

Embargoed until 0930 BST (0830 UTC) 5 October 2021

IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Prices charged inflation surges to a record high in September

Key findings

Charges rise at record pace amid supply constraints and spike in costs

Staff shortages hold back output and new orders

Backlogs accumulate for seventh month running

Data were collected 13-28 September 2021.

September data indicated another strong recovery in UK service sector activity, but severe supply constraints contributed to escalating inflationary pressures and the slowest rise in new orders since the end of the winter lockdown.

Rapid rises in fuel, energy and staff costs were passed on to customers in September. The rate of prices charged inflation accelerated sharply since August and was the fastest since the survey began in 1996.

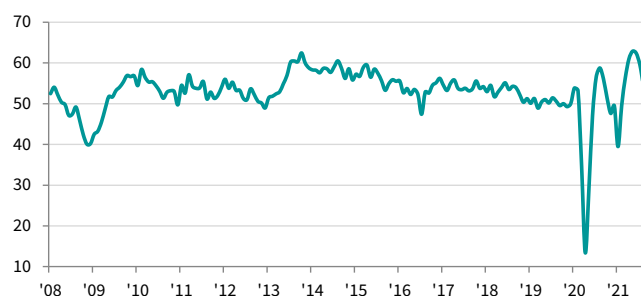
The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 55.4 in September, up slightly from August's six-month low (55.0) and well inside expansion territory. Although the latest reading signalled a solid increase in overall business activity, the rate of expansion was still much weaker than the peak seen in May (62.9).

Around 34% of the survey panel reported an increase in output during September, while only 13% signalled a reduction. Higher levels of activity were mostly attributed to robust confidence among clients and favourable business conditions due to the end of pandemic restrictions. However, those noting a fall in activity often commented on supply chain disruptions and shortages of staff, especially in the hospitality sector.

New order growth weakened for the fourth month running in September. The latest increase in new business volumes was the slowest since order books returned to expansion in March. Staff shortages, supply issues and the end of the stamp duty holiday were among the most commonly cited reasons for softer demand.

A lack of candidates to fill vacancies and persistently high numbers of departing staff acted as a considerable brake on

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



Sources: IHS Markit, CIPS.

employment growth during September. Reports from survey respondents suggested that the slowdown in job creation from August's record high also reflected some redundancies as furlough arrangements ended.

Shortages of staff and lengthy wait times for supplier deliveries stymied efforts to reverse the recent spike in backlogs of work across the service economy. Latest data showed that unfinished business has now built up for seven months running, which marked the longest phase of backlog accumulation since 2015.

Supply chain difficulties resulted in another round of steep input price inflation at service sector companies during September. Exactly half of the survey panel reported an increase in their average cost burdens, while only 1% signalled a reduction. This pointed to the second-fastest rate of cost inflation since the survey began 25 years ago, exceeded only by that seen in July.

The percentage of service providers reporting an increase in their average prices charged jumped from 17% in August to 24% in September. Moreover, the latest index reading signalled that the rate of output charge inflation was the steepest since the survey began in July 1996. Service sector businesses widely noted that constrained supply, higher transport costs and rising salary payments had all pushed up inflationary pressures as customer demand recovered.

Finally, latest data indicated that business optimism eased slightly since August. However, the majority of panel members (57%) expect a rise in output during the year ahead, while only 8% forecast a fall.

Comment

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

"The supply chain crisis put a considerable brake on recovery in the UK service sector during September. Survey respondents widely noted that shortages of staff, raw materials and transport had resulted in lost business opportunities. Consequently, new orders expanded at the slowest pace since the end of the winter lockdown, while backlogs of work accumulated as service providers struggled to find candidates to fill vacancies.

"Another spike in operating expenses was reported in September, even though this data is yet to fully reflect the inflationary impact of the UK fuel crisis and surging energy prices at the end of the month. Higher wages were also a key reason for increased cost burdens in September.

