

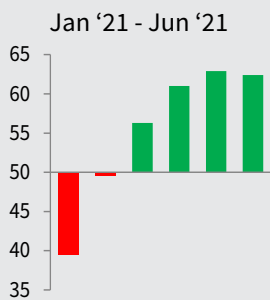


IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

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

UK Services Business Activity Index



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

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 but still the second-highest reading since October

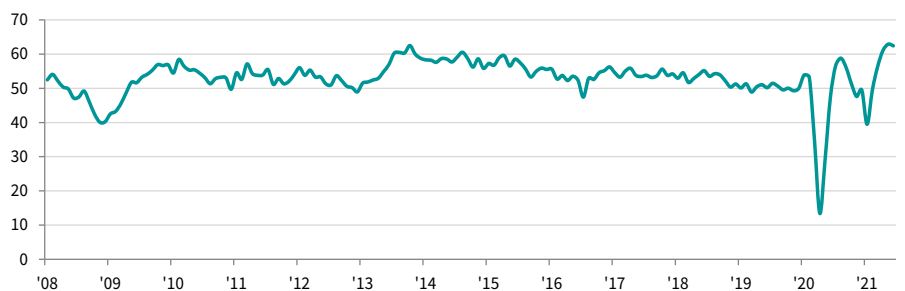
2013. The index has posted above the 50.0 no-change value for four months in a row. Moreover, the average reading for the second quarter of 2021 (62.1) was the highest for any quarter in the past 24 years.

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 signalled a marginal reduction in export sales among service sector companies. International travel restrictions and uncertainties about

continued...

UK Services Business Activity Index
sa, >50 = growth since previous month



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quarantine policies were the most commonly cited factor. Some firms also noted that Brexit-related issues had dampened export orders to the EU.

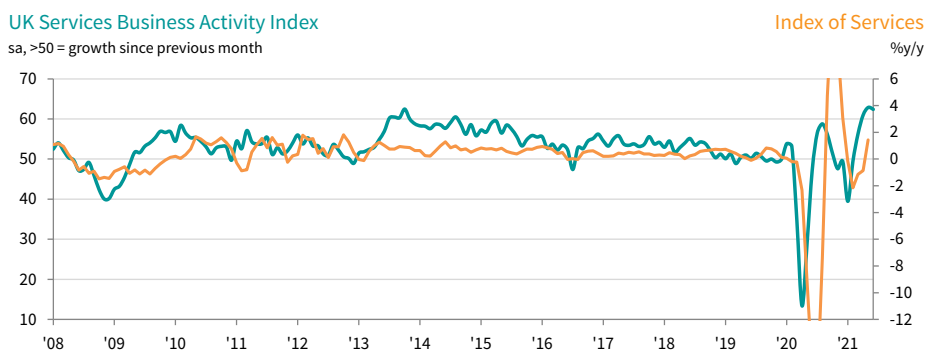
There were more signs that service providers had struggled to keep up with demand, with those in the hospitality and leisure sector widely noting capacity constraints and shortages of staff. June data pointed to the sharpest rise in backlogs of work since the survey began in July 1996.

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."



Activity and demand

Business activity

June data highlighted another steep increase in business activity across the service sector, which extended the current period of expansion to four months. The seasonally adjusted index eased from May's 24-year high, but still signalled the second-strongest rate of growth since October 2013. Service providers again commented on a surge in business and consumer spending as the UK economy reopens.

New business

The volume of new work received by service sector companies expanded sharply in June, although the speed of recovery moderated since the previous month. Improved order books were mostly attributed to rising client demand and the launch of new projects in response to looser pandemic restrictions. However, there were also a number of reports suggesting that overseas travel restrictions and a lack of international visitors had dampened sales in some parts of the leisure and hospitality sector.

New export business

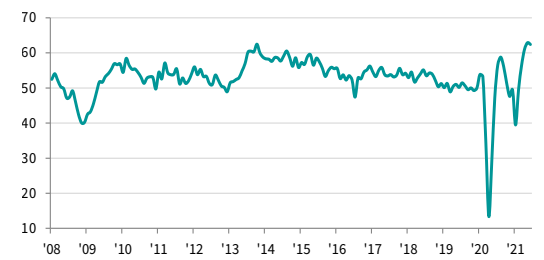
Adjusted for seasonal influences, the New Export Business Index registered below the 50.0 no-change mark for the second month in a row during June. This was often linked to constraints on inbound travel. Some firms continued to cite Brexit as the main factor weighing on export sales to the EU.

