

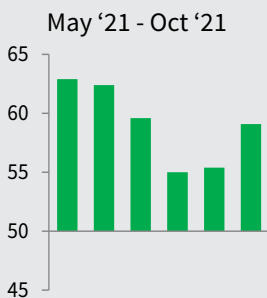


# IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

## Service sector recovery gains momentum, but input cost inflation hits new survey-record high in October

### UK Services Business Activity Index



### Fastest rise in business activity for three months

### Cost inflation accelerates to its strongest in over 25 years

### Average prices charged increase at survey-record pace

UK service providers indicated a sharp and accelerated rise in business activity during October. This was driven by the strongest increase in new work since June. The reopening of the economy and looser international travel restrictions helped to boost demand, with new export sales rising at the fastest pace for just over three years.

Stronger demand, staff shortages and stretched supply chains all contributed to a spike in inflationary pressures during October. Both operating expenses and prices charged by service providers increased at the steepest rates since the survey began in July 1996.

At 59.1 in October, up from 55.4 in September, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index signalled the strongest pace of recovery since July.

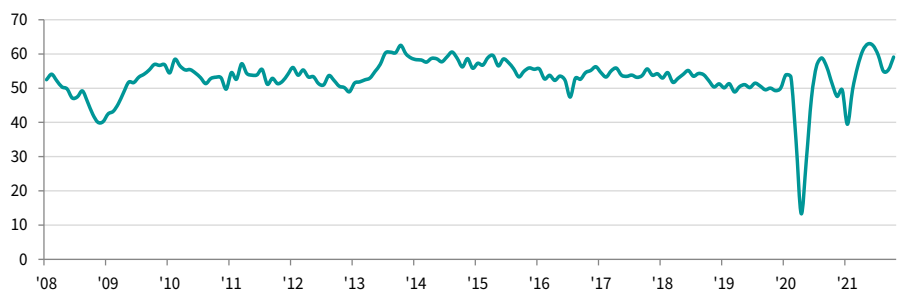
Survey respondents often commented on

rising business and consumer spending in response to the roll back of pandemic restrictions at home and abroad. Measured overall, the latest increase in new order volumes was the steepest for four months. The recovery in new work from abroad gained momentum in October and, although only modest, the rate of expansion was the fastest since June 2018.

Around 30% of the survey panel reported an increase in employment numbers during October, while only 13% signalled a reduction. The resulting index pointed to the second-fastest rise in workforce levels since June 2014. Service providers commented on exceptionally strong demand in the hospitality, leisure and transportation sectors. Where a decline in employment was reported, many firms noted unusually high staff turnover due to higher wages on offer from competitors.

*continued...*

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



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## Overview continued...

A number of survey respondents commented on severe difficulties finding candidates to fill vacancies, despite efforts to boost starting salaries and conditions. Subsequent staff shortages added to pressure on business capacity across the service economy in October. This was signalled by an increase in backlogs of work for the eighth consecutive month.

Higher wages were one of many factors leading to a rapid increase in operating expenses at service sector businesses in October. Around 59% of the survey panel reported a rise in their cost burdens, while only 1% signalled a decline. The resulting index signalled the steepest rate of input price inflation for over 25 years.

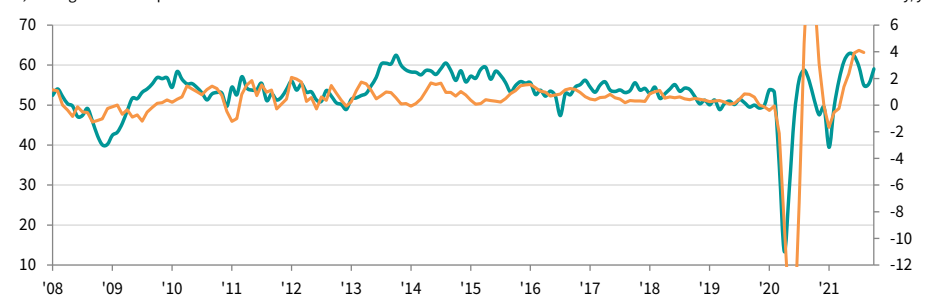
Rising costs for energy, fuel, raw materials, transport and staff all contributed to increased prices charged across the service

sector. Moreover, the rate of output charge inflation reached a fresh survey-record high in October. Service providers again noted that strong demand conditions and constrained business capacity had resulted in the swift pass through of higher input prices to clients.

