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IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Fastest rate of service sector output growth for 24 years, but prices charged inflation hits record high

Key findings

Strongest rise in business activity since May 1997

Rate of job creation continues to gain speed

Prices charged increase at survey-record pace in May

Data were collected 12-26 May 2021.

The recovery in UK service sector output gained further momentum in May, driven by resurgent business and consumer spending in response to looser pandemic restrictions. This led to the strongest rate of employment growth for just over six years. Backlogs of work nonetheless continued to accumulate at a robust pace due to forward bookings, pressure on business capacity and staff shortages.

Meanwhile, input cost inflation reached its highest since July 2008. A combination of strong demand and rising operating expenses resulted in the steepest increase in prices charged by service providers since the survey began in 1996.

At 62.9 in May, up from 61.0 in April, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index was above the 50.0 no-change value for the third month in a row. The latest reading pointed to the fastest rate of output growth for 24 years.

Service providers indicated a sharp and accelerated rise in new order volumes during May, with the speed of recovery the fastest since October 2013. This reflected a swift turnaround in domestic demand due to the reopening of the UK economy. Export sales fell slightly in comparison to April, which was attributed to tight restrictions on international travel and the impact of post-Brexit constraints on trade with EU clients.

May data pointed to a marked increase in unfinished work across the service economy. The latest accumulation of backlogs was the sharpest since July 2014. Survey respondents mostly cited better-than-expected client demand. There were also reports that staff shortages and, in

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



Sources: IHS Markit, CIPS.

some cases, a reluctance of employees to return from furlough had contributed to rising volumes of work-in-hand.

Capacity pressures and increasingly upbeat projections for customer demand spurred greater staff recruitment in May. The latest increase in payroll numbers was the strongest since March 2015, with survey respondents citing a combination of new hires and the return of employees from furlough. There were many reports suggesting difficulties with staff availability, especially among consumer service providers.

Tighter labour market conditions and subsequent rises in salary payments added to cost pressures across the service economy in May. Latest data indicated the steepest overall rate of input price inflation since July 2008. In addition to wage pressures, there were widespread reports that suppliers had passed on higher raw material and transportation costs during the latest survey period.

Around 20% of the survey panel reported an increase in their average prices charged in May, while only 3% signalled a reduction. The resulting index measuring output charges across the service sector pointed to the fastest rate of inflation since the survey began in July 1996. Higher charges were overwhelmingly linked to strong cost pressures and a sharp rebound in client demand.

Strong inflationary pressures did little to dampen business expectations for the year ahead, with confidence drifting down only slightly since April. The index remained close to March's 14-year high and signalled a strong degree of optimism about near-term business activity growth.

Comment

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

"UK service providers reported the strongest rise in activity for nearly a quarter-century during May as the roll back of pandemic restrictions unleashed pent up business and consumer spending. The latest survey results set the scene for an eye-popping rate of UK GDP growth in the second quarter of 2021, led by the reopening of customer-facing parts of the economy after winter lockdowns.

"Pressure on business capacity due to a spike in demand and staff hiring difficulties emerged as a major challenge for service sector companies in May. Job creation was the strongest for over six years, but backlogs of work accumulated to the greatest extent since the summer of 2014.

"The successful vaccine roll out has generated a strong willingness to spend and fortified business optimism across the service economy. However, inflationary trends intensified in May as suppliers passed on higher transport bills, staff costs and raw material prices. Imbalanced demand and supply appears to have spread beyond the manufacturing sector, which contributed to the steepest rise in prices charged by service providers since the survey began in July 1996."

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

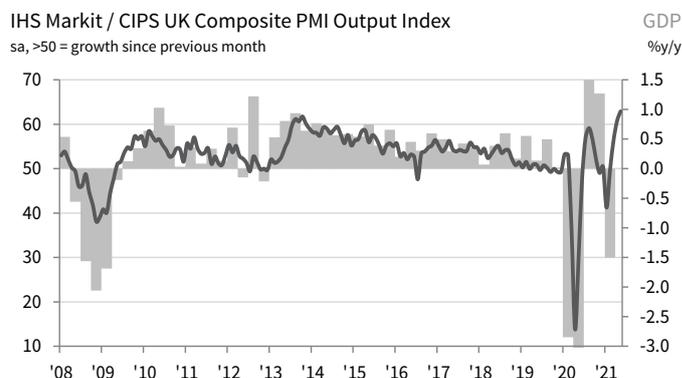
"As covid restrictions were in retreat, a sunnier aspect in the sector was maintained last month and service businesses built on recent improvements with the quickest level of growth since 1997.

"Underpinned by strong business optimism, and confidence in successful vaccine drives, service providers saw new orders increase at the fastest rate since October 2013 as uninhibited consumers enjoyed their freedom and spent their savings. Businesses rushed to increase their operational capacity to meet this demand but were struggling to fill their job vacancies. As staff moved on to other opportunities following the pandemic's impact on lives and priorities, a potential skills gap in the sector means some firms may struggle to meet their new goals.

"This shortfall in talent meant the best candidates were increasingly in demand and demanding higher wages, adding to the highest inflationary rise in business costs since July 2008. We will see more pressure for salary rises, as basic living becomes more expensive for everyone as the hike in prices charged by service companies was the highest since 1996."

IHS Markit / CIPS UK Composite PMI®

UK private sector output growth hits series-record high



Sources: IHS Markit, CIPS, ONS.

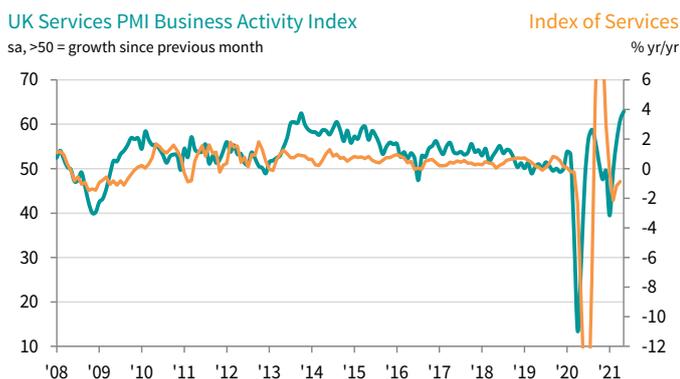
The seasonally adjusted UK Composite Output Index rose from 60.7 in April to 62.9 in May, to signal the steepest rate of expansion since this series began in January 1998. It was also higher than the earlier 'flash' reading for May (62.0). Higher levels of private sector business activity have now been recorded for three months running. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Rapid rates of output growth were seen in both the manufacturing (index at 63.0) and service sectors in May (62.9), fuelled by a spike in business and consumer spending. Survey respondents widely commented on a boost from looser pandemic restrictions and confidence due to the successful vaccine roll out. May data also indicated another strong increase in private sector employment, with the pace of jobs growth reaching its highest since June 2014.

Input costs continued to rise at a particularly steep rate in the manufacturing sector (index at 87.6). Measured overall, the latest increase in business expenses across the UK private sector was the fastest since August 2008.

Average prices charged by private sector companies increased at a robust pace in May, with the rate of inflation the strongest since comparable data were 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.

Survey dates and history

Data were collected 12-26 May 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.

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