Business Activity Index

sa, >50 = growth since previous month

62.4

Jun '21

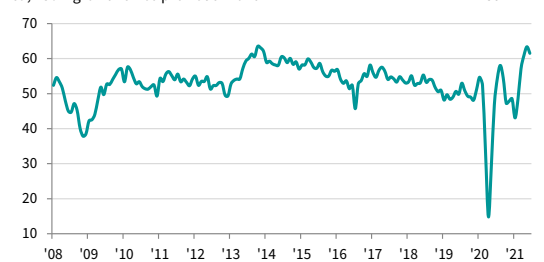


New Business Index

sa, >50 = growth since previous month

61.5

Jun '21



New Export Business Index

sa, >50 = growth since previous month

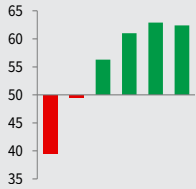
49.7

Jun '21



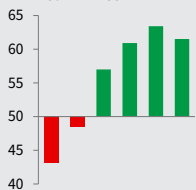
Business Activity Index

Jan '21 - Jun '21



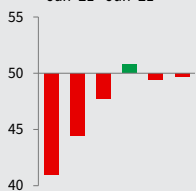
New Business Index

Jan '21 - Jun '21



New Export Business Index

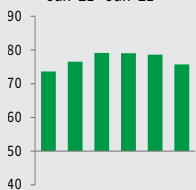
Jan '21 - Jun '21



Business expectations

Future Activity Index

Jan '21 - Jun '21



The proportion of survey respondents expecting an increase in business activity during the year ahead (60%) once again vastly exceeded those forecasting a decline (8%). That said, the resulting Future Activity Index dropped since May and signalled the lowest degree of optimism for five months.

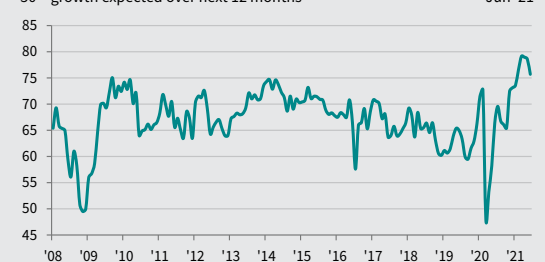
Some service providers noted that the rapid upswing in customer demand after reopening is unlikely to persist over the longer-term.

Future Activity Index

>50 = growth expected over next 12 months

75.7

Jun '21



Employment and capacity

Employment

Staff hiring gained further momentum in June, with the seasonally adjusted Employment Index pointing to the strongest rise in payroll numbers across the service economy for exactly seven years. Job creation was overwhelmingly linked to greater business requirements following a sharp improvement in client demand. Companies operating in the hospitality sector cited efforts to rebuild capacity and strong growth since the roll-back of restrictions on trade.

Outstanding business

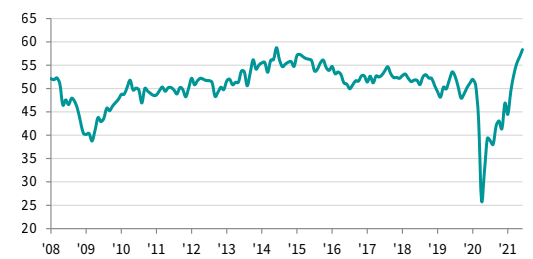
June data indicated a robust and accelerated accumulation of unfinished business at service sector firms. The latest increase in backlogs of work was the fastest since the index began in July 1996. Survey respondents noted staff shortages and difficulties sourcing suitably skilled candidates for job vacancies, alongside supplier delays and, in some cases, full order books due to pent up demand.