Concerns about escalating cost pressures and a prolonged period of supply constraints acted as a brake on business optimism in October. The degree of positive sentiment about the year ahead growth outlook eased for the second month running to its lowest since January.

UK Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS, ONS.



## Comment

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

*"Looser international travel restrictions and greater domestic mobility helped to lift the UK service sector recovery out of its recent malaise in October. Business activity expanded at the fastest pace since July, driven by the first acceleration in new order growth for five months. The latest survey also pointed to the best month for export sales since June 2018.*

*"Tight labour market conditions persisted in October. Many consumer service providers commented on unfilled vacancies after staff departures for higher wages, despite efforts to boost pay and conditions. The impact of staff shortages was another rise in backlogs of work and greater willingness to pass on higher costs to new customers.*

*"Average prices charged increased at a survey-record pace, reflecting across the board pressures on operating expenses. Some 59% of the survey panel reported an increase in their average costs during October, compared with only 15% at the same time in 2020.*

*"Record rates of input price and output charge inflation appear to have dampened business optimism, which eased to its lowest since January. Comments from survey respondents also cited worries about prolonged staff shortages and constraints on growth due to the supply chain crisis."*

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

*"The dominant service sector in the UK economy had a surprisingly good month in October with a strong uptick in overall output, job creation and new orders as business and consumers began to spend again unfettered by lockdown and pandemic restrictions. This rise in activity was driven by the domestic market but also export orders rising to the largest extent since 2018 as travel opportunities opened up and pandemic savings were spent on holidays and hospitality.*

*"Not even the survey record high in prices charged to customers and consumers restricted this autumnal joie de vivre as businesses were keen to keep going and build on the pandemic recovery and UK citizens enjoyed more normality.*

*"With all the good news in the PMI results, business optimism still fell to its lowest since March and there are good reasons for this. Escalating business costs remain deeply concerning as salaries rocketed along with fuel and energy costs and material shortages as a result of supply chain disorder. A third of supply chain managers reported stronger job creation as vacancies grew to meet fresh demand, but many struggled to find the right staff from ever-decreasing numbers of job seekers.*

*"The seemingly likely rise in interest rates this week may take some of the heat out of the overinflating UK economy but will also result in additional pressure on some household budgets, threatening to cut off this stream of good fortune early next year."*



## Activity and demand

### Business activity

October data highlighted a sharp and accelerated increase in business activity across the UK service sector. The seasonally adjusted index signalled the fastest rate of growth since July.

Survey respondents noted that the reopening of the UK economy and looser international travel restrictions were again factors helping to boost activity at their business units.

### New business

The seasonally adjusted New Business Index registered above the 50.0 no-change value for the eighth month running in October. Moreover, the latest reading pointed to the strongest rise in new work since June.

Service providers widely commented on a rapid recovery in customer demand after the lockdown period.

### New export business

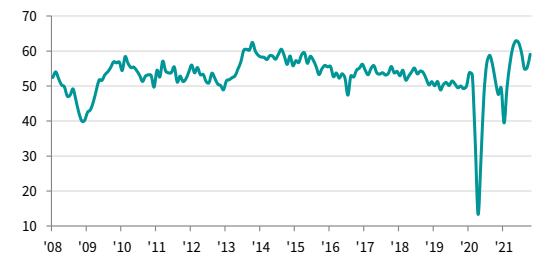
UK service sector firms recorded a moderate increase in new work from abroad during October, and the rate of expansion was the sharpest since June 2018. Higher levels of new export business were mainly attributed to the relaxation of international travel rules.

