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IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Service sector recovery gains momentum, but input cost inflation hits new survey-record high in October

Key findings

Fastest rise in business activity for three months

Cost inflation accelerates to its strongest in over 25 years

Average prices charged increase at survey-record pace

Data were collected 12-27 October 2021.

UK service providers indicated a sharp and accelerated rise in business activity during October. This was driven by the strongest increase in new work since June. The reopening of the economy and looser international travel restrictions helped to boost demand, with new export sales rising at the fastest pace for just over three years.

Stronger demand, staff shortages and stretched supply chains all contributed to a spike in inflationary pressures during October. Both operating expenses and prices charged by service providers increased at the steepest rates since the survey began in July 1996.

At 59.1 in October, up from 55.4 in September, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index signalled the strongest pace of recovery since July.

Survey respondents often commented on rising business and consumer spending in response to the roll back of pandemic restrictions at home and abroad. Measured overall, the latest increase in new order volumes was the steepest for four months. The recovery in new work from abroad gained momentum in October and, although only modest, the rate of expansion was the fastest since June 2018.

Around 30% of the survey panel reported an increase in employment numbers during October, while only 13% signalled a reduction. The resulting index pointed to the second-fastest rise in workforce levels since June 2014. Service providers commented on exceptionally strong demand in the hospitality, leisure and transportation sectors. Where a decline in employment was reported, many firms noted

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



Sources: IHS Markit, CIPS.

unusually high staff turnover due to higher wages on offer from competitors.

A number of survey respondents commented on severe difficulties finding candidates to fill vacancies, despite efforts to boost starting salaries and conditions. Subsequent staff shortages added to pressure on business capacity across the service economy in October. This was signalled by an increase in backlogs of work for the eighth consecutive month.

Higher wages were one of many factors leading to a rapid increase in operating expenses at service sector businesses in October. Around 59% of the survey panel reported a rise in their cost burdens, while only 1% signalled a decline. The resulting index signalled the steepest rate of input price inflation for over 25 years.

Rising costs for energy, fuel, raw materials, transport and staff all contributed to increased prices charged across the service sector. Moreover, the rate of output charge inflation reached a fresh survey-record high in October. Service providers again noted that strong demand conditions and constrained business capacity had resulted in the swift pass through of higher input prices to clients.

Concerns about escalating cost pressures and a prolonged period of supply constraints acted as a brake on business optimism in October. The degree of positive sentiment about the year ahead growth outlook eased for the second month running to its lowest since January.

Comment

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

"Looser international travel restrictions and greater domestic mobility helped to lift the UK service sector recovery out of its recent malaise in October. Business activity expanded at the fastest pace since July, driven by the first acceleration in new order growth for five months. The latest survey also pointed to the best month for export sales since June 2018.

"Tight labour market conditions persisted in October. Many consumer service providers commented on unfilled vacancies after staff departures for higher wages, despite efforts to boost pay and conditions. The impact of staff shortages was another rise in backlogs of work and greater willingness to pass on higher costs to new customers.

"Average prices charged increased at a survey-record pace, reflecting across the board pressures on operating expenses. Some 59% of the survey panel reported an increase in their average costs during October, compared with only 15% at the same time in 2020.

"Record rates of input price and output charge inflation appear to have dampened business optimism, which eased to its lowest since January. Comments from survey respondents also cited worries about prolonged staff shortages and constraints on growth due to the supply chain crisis."

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

"The dominant service sector in the UK economy had a surprisingly good month in October with a strong uptick in overall output, job creation and new orders as business and consumers began to spend again unfettered by lockdown and pandemic restrictions. This rise in activity was driven by the domestic market but also export orders rising to the largest extent since 2018 as travel opportunities opened up and pandemic savings were spent on holidays and hospitality.

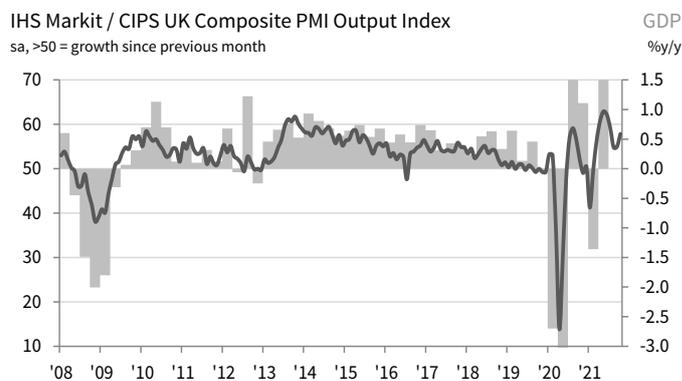
"Not even the survey record high in prices charged to customers and consumers restricted this autumnal joie de vivre as businesses were keen to keep going and build on the pandemic recovery and UK citizens enjoyed more normality.

"With all the good news in the PMI results, business optimism still fell to its lowest since March and there are good reasons for this. Escalating business costs remain deeply concerning as salaries rocketed along with fuel and energy costs and material shortages as a result of supply chain disorder. A third of supply chain managers reported stronger job creation as vacancies grew to meet fresh demand, but many struggled to find the right staff from ever-decreasing numbers of job seekers.

"The seemingly likely rise in interest rates this week may take some of the heat out of the overinflating UK economy but will also result in additional pressure on some household budgets, threatening to cut off this stream of good fortune early next year."

IHS Markit / CIPS UK Composite PMI®

Manufacturing sector growth subdued in October



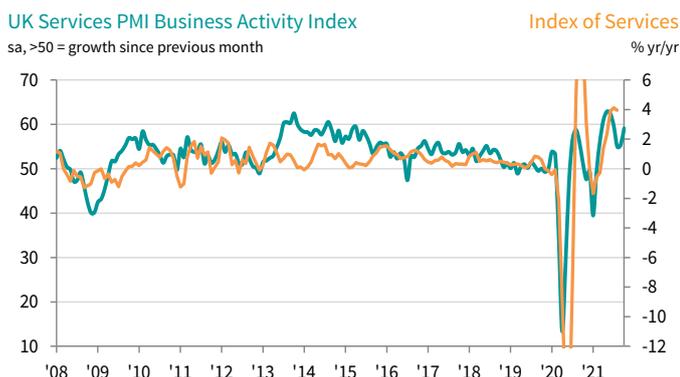
The seasonally adjusted UK Composite Output Index registered 57.8 in October, up from 54.9 in September and the highest reading for three months. However, the index remained much weaker than the peak seen in May (62.9). The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

October data indicated that service sector output (59.1) expanded more quickly than manufacturing production (51.3) for the fifth consecutive month in October. Moreover, the manufacturing sector underperformance was the largest recorded since February 2009.

A widening gap between manufacturing and service sector growth largely reflected disruptions at goods producers due to severe shortages of materials and lengthy wait times for deliveries by suppliers. Reflecting this, backlogs of work in the manufacturing sector were accumulated at a much faster pace than in the service economy.

Rapid input cost inflation was seen across the private sector economy in October. At 80.1, up from 75.2 in September, the seasonally adjusted Input Prices Index was the highest since the series began in January 1998. Similarly, prices charged by UK private sector firms increased at a survey-record pace in October, driven by unprecedented rises among both manufacturers and service providers.

*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 12-27 October 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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