Employment Index

sa, >50 = growth since previous month

58.3

Jun '21

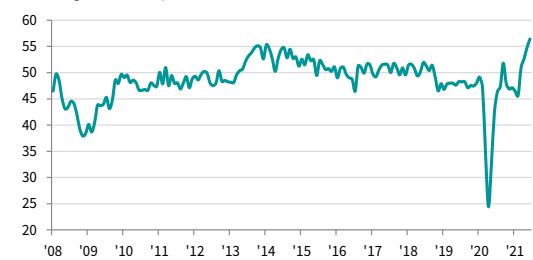


Outstanding Business Index

sa, >50 = growth since previous month

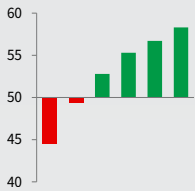
56.4

Jun '21



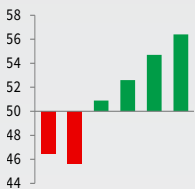
Employment Index

Jan '21 - Jun '21



Outstanding Business Index

Jan '21 - Jun '21



Prices

Input prices

Average cost burdens across the service economy increased at a rapid pace in June. The seasonally adjusted Input Prices Index signalled the strongest rate of inflation since the survey began 25 years ago. Higher operating expenses were mainly linked to increased staff wages, shipping costs, commodity prices and fuel bills. Survey respondents often noted that cost pressures stemming from raw material shortages and a lack of transportation capacity since the pandemic had been amplified by Brexit-related surcharges among suppliers.

Prices charged

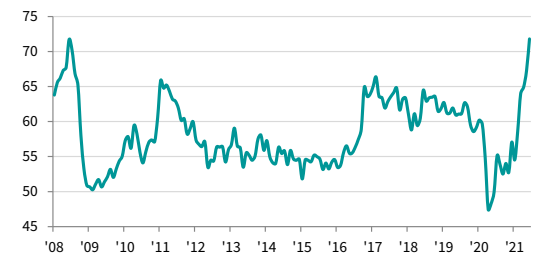
Mirroring the trend for input costs, latest data pointed to the fastest increase in average prices charged by service providers since the survey began in July 1996. Anecdotal evidence primarily cited efforts to maintain operating margins following sharp rises in staff wages and purchasing prices. However, some firms commented on temporary hikes in their average prices charged to help manage demand amid supply constraints and limited scope to boost short-term business capacity.

Input Prices Index

sa, >50 = inflation since previous month

71.8

Jun '21

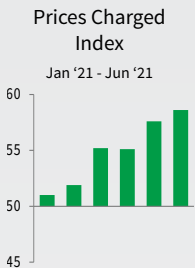
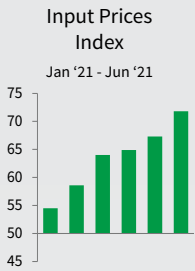
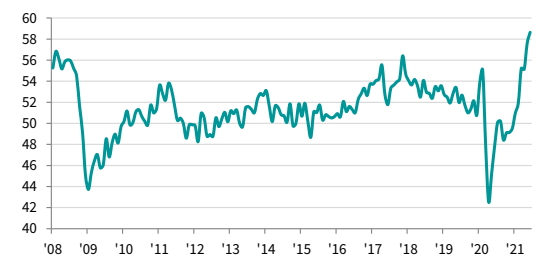


Prices Charged Index

sa, >50 = inflation since previous month

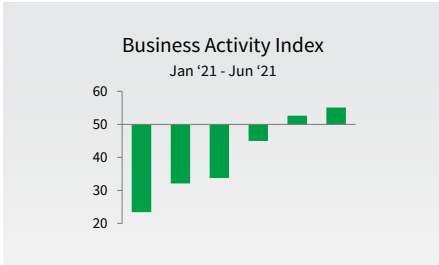
58.6

Jun '21



Services sub-sectors: Three-month moving average

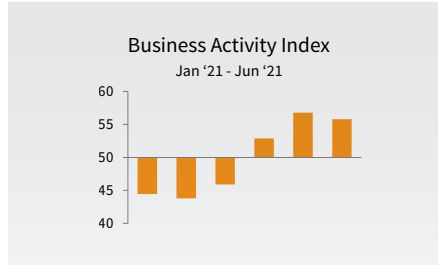
Hotels, restaurants & catering



Another sharp rise in business activity was recorded across the Hotels, Restaurants & Catering sub-sector during the three months to June. The rate of expansion was the fastest for almost seven years.

Strong forward bookings and pressure on business capacity meant that backlogs of work increased at the steepest pace for more than 24 years. Moreover, input cost inflation remained faster than seen in all other categories.