### Business Activity Index

sa, >50 = growth since previous month

59.1

Oct '21

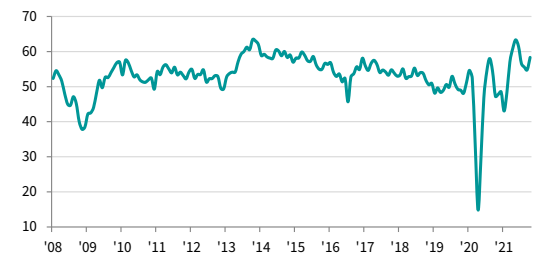


### New Business Index

sa, >50 = growth since previous month

58.4

Oct '21

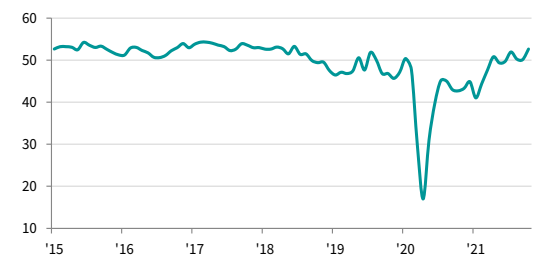


### New Export Business Index

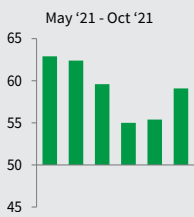
sa, >50 = growth since previous month

52.6

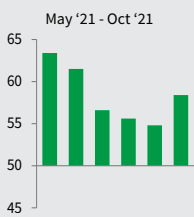
Oct '21



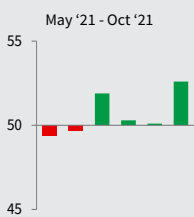
### Business Activity Index



### New Business Index

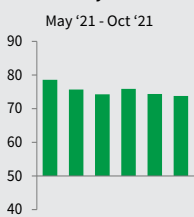


### New Export Business Index



## Business expectations

### Future Activity Index



Business optimism continued to drift down from the peak seen in March. The latest reading was the lowest for nine months. Around 57% of the survey panel forecast an increase in activity during the year ahead, while 9% anticipate a reduction.

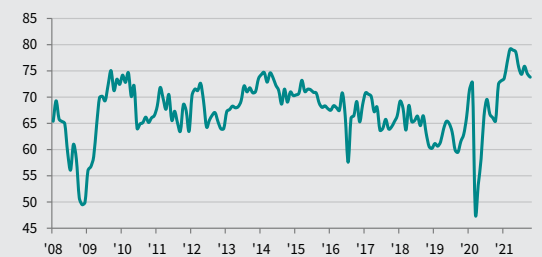
Some firms cited concerns that higher inflation and ongoing supply disruptions would put a brake on business activity in the next 12 months.

### Future Activity Index

>50 = growth expected over next 12 months

73.8

Oct '21





## Employment and capacity

### Employment

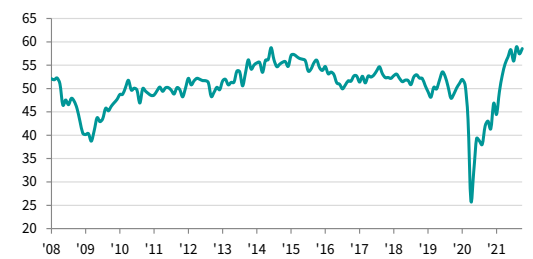
October data indicated another sharp increase in staffing numbers across the UK service economy, with the rate of growth only slightly below August's survey-record high. Anecdotal evidence cited exceptionally strong demand for staff in areas such as hospitality, leisure and transportation. There were also widespread reports that employee turnover had remained unusually high, with staff departures often due to rising wages on offer elsewhere.

