

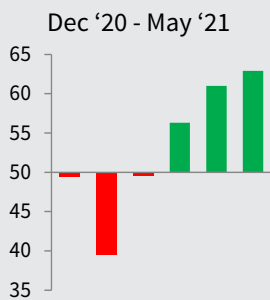


IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

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

UK Services Business Activity Index



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

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

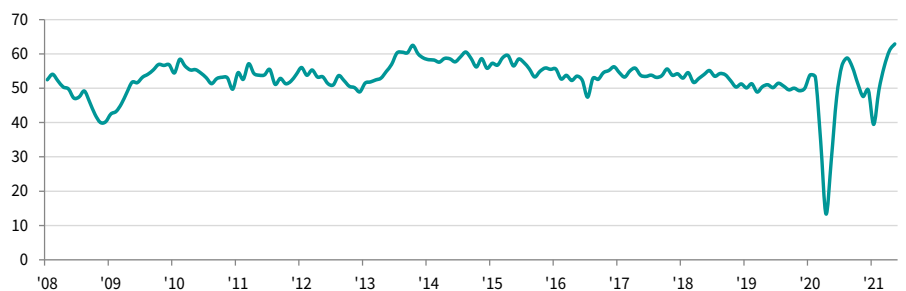
of output growth for 24 years.

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

continued...

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



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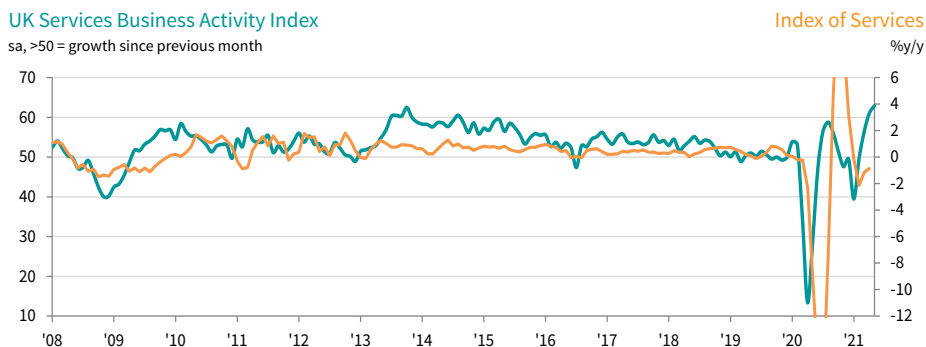
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Capacity pressures and increasingly upbeat projections for customer demand spurred greater staff recruitment in May. The latest increase in payroll numbers was the strongest since March 2015, with survey respondents citing a combination of new hires 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.



Sources: IHS Markit, CIPS, ONS.



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."



Activity and demand

Business activity

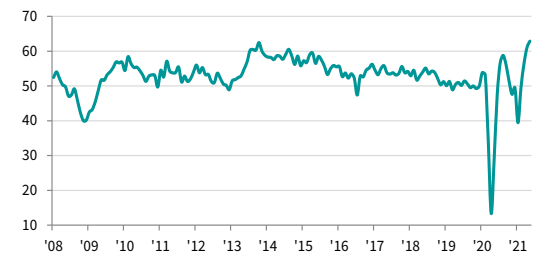
Service providers indicated a rapid increase in business activity during May. More than three times as many survey respondents (38%) signalled a rise in output as those that reported a fall (12%). The seasonally adjusted index pointed to the fastest rate of expansion since May 1997. Growth was overwhelmingly attributed to looser pandemic restrictions and a subsequent spike in client demand across the service economy.

Business Activity Index

sa, >50 = growth since previous month

62.9

May '21



New business

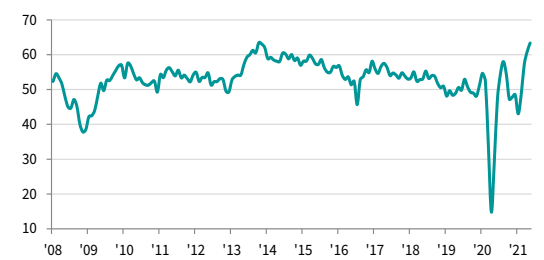
May data highlighted an upturn in new work for the third consecutive month and the rate of expansion was the steepest since October 2013. Survey respondents continued to comment on a surge in forward bookings for consumer services, alongside a general improvement in business confidence due to the successful vaccine roll out.