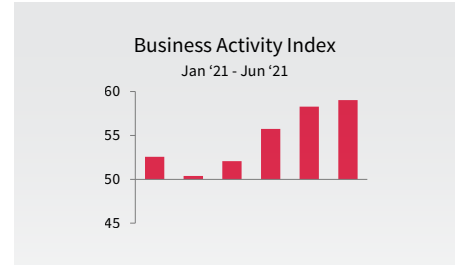
Transport & communication



Transport & Communication Services underperformed during the second quarter of 2021. Business activity increased only modestly and at a slower pace than seen in all other parts of the service economy. A number of firms cited international travel restrictions as the main factor holding back activity.

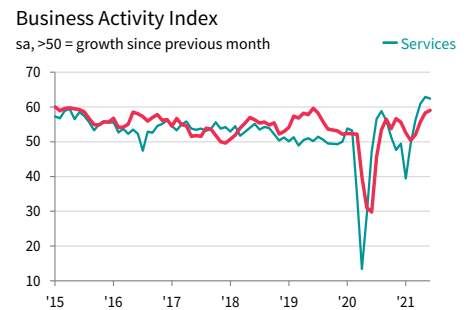
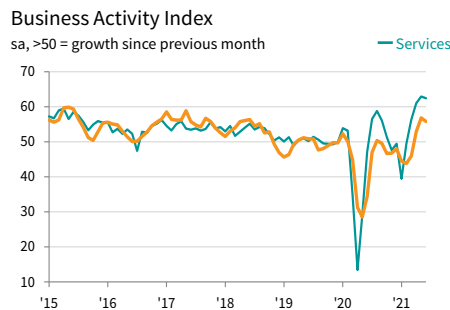
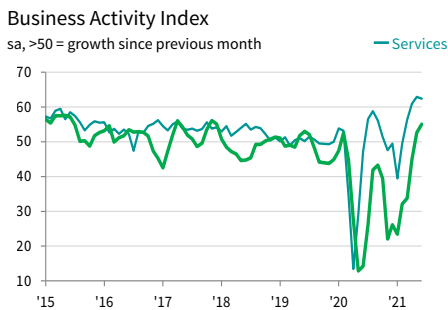
Business optimism nonetheless improved to its strongest since the three months to March 2016.

Computing & IT services



Business activity in the Computing & IT Services sub-sector expanded at a sharp rate in the three months to June. The latest increase was the fastest since the three months to August 2014.

Operating expenses continued to rise at a marked pace during the latest survey period. Moreover, the overall rate of cost inflation accelerated to its strongest for four years.

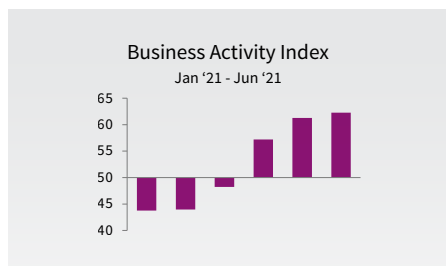


Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



Services sub-sectors: Three-month moving average

Financial intermediation



Business activity across the Financial Intermediation sub-sector increased at a sharp and accelerated pace during the three month to June. The rate of expansion was the fastest since early-2006.

Job creation remained stronger than most other parts of the service economy in the second quarter of 2021. The latest rise in employment numbers was the greatest for more than 24 years.

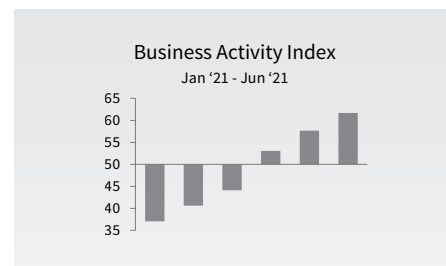
Business-to-business services



Business-to-business services topped the growth rankings in the second quarter of this year, with output rising at the strongest pace since the third quarter of 2013.