### Employment Index

sa, >50 = growth since previous month

58.6

Oct '21



### Outstanding business

The seasonally adjusted Outstanding Business Index pointed to another solid accumulation of unfinished work at service sector companies in October. That said, the latest increase was the weakest since April.

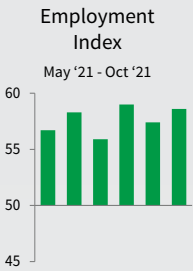
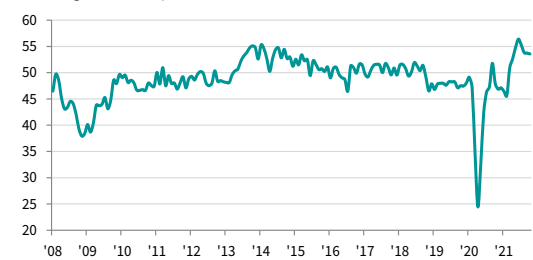
Survey respondents noted that staff shortages and supplier delays were the main reasons for increased backlogs of work.

### Outstanding Business Index

sa, >50 = growth since previous month

53.6

Oct '21



## Prices

### Input prices

Around 59% of the survey panel reported a rise in their operating expenses during October, while just 1% signalled a decline. The resulting seasonally adjusted Input Prices Index signalled a rapid increase in average cost burdens at service sector businesses. Moreover, the rate of inflation accelerated sharply since September and was the strongest in more than 25 years of data collection.

Higher input costs were overwhelmingly attributed to rising energy, fuel and raw material prices, alongside strong wage pressures and rising transport bills.

### Prices charged

Service providers responded to escalating cost pressures by increasing their average prices charged at a considerable pace in October. The seasonally adjusted Prices Charged Index was the highest since the survey began in July 1996.

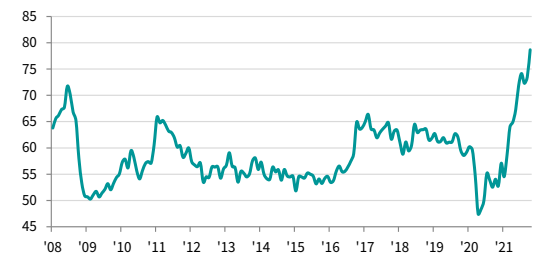
Survey respondents often noted that strong client demand and higher levels of unfinished work had allowed them to pass on rising costs to new customers.

### Input Prices Index

sa, >50 = inflation since previous month

78.7

Oct '21

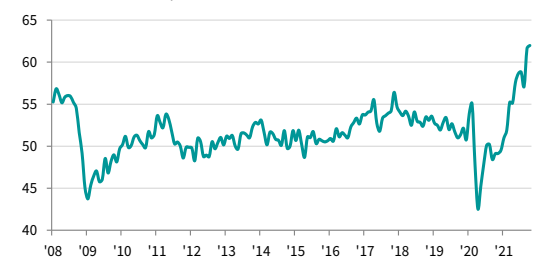


### Prices Charged Index

sa, >50 = inflation since previous month

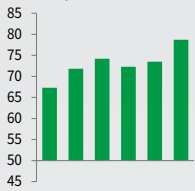
62.0

Oct '21



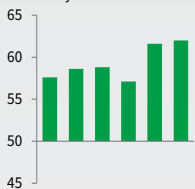
### Input Prices Index

May '21 - Oct '21



### Prices Charged Index

May '21 - Oct '21



## Services sub-sectors: Three-month moving average

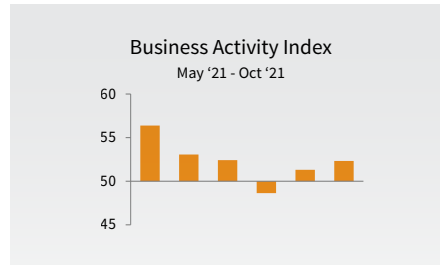
### Hotels, restaurants & catering



Business activity in the Hotels, Restaurants & Catering segment increased at a rapid pace during the three months to October. The latest data signalled the fastest rate of expansion since the three months to January 2001.