New Business Index

sa, >50 = growth since previous month

63.4

May '21



New export business

In contrast to the steep rise in total new business, latest data pointed to a marginal drop in export sales. This was highlighted by the seasonally adjusted New Export Business Index falling back below the neutral 50.0 mark in May. Brexit difficulties and international travel restrictions remained the most commonly cited reasons for reduced volumes of new work from abroad.

New Export Business Index

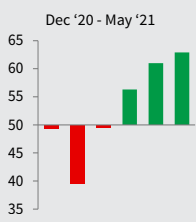
sa, >50 = growth since previous month

49.4

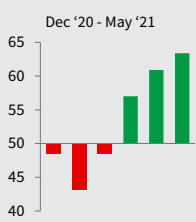
May '21



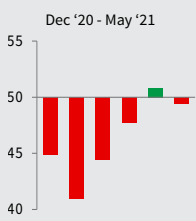
Business Activity Index



New Business Index

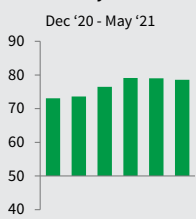


New Export Business Index



Business expectations

Future Activity Index



Service sector companies remain highly upbeat about their growth prospects for the year ahead, with 63% forecasting expansion and only 6% predicting a decline in business activity.

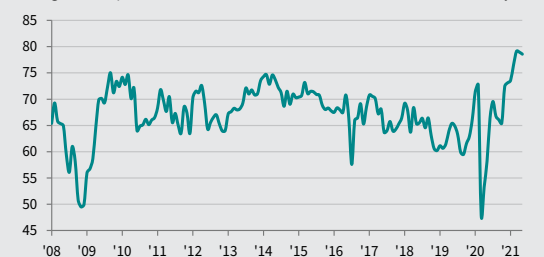
However, the resulting Future Activity Index drifted down in May and was the lowest for three months.

Future Activity Index

>50 = growth expected over next 12 months

78.6

May '21



Employment and capacity

Employment

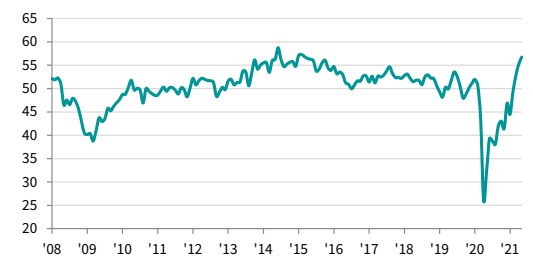
The seasonally adjusted Employment Index registered in expansion territory for the third month running in May, to signal a sustained turnaround in staff recruitment in the service economy. The latest increase in workforce levels was the fastest since March 2015. Panel members commented on additional hiring in response to greater customer demand and a boost to payroll numbers from the return of furloughed staff.

Employment Index

sa, >50 = growth since previous month

56.7

May '21



Outstanding business

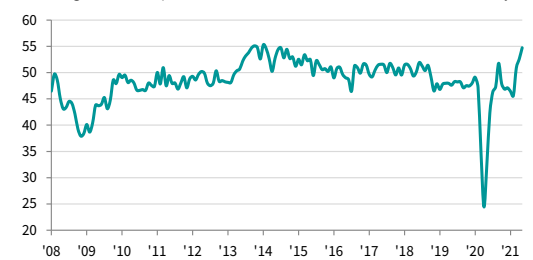
Backlogs of work were accumulated at a sharp and accelerated pace in May, reflecting pressure on business capacity and forward bookings for consumer services ahead of reopening. Firms also commented on staff shortages and, in some cases, reluctance among employees to return from furlough. The seasonally adjusted index pointed to the steepest rise in unfinished business since July 2014.

Outstanding Business Index

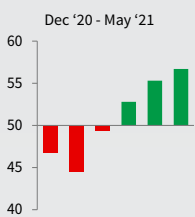
sa, >50 = growth since previous month

54.7

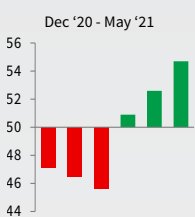
May '21



Employment Index



Outstanding Business Index



Prices

Input prices

The seasonally adjusted Input Prices Index rose for the fourth consecutive month in May and signalled the fastest rate of cost inflation since July 2008.