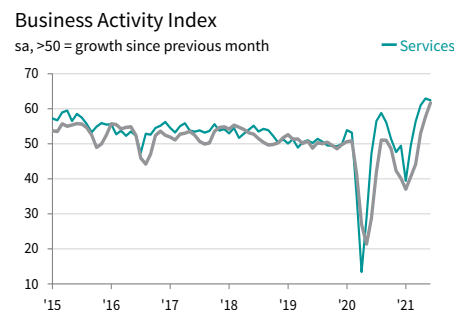
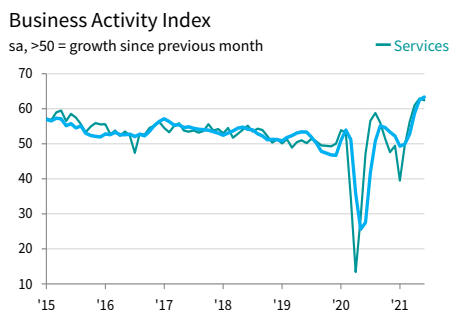
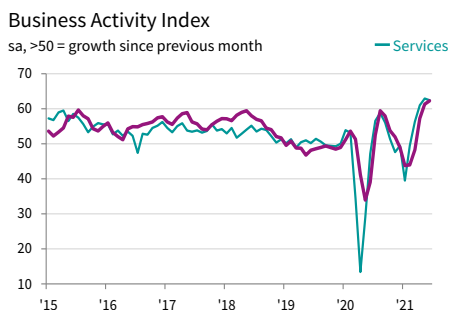
Strong order books meant that backlogs of work were accumulated at the fastest pace since the three months to May 1997. Jobs growth was also among the strongest seen over the past 24 years.

Other personal & community services



Activity in the Other Personal & Community Services category expanded again during the three months to June. The speed of recovery accelerated to its fastest since the three months to January 2004.

Latest data signalled a rapid increase in operating expenses in the sub-category, with the rate of input cost inflation reaching a survey-record high during the three months to June.



Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



IHS Markit / CIPS UK Composite PMI®

Private sector employment growth hits survey-record high

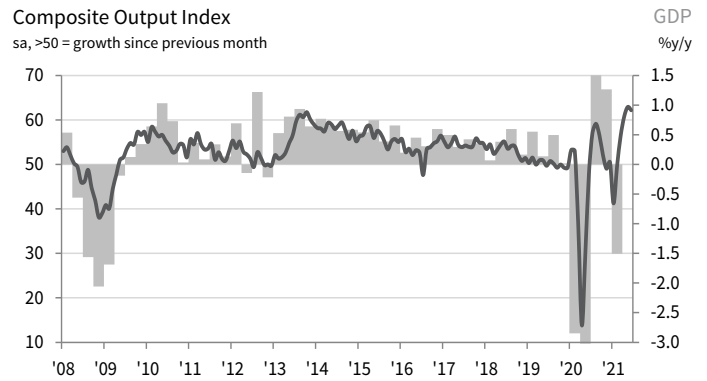
June data indicated a steep rise in UK private sector output, supported by robust growth in both service activity and manufacturing production. The seasonally adjusted UK Composite Output Index posted 62.2 in June, down from 62.9 in May but the second-highest reading since the series began in January 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.

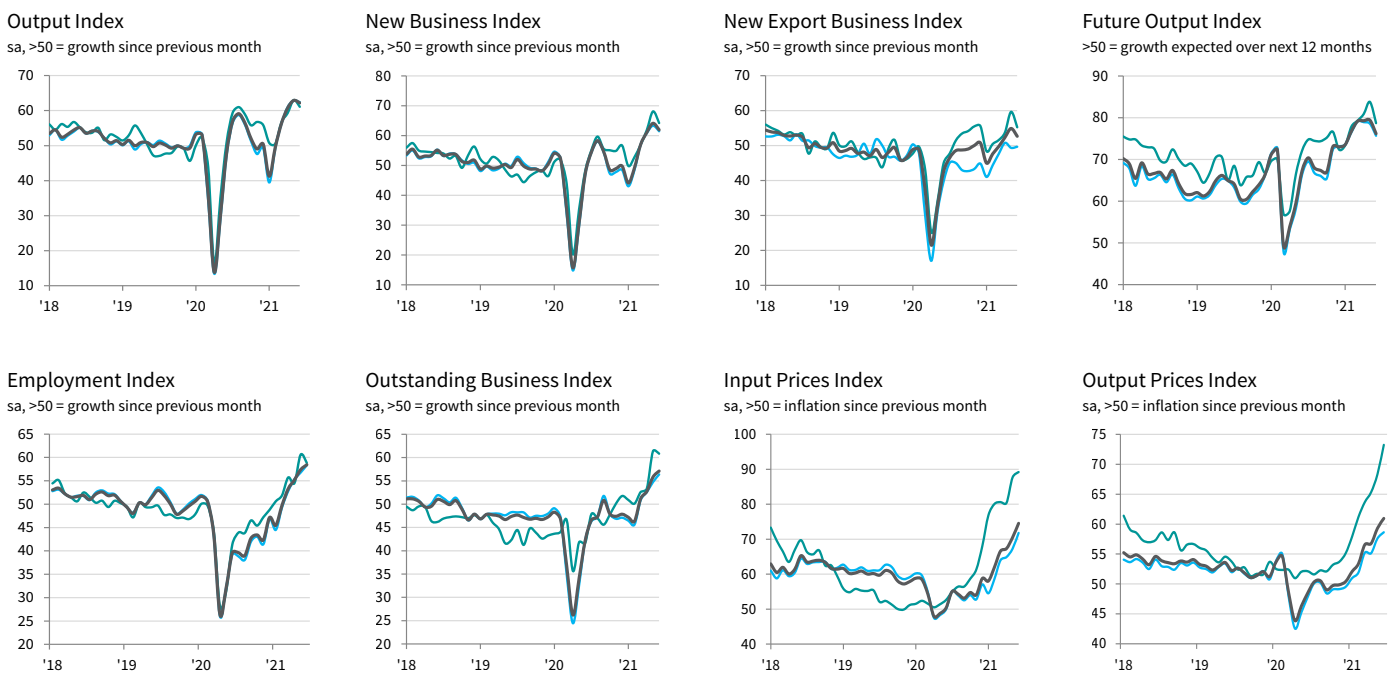
A rapid turnaround in staffing numbers continued in June, led by additional hiring across the service economy. Measured overall, the rate of private sector employment growth was the strongest recorded since the series began in January 1998.

