fastest rate of job creation for seven years.

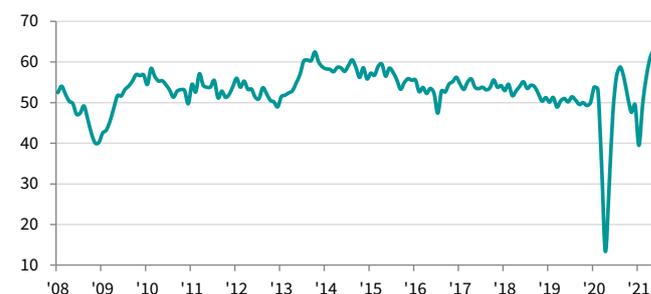
Survey respondents widely noted that capacity constraints and staff shortages had resulted in higher volumes of unfinished business. The latest rise in backlogs of work was the steepest since the survey began in July 1996. Imbalanced demand and supply also contributed to survey-record rates of input cost and prices charged inflation during June.

The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 62.4 in June, down slightly from 62.9 in May. This was the second-highest reading since October 2013 and above the earlier 'flash' figure of 61.7 in June. The index has posted above the 50.0 no-change value for four months in a row. Moreover, the average reading for the second quarter of 2021 (62.1) was the highest for any quarter in the past 24 years.

Another sharp rise in new orders helped to boost output volumes across the service sector during June. That said, the overall rate of new business growth softened since May. Survey respondents commented on a surge in demand for consumer services and a continued boost from looser pandemic restrictions on trade. There were also reports citing new project launches and higher levels of business investment in response to the improving economic outlook.

In contrast to the overall trend for new orders, latest data

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



Sources: IHS Markit, CIPS.

signalled a marginal reduction in export sales among service sector companies. International travel restrictions and uncertainties about quarantine policies were the most commonly cited factor. Some firms also noted that Brexit-related issues had dampened export orders to the EU.

There were more signs that service providers had struggled to keep up with demand, with those in the hospitality and leisure sector widely noting capacity constraints and shortages of staff. June data pointed to the sharpest rise in backlogs of work since the survey began in July 1996.

Difficulties meeting current order volumes occurred despite a robust and accelerated increase in employment numbers. Job creation was the strongest since June 2014, reflecting efforts to meet increased business requirements since the end of the lockdown period. Moreover, around 60% of the survey panel anticipate a rise in business activity over the year ahead, while only 8% forecast a reduction.

Intense cost pressures persisted in June, and the rise in total operating expenses was the steepest since the survey began 25 years ago. Service providers noted that higher staff wages, increased raw material prices and greater transportation charges were the main factors pushing up costs.

Strong demand for business and consumer services meant that service sector companies were able to pass on higher costs to clients during June. The rate of prices charged inflation accelerated to a survey-record high. While rising costs were the main driver, some firms also cited temporary price rises due to capacity constraints and subsequent efforts to manage demand.

## Comment

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

"The service sector recovery remained in full swing during June as looser pandemic restrictions released pent up demand for business and consumer services. Sales growth eased slightly from May's recent peak, but capacity constraints and staff shortages meant that many service providers struggled to keep up with new orders.

"Backlogs of work increased at a faster pace than any other time since the survey began in July 1996, despite job creation reaching a seven-year high. Difficulties filling staff vacancies were reported by survey respondents in all parts of the service economy during June, with hospitality and leisure experiencing the greatest squeeze.

"Staff shortages and delays among suppliers were by far the most commonly cited constraints on growth in June. International travel restrictions, especially uncertainty about quarantine policies at home and abroad, were also a prominent source of anxiety. These disruptions to inbound and outbound travel contributed to another slight dip in export sales, which stood in sharp contrast to resurgent domestic demand.

"The latest survey data highlighted survey-record rates of input cost and prices charged inflation across the service sector, reflecting higher commodity prices, transport shortages and staff wages. Imbalanced supply and demand was the main driver, while the roll-back of pandemic discounting by some service providers amplified the latest round of price hikes."

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

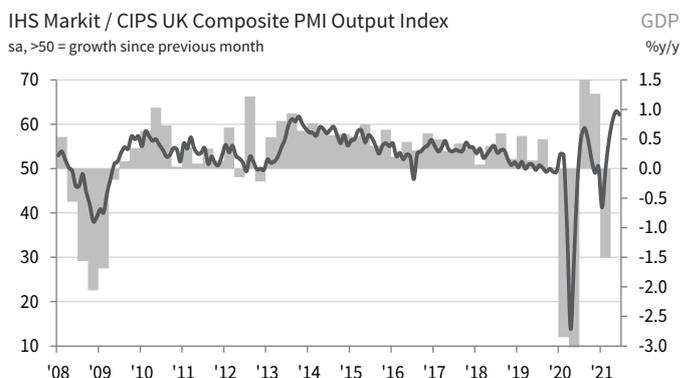
"The services sector continued to expand at record-level rates as marketplaces opened up and consumers returned to hospitality with a fourth sharp monthly rise in new business and the highest job creation levels for seven years.

"This return to robust activity should have service providers relieved at the new opportunities after lockdown, but a modicum of doubt has crept in. Optimism dropped to the lowest since January, while restricted international travel depressed overseas orders and interrupted supply lines as shortages increased. The rush to build operating capacity meant skilled labour became increasingly expensive too, adding to the cost burden woes.

"With the sharpest escalation in price inflation for 25 years, it is no wonder businesses are concerned that they are paying substantially more for fuel, food and transport costs than they were a year ago. UK households should be concerned too as the rise in prices from service providers was the fastest since July 1996 and the cost of living is set to rise in the coming months."

## IHS Markit / CIPS UK Composite PMI®

### Private sector jobs growth hits survey-record high



June data indicated a steep rise in UK private sector output, supported by robust growth in both service activity and manufacturing production. The seasonally adjusted UK Composite Output Index posted 62.2 in June, down from 62.9 in May but the second-highest reading since the series began in January 1998. This figure compared favourably with the earlier 'flash' reading for June (61.7).

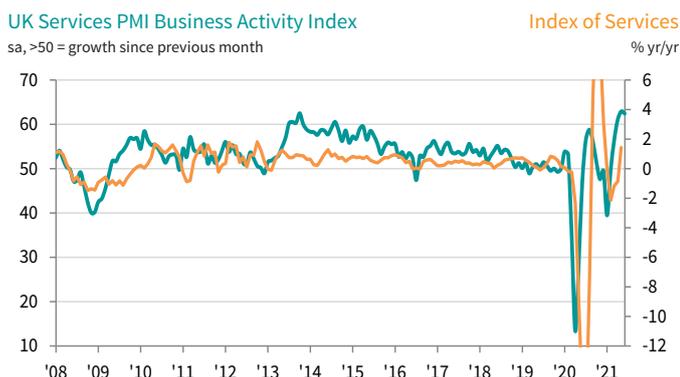
The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

Service sector activity (index at 62.4) increased at a slightly faster rate than manufacturing output (61.1), although both sectors saw a slowdown in the speed of recovery since May.

A rapid turnaround in staffing numbers continued in June, led by additional hiring across the service economy. Measured overall, the rate of private sector employment growth was the strongest recorded since the series began in January 1998.

Escalating cost inflation at both manufacturing firms and service providers led to the steepest rise in total operating expenses across the private sector economy since records began more than 23 years ago. Strong cost pressures and resurgent demand meant that prices charged inflation also hit a record-high in June (this index was first compiled in November 1999).

\*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](mailto:economics@ihsmarkit.com).

### Survey dates and history

Data were collected 11-28 June 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](http://ihsmarkit.com/products/pmi.html).