Service providers widely noted that higher raw material prices and transport costs had been passed on by suppliers. There were also many reports citing increased payroll costs, due to both wage inflation and the return of employees from furlough.

Prices charged

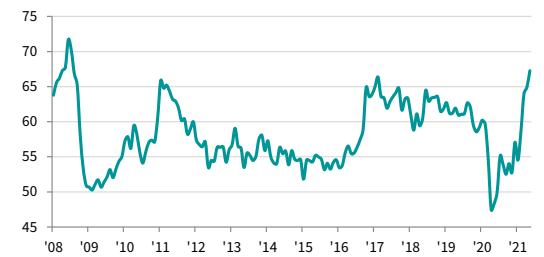
Sharply rising input costs and resurgent customer demand contributed to upward price reviews by many service providers in May. Around 20% of the survey panel reported a rise in average prices charged, while only 3% signalled a reduction. Moreover, the resulting seasonally adjusted index pointed to the steepest rate of output charge inflation since the survey began in July 1996.

Input Prices Index

sa, >50 = inflation since previous month

67.3

May '21

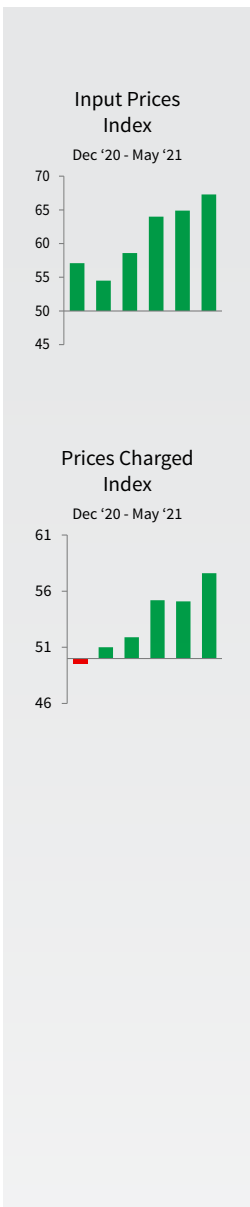
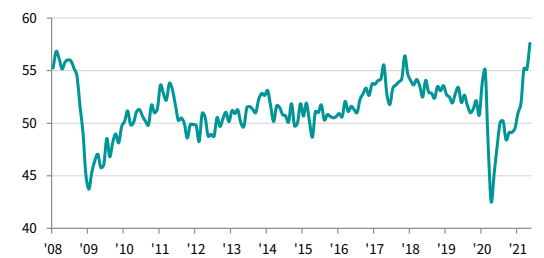


Prices Charged Index

sa, >50 = inflation since previous month

57.6

May '21



Services sub-sectors: Three-month moving average

Hotels, restaurants & catering



Hotels, Restaurants & Catering returned to growth in the three months to May, with business activity expanding to the greatest extent since the pandemic began. Latest data also highlighted that new orders and backlogs of work surged higher, reflecting looser pandemic restrictions on hospitality businesses. However, input price inflation was the strongest since late-2019 and exceeded that seen in all other sub-sectors.

Transport & communication

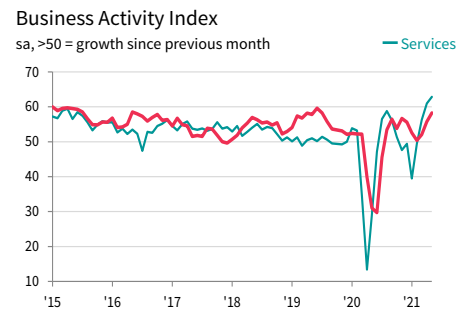
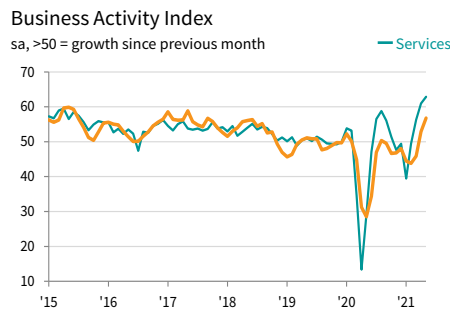
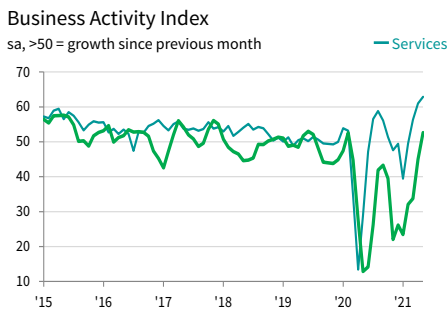