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.

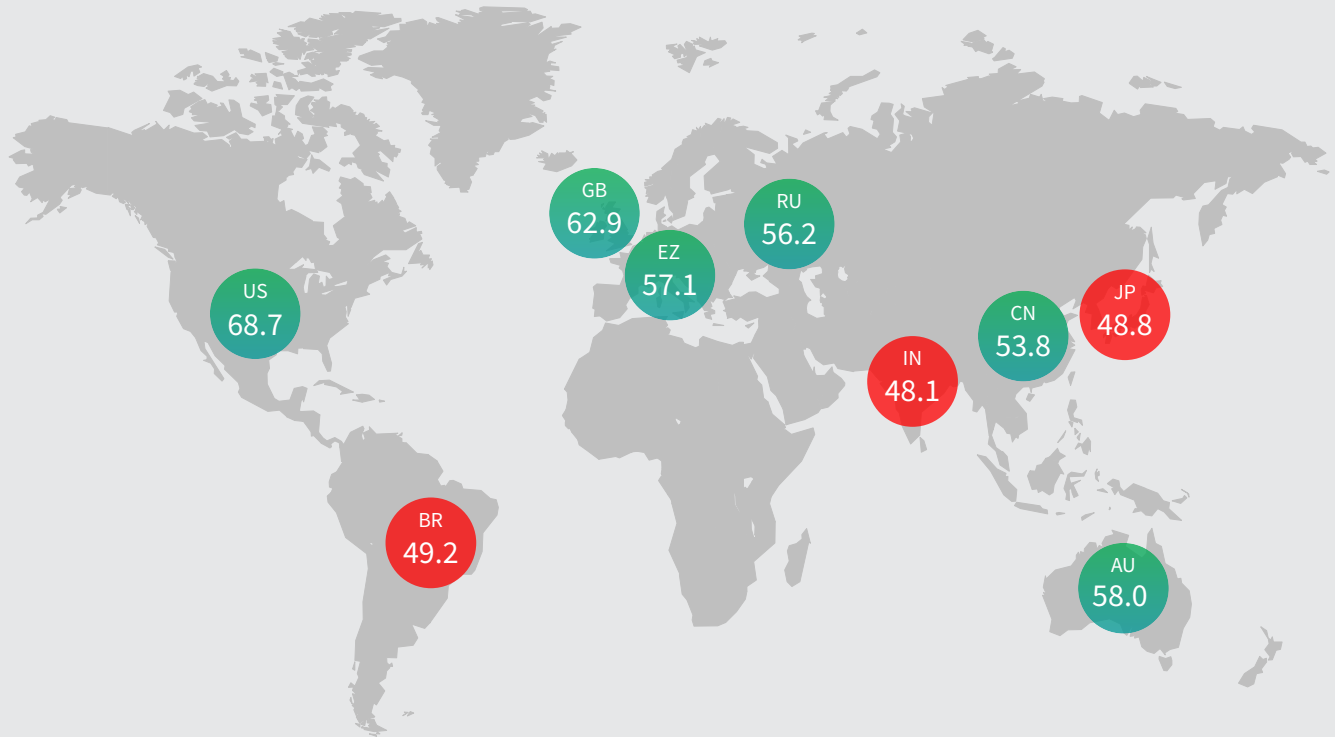
Composite / Manufacturing / Services



International PMI

Composite Output Index, May '21
 sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index
 sa, >50 = growth since previous month