"Tight constraints on business capacity and rampant supply chain uncertainty meant that service providers have become more willing to pass on higher costs to customers. The latest rise in average prices charged by UK service sector firms was the fastest in over 25 years of data collection, with many businesses reporting more frequent reviews of pricing due to escalating cost increases by suppliers."

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

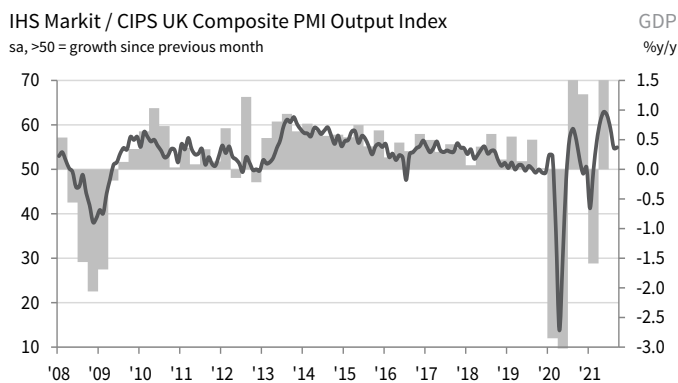
"Relentless supply chain disruption put a cap on activity and orders in September, as new work dropped to its lowest expansion level for over 6 months. Domestic sales faltered and export orders were hit by Brexit restraints as the thrust of recovery in the last few months slowed again.

"Though job creation was maintained in September, the services sector still had obstacles to overcome in terms of skills gaps and talent shortages as the competition for good employees deepened. Whilst many paid higher wages to secure necessary skills, some others responded with redundancies as furlough support ended and operations were restructured, leaving a mixed employment picture.

"The chokehold on supply chain deliveries also made food, fuel and logistics much more expensive, which was a factor in dampening business optimism for activity in the next 12 months. As prices charged rose at their fastest rate since 1996, it seems the floodgates are open for higher inflation to wash through the UK economy and firms fear the growth this month may be eroded further by higher costs and shortages as we move towards the festive period."

IHS Markit / CIPS UK Composite PMI®

Weaker manufacturing growth weighs on UK economy



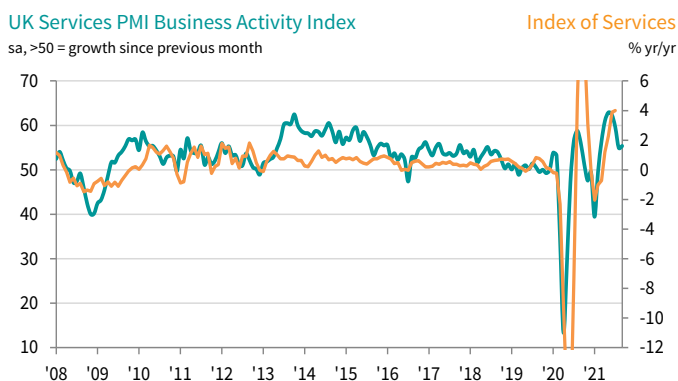
The seasonally adjusted UK Composite Output Index posted 54.9 in September, up fractionally from 54.8 in August but still much weaker than the peak seen earlier this summer. On average in the third quarter this index eased to 56.3, down considerably from 61.9 in Q2 2021. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Slower manufacturing production growth was a key factor holding back the UK economy in September (index at 52.7, down from 54.1 in August). The latest increase in manufacturing output was the weakest since February, largely due to severe supply chain difficulties at home and abroad. Service sector growth has now outpaced the manufacturing recovery for four months in a row.

September data highlighted a slowdown in private sector job creation from the survey-record high seen in the previous month. Manufacturers saw a particularly steep slowdown in employment growth, with staffing numbers rising at the weakest pace since January. Shortages of candidates to fill vacancies were widely reported across the private sector.

Turning to inflationary pressures, latest data pointed to the steepest rise in output charges since this index began in November 1999. On a more positive note, manufacturing sector input prices rose at the slowest pace since April.

*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 13-28 September 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

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