Business activity in the Transport & Communication Services category increased at a robust and accelerated pace during May. The latest upturn in output was the fastest for four years. That said, new business growth was only modest and fell short of that seen in all other sub-sectors. Mirroring the subdued trend for new work, employment numbers were broadly unchanged in the latest survey period.

Computing & IT services



Latest data highlighted another strong performance in the Computing & IT Services sub-sector. Activity growth was the steepest since the three months to July 2019 and job creation surpassed that seen in all other categories (albeit by only a small margin). Business expectations for the year ahead remained more upbeat than elsewhere in the service economy, except the Hotels, Restaurants & Catering sub-sector.



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



Services sub-sectors: Three-month moving average

Financial intermediation



Service providers in the Financial Intermediation sub-sector reported another sharp increase in business activity during the three months to May. The rate of expansion accelerated to its strongest for around 15 years.

Robust job creation continued in the Financial Intermediation sub-sector, driven by a sharp improvement in new business and higher volumes of unfinished work.

Business-to-business services



Business-to-business services maintained its position at the top of the growth table during the three months to May. The sub-sector recorded its steepest upturn in business activity since the third quarter of 2013.

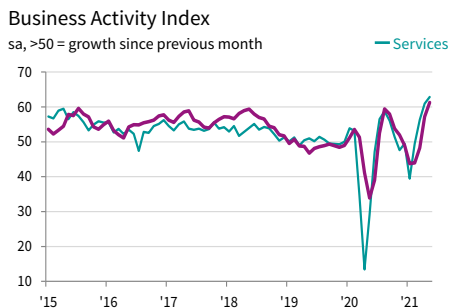
Average prices charged by companies in the business-to-business services category increased at the fastest pace since data collection began in 1996.

Other personal & community services



Latest data indicated that activity in the Other Personal & Community Services category continued to expand in the three months to May. Moreover, the rate of growth accelerated to its fastest since the first quarter of 2012.

Businesses in the sub-sector are highly upbeat about their prospects for the next 12 months. The degree of confidence rose to its strongest since the second quarter of 1999.



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



IHS Markit / CIPS UK Composite PMI®

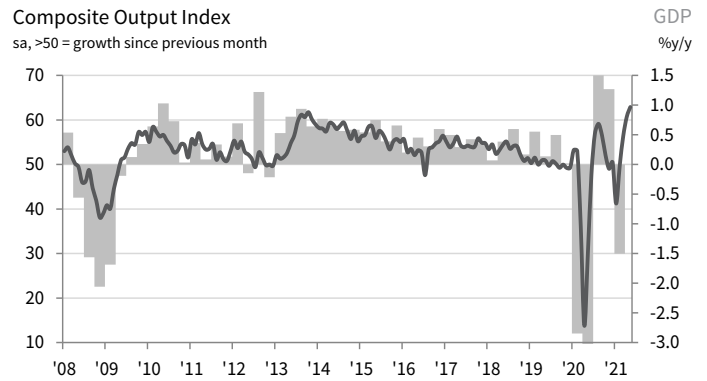
UK private sector output growth hits series-record high

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.



Sources: IHS Markit, CIPS, ONS.

*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.