Survey panel size

650

companies

Index calculation

$$\begin{aligned} & \% \text{ 'Higher' } \\ & + \\ & (\% \text{ 'No change' })/2 \\ & + \\ & (\% \text{ 'Lower' }) \times 0 \end{aligned}$$

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 11-28 June 2021.

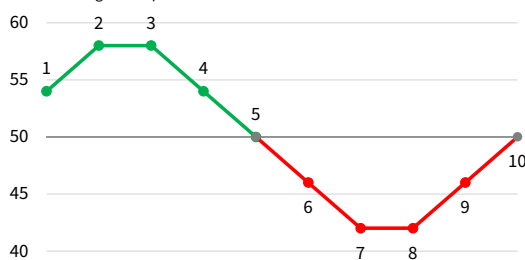
Survey data were first collected July 1996.

Survey questions

Business Activity	Employment
New business	Outstanding business
New export business	Input prices
Future activity	Output prices

Index interpretation

50.0 = no change since previous month



1 Growth	6 Decline, from no change
2 Growth, faster rate	7 Decline, faster rate
3 Growth, same rate	8 Decline, same rate
4 Growth, slower rate	9 Decline, slower rate
5 No change, from growth	10 No change, from decline

Sector coverage

Services PMI data include responses from companies operating in sectors classified according to the following ISIC Rev.4 codes:

- H Transportation and Storage
- I Accommodation and Food Service Activities
- J Information and Communication
- K Financial and Insurance Activities
- L Real Estate Activities
- M Professional, Scientific and Technical Activities
- N Administrative and Support Service Activities
- P Education*
- Q Human Health and Social Work Activities*
- R Arts, Entertainment and Recreation
- S Other Service Activities

*Private sector

Index summary

Services

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Jan '21	39.5	43.1	41.0	73.6	44.5	46.5	54.5	51.0
Feb '21	49.5	48.5	44.4	76.5	49.3	45.6	58.6	51.9
Mar '21	56.3	57.0	47.7	79.1	52.8	50.9	64.0	55.2
Apr '21	61.0	60.9	50.8	79.0	55.3	52.6	64.9	55.1
May '21	62.9	63.4	49.4	78.6	56.7	54.7	67.3	57.6
Jun '21	62.4	61.5	49.7	75.7	58.3	56.4	71.8	58.6

Composite (manufacturing and services)

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Output	New Business	New Export Business	Future Output*	Employment	Outstanding Business	Input Prices	Output Prices
Jan '21	41.2	44.1	45.0	73.6	45.5	47.2	58.1	52.1
Feb '21	49.6	49.2	47.6	76.7	49.7	46.3	62.0	53.4
Mar '21	56.4	57.0	49.8	79.2	53.3	51.2	66.6	56.5
Apr '21	60.7	61.0	52.4	79.3	55.2	52.7	67.3	56.8
May '21	62.9	64.1	54.9	79.4	57.4	55.8	70.5	59.3
Jun '21	62.2	61.9	52.7	76.2	58.4	57.1	74.6	60.9

By sector, Jun '21

sa, 50 = no change over previous month (3mma). *50 = no change over next 12 months (3mma).

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Hotels, Restaurants & Catering	55.1	62.1	84.9	55.7	59.0	74.6	54.1
Transport & Communication Services	55.8	53.0	71.8	50.9	50.9	71.5	60.2
Computing & IT Services	59.0	58.3	83.0	59.0	52.5	62.1	55.1
Financial Intermediation	62.3	64.3	76.1	59.2	58.6	56.9	54.2
Business-to-Business Services	63.3	63.6	74.5	59.2	56.2	66.9	57.4
Other Personal & Community Services	61.7	62.0	81.2	48.0	47.9	66.9	56.2

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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