Hotels, Restaurants & Catering remained the best-performing category of activity across the service economy, with survey respondents widely citing a sustained boost from looser pandemic restrictions.

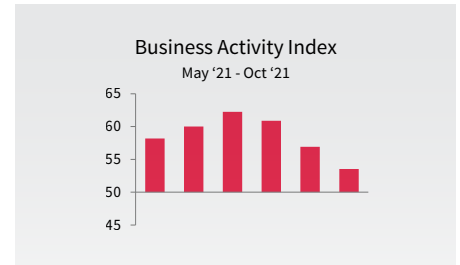
### Transport & communication



Transport & Communication Services recorded only a moderate increase in business activity during the latest three-month period.

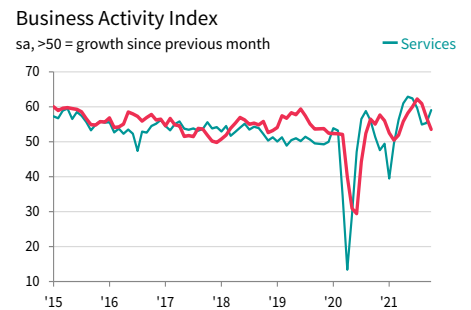
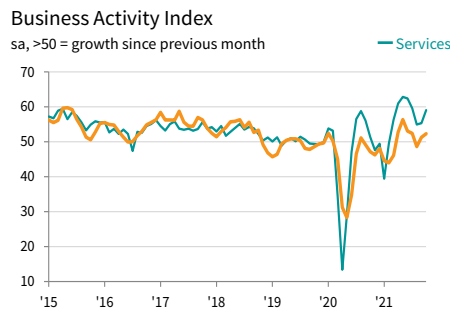
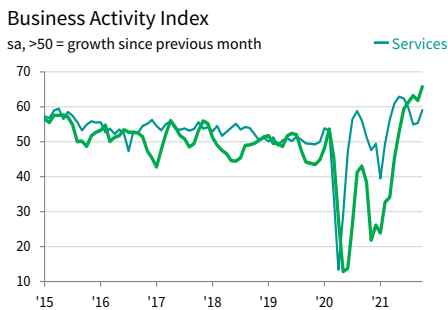
Subdued demand meant that Transport & Communication Services was the only part of the service sector to register an overall reduction in employment numbers on average in the three months to October.

### Computing & IT services



Latest data highlighted a sharp slowdown in business activity growth at Computing & IT service providers. The rate of expansion eased to its weakest since the first quarter of 2021.

Despite a loss of momentum in the three months to October, Computing & IT service providers remained more upbeat about the year ahead outlook than all other segments monitored by the survey.

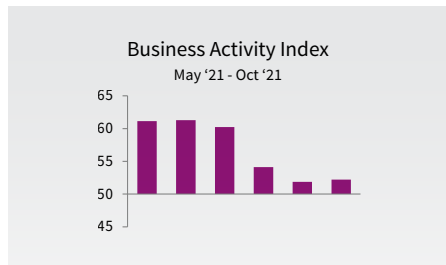


Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



## Services sub-sectors: Three-month moving average

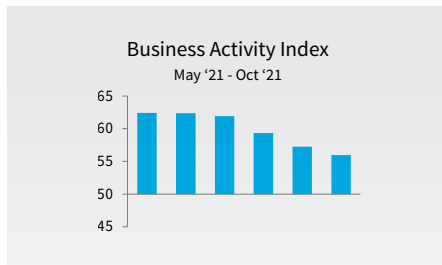
### Financial intermediation



Financial Intermediation recorded a slower rise in business activity than all other sub-sectors monitored by the survey during the three months to October. The latest reading suggested a considerable loss of momentum after the peak seen in the second quarter of 2021.

