Employment growth hits record high amid sharply rising workloads, but inflationary pressures also strengthen

Key data

Flash UK Composite Output Index
June: 61.7, 2-month low (May final: 62.9)

Flash UK Services Business Activity Index
June: 61.7, 2-month low (May final: 62.9)

Flash UK Manufacturing Output Index
June: 62.0, 2-month low (May final: 63.0)

Flash UK Manufacturing PMI
June: 64.2, 2-month low (May final: 65.6)

June data were collected 11-21 June 2021.

June saw further strong growth in output across the UK private sector, according to the latest PMI® data compiled by IHS Markit and CIPS. The overall expansion in activity was only slightly slower than the record posted in May and among the fastest since the series began in January 1998. Marked increases in output were seen across both the manufacturing and service sectors as the economy continued to reopen following the COVID-19 lockdown earlier in the year.

Companies responded to rising workloads by taking on extra staff at an unprecedented rate at the end of the second quarter. Also hitting previously unsurpassed levels, however, were rates of inflation of input costs and output prices as supply-chain disruption fuelled price pressures.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index registered at 61.7 in June, down slightly from May’s record reading of 62.9 but still pointing to one of the strongest monthly improvements in business activity across the private sector since 1998.

New orders continued to surge, with marked increases seen across both monitored sectors. The rate of expansion in new export orders remained much softer than that seen for total new business, however, amid a second successive reduction in services new business from abroad.

Companies responded to rising workloads by taking on extra staff in June. Moreover, the rate of job creation quickened to the strongest in the series history.

The rate of input cost inflation accelerated for the fifth month running and was the joint-fastest on record, equal with that continued...
Finally, optimism in the 12-month outlook remained widespread, hitting a fresh record high for the second month running.

Looking ahead, companies remained confident that output will increase over the next 12 months as the recovery from the COVID-19 pandemic continues. Optimism was signalled at manufacturers and service providers alike. That said, overall sentiment eased to the lowest in five months.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers’ Index® (PMI®) – a composite single-figure indicator of manufacturing performance – posted 64.2 in June, down only slightly from the record of 65.6 seen in May and the second-highest since the survey began in January 1992.

Further substantial expansions in both output and new orders were recorded at the end of the second quarter as demand continued to surge following the loosening of the COVID-19 lockdown. Although new orders increased at a softer pace than in May, the extent of the expansion was still one of the greatest since the survey began almost 30 years ago.

The rate of job creation also remained elevated as firms scaled up workforce numbers in response to surging workloads. Jobs growth softened only slightly from May’s record. Despite a strong rise in staffing levels, backlogs of work increased substantially again, and to an extent much stronger than any seen prior to May.

There were some reports from respondents that production was restricted to some extent in June by severe supply-chain disruption. Vendor delivery times lengthened to an extent only surpassed by that seen during the first COVID-19 lockdown in April 2020. In response to supply shortages, firms made further efforts to build buffer stocks. Inventories of purchases expanded for the second month running, and at the fastest pace in the year-to-date.

Raw material shortages contributed to another substantial increase in input costs faced by UK manufacturers. In fact, the rate of cost inflation hit a fresh record high for the second month running as more than three-quarters of respondents signalled a rise in June. In turn, firms raised their own selling prices and the rate of charge inflation surged to a new record high.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index posted 61.7 in June, down from 62.9 in May but still signalling a strong expansion in service sector activity in line with looser COVID-19 restrictions and growing customer demand. A similar picture was seen with regards to new orders, with the rate of expansion slowing only slightly from May’s record high. Exports remained subdued, however, falling for the second month running.

The ramping up of new business increased demand for staff in June. Moreover, the rate of job creation was only fractionally softer than the record posted seven years ago. Despite strong job creation, companies saw a joint-record accumulation of outstanding business. Meanwhile, input costs continued to surge, rising at the fastest pace for 13 years. In turn, selling price inflation hit a fresh record high.

Finally, optimism in the 12-month outlook remained widespread, despite sentiment easing to the lowest since January.

Comment

Chris Williamson, Chief Business Economist at IHS Markit, said:

“Businesses are reporting an ongoing surge in demand in June as the economy reopens, led by the hospitality sector, meaning the second quarter looks to have seen economic growth rebound very sharply from the first quarter’s decline. There are some signs that the rate of expansion appears to have peaked, as both output and new order growth cooled slightly from May’s record performances, but full order books and a further loosening of virus-fighting restrictions should nevertheless help ensure growth remains strong as we head through the summer.

“However, inflation worries have continued to intensify. Record levels of the survey’s price gauges and the further development of capacity constraints hint strongly that consumer price inflation has much further to rise after already breaching the Bank of England’s 2% target in May. Although businesses also reported a record increase in employment during June, many firms continued to report a lack of capacity to meet the recent surge in demand, often due to staff and supply shortages. The survey also found growing evidence of labour shortages feeding through to higher wage costs, which could add to worries that the recent spike in inflation could prove stickier.”

Duncan Brock, Group Director at CIPS, said:

“The month of June offered abundance in terms of rapid growth and new orders along with the highest levels of job creation since 1998 in private sector business. The lockdown lid was lifted on depressed sales and marketplaces buzzed with activity and optimism.

“It was only struggling supply chains that constrained further expansion. The manufacturing sector experienced longer delivery times and more shortages for items such as semi-conductors, preventing many businesses from meeting demand. Some supply chain managers increased forward buying activities to beat future delays but only served to add to the lengthening times for their goods.

“As materials were increasingly hard to come by, they once again became more expensive. Record cost inflation last seen in 2008 filtered through to increasing output costs as manufacturers were unable to absorb these rapid rises any longer. In service businesses, consumers were hit with considerably higher prices for food and hospitality, increasing the threat of soaring inflation in the UK economy this summer.”
UK Composite Employment Index

Source: IHS Markit, CIPS.

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Survey methodology

The IHS Markit / CIPS Flash UK Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to survey panels of around 650 manufacturers and 650 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by IHS Markit as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

- Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.

A diffusion index is calculated for each manufacturing and services 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.

Composite indices for manufacturing are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the ‘Composite PMI’ but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers’ Index® (PMI®). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

- Composite Output Index = 0.1 (absolute difference 0.6)
- Services Business Activity Index = 0.1 (absolute difference 0.7)
- Manufacturing PMI = 0.0 (absolute difference 0.4)

Underlying final 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.

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