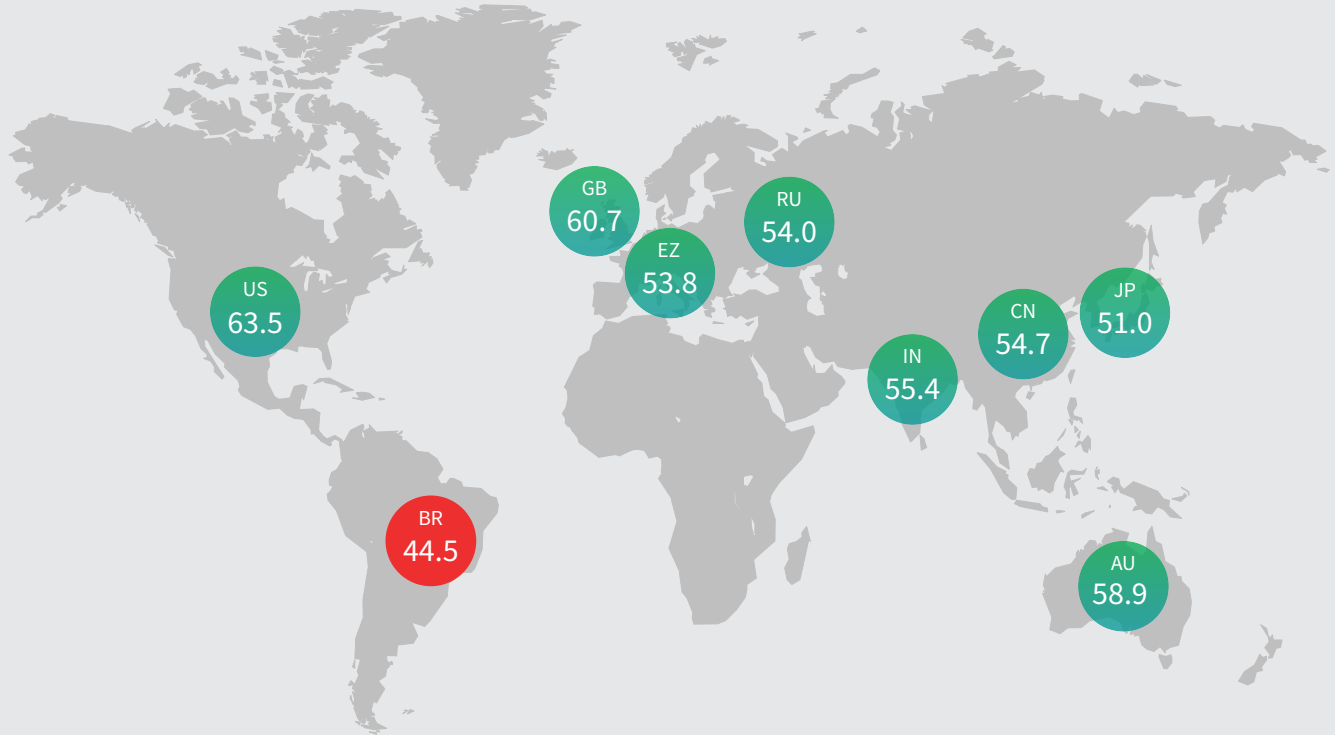
Composite / Manufacturing / Services



International PMI

Composite Output Index, Apr '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 12-26 May 2021.

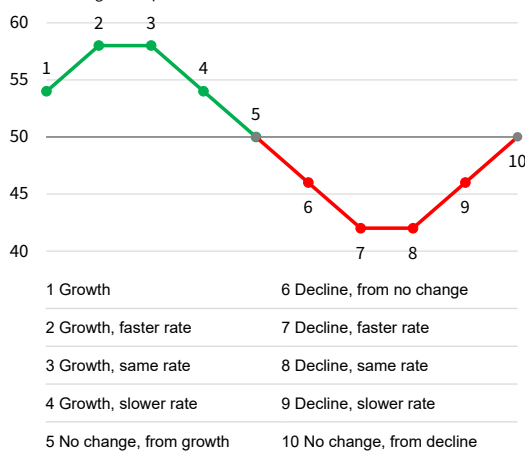
Survey data were first collected July 1996.

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



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
Dec '20	49.4	48.5	44.9	73.1	46.8	47.1	57.1	49.5
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

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
Dec '20	50.4	49.8	50.8	73.0	47.2	47.8	58.8	50.4
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

By sector, May '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	52.6	56.3	86.0	52.0	56.8	71.6	54.2
Transport & Communication Services	56.8	53.0	71.4	50.0	50.5	71.4	60.3
Computing & IT Services	58.3	57.8	82.6	58.7	53.1	61.1	55.2
Financial Intermediation	61.3	62.3	75.6	58.4	55.9	57.6	54.1
Business-to-Business Services	62.6	63.0	75.0	58.4	55.3	65.7	56.6
Other Personal & Community Services	57.7	58.8	79.1	47.6	46.6	66.2	54.9

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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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. ihsmarkit.com/products/pmi.html.