On a more positive note, new business volumes returned to growth during the latest survey period, following a soft patch this summer.

### Business-to-business services



Business-to-business services registered another solid expansion during the three months to October. However, the rate of growth eased further from that seen in the second quarter of 2021.

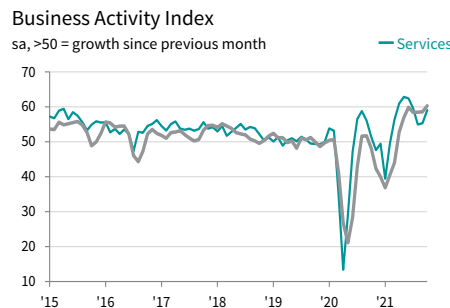
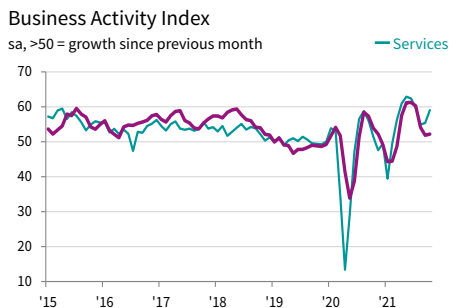
Employment numbers continued to rise sharply in the Business-to-business services category, reflecting efforts to boost capacity and stem the recent accumulation of backlogs.

### Other personal & community services



Other Personal & Community Services was the second-fastest growing segment during the latest survey period. Moreover, business activity increased at the sharpest pace since the three months to February 2004.

Latest data pointed to an exceptionally strong rise in average cost burdens across the Other Personal & Community Services category, with the rate of inflation hitting a survey-record high.



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





IHS Markit / CIPS UK Composite PMI®

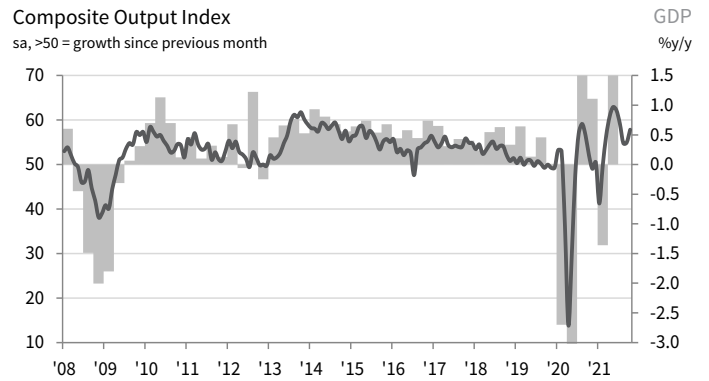
# Manufacturing sector growth subdued by the supply chain crisis in October

The seasonally adjusted UK Composite Output Index registered 57.8 in October, up from 54.9 in September and the highest reading for three months. However, the index remained much weaker than the peak seen in May (62.9). The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

October data indicated that service sector output (59.1) expanded more quickly than manufacturing production (51.3) for the fifth consecutive month in October. Moreover, the manufacturing sector underperformance was the largest recorded since February 2009.

A widening gap between manufacturing and service sector growth largely reflected disruptions at goods producers due to severe shortages of materials and lengthy wait times for deliveries by suppliers. Reflecting this, backlogs of work in the manufacturing sector were accumulated at a much faster pace than in the service economy.

Rapid input cost inflation was seen across the private sector economy in October. At 80.1, up from 75.2 in September, the seasonally adjusted Input Prices Index was the highest since the series began in January 1998. Similarly, prices charged by UK private sector firms increased at a survey-record pace in October, driven by unprecedented rises among both manufacturers and service providers.



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.

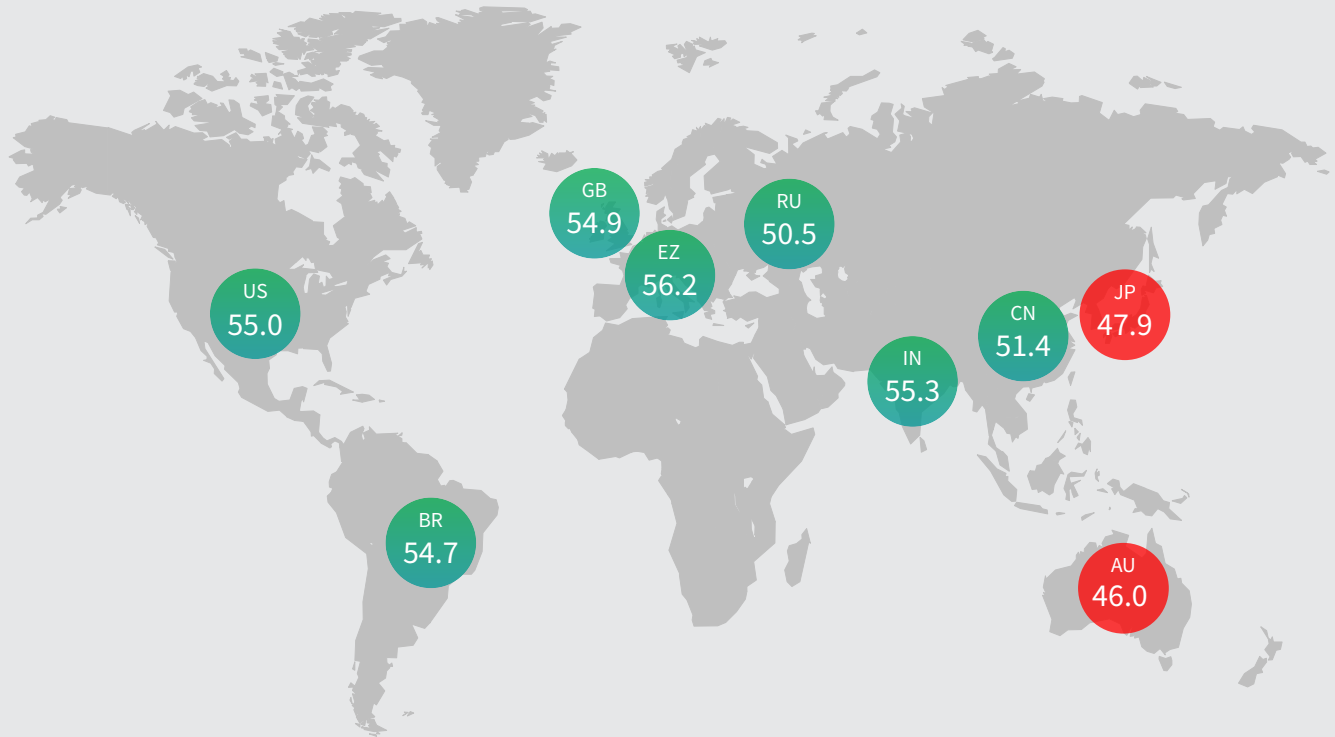
Composite / Manufacturing / Services



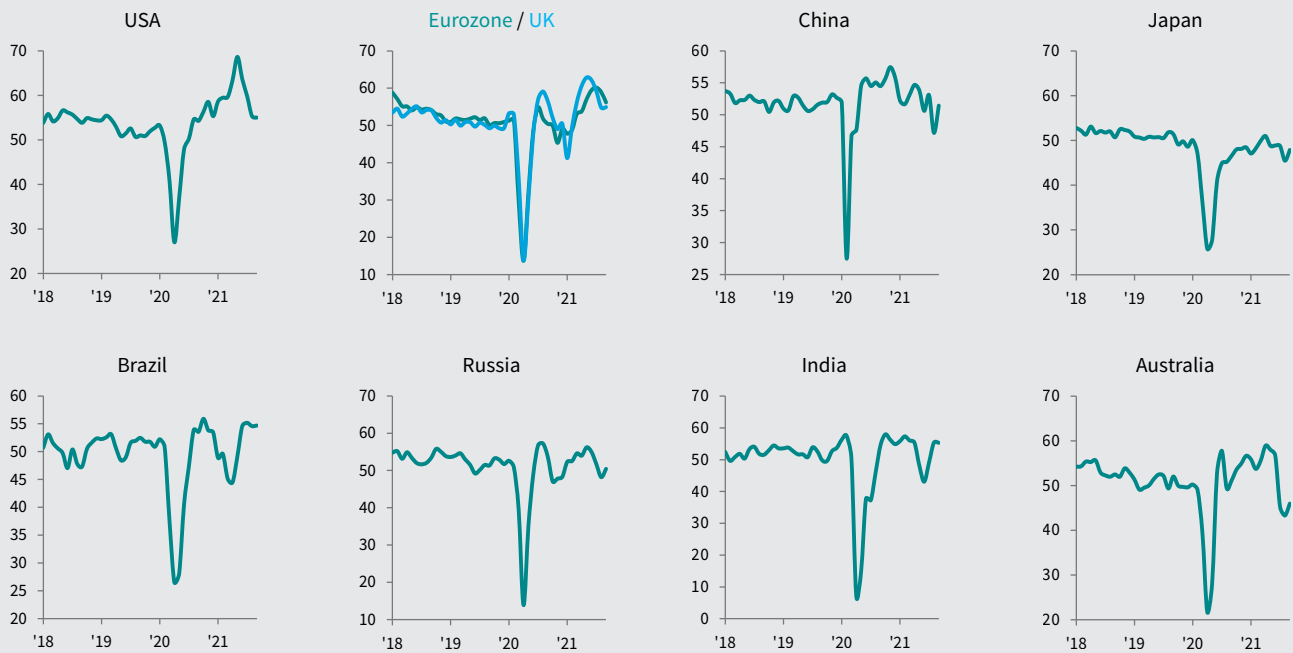
## International PMI

Composite Output Index, Sep '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](mailto:economics@ihsmarkit.com).

## Survey dates and history

Data were collected 12-27 October 2021.

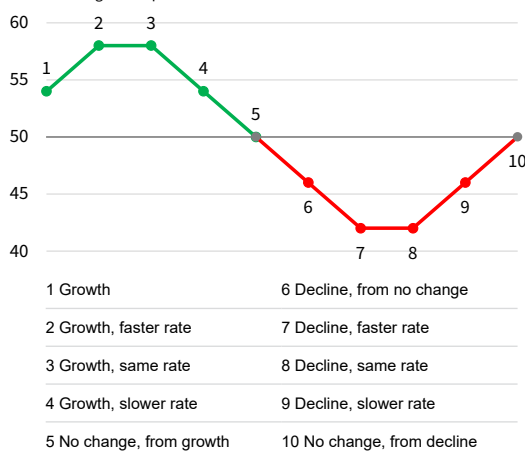
Survey data were first collected July 1996.

### 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
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
Jul '21	59.6	56.6	51.9	74.3	55.9	55.3	74.2	58.8
Aug '21	55.0	55.6	50.3	75.9	59.0	53.8	72.3	57.1
Sep '21	55.4	54.8	50.1	74.4	57.4	53.7	73.5	61.6
Oct '21	59.1	58.4	52.6	73.8	58.6	53.6	78.7	62.0

### 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
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
Jul '21	59.2	56.7	53.0	74.9	56.4	55.6	76.3	61.1
Aug '21	54.8	55.9	52.5	76.7	58.8	54.5	74.5	59.4
Sep '21	54.9	54.6	49.9	75.0	56.5	54.2	75.2	63.2
Oct '21	57.8	57.6	50.9	74.5	57.9	54.4	80.1	63.9

#### 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 CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of 200,000 in over 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability. [www.cips.org](http://www.cips.org).

#### 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](http://ihsmarkit.com/products/pmi.html).