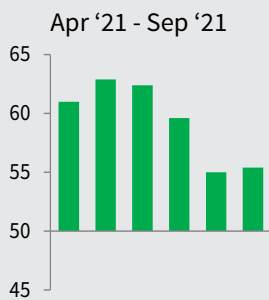
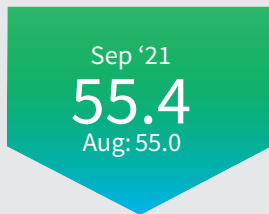




## UK Services Business Activity Index



### Charges rise at record pace amid supply constraints and spike in costs

### Staff shortages hold back output and new order growth

### Backlogs of work accumulate for seventh month running

September data indicated another strong recovery in UK service sector activity, but severe supply constraints contributed to escalating inflationary pressures and the slowest rise in new orders since the end of the winter lockdown.

Rapid rises in fuel, energy and staff costs were passed on to customers in September. The rate of prices charged inflation accelerated sharply since August and was the fastest since the survey began in 1996.

The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 55.4 in September, up slightly from August's six-month low (55.0) and well inside expansion territory. Although the latest reading signalled a solid increase in overall business activity, the rate of expansion was still much weaker than the peak seen in May (62.9).

Around 34% of the survey panel

reported an increase in output during September, while only 13% signalled a reduction. Higher levels of activity were mostly attributed to robust confidence among clients and favourable business conditions due to the end of pandemic restrictions. However, those noting a fall in activity often commented on supply chain disruptions and shortages of staff, especially in the hospitality sector.

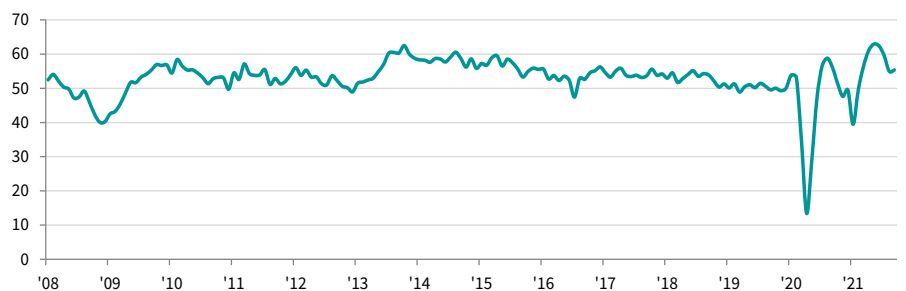
New order growth weakened for the fourth month running in September. The latest increase in new business volumes was the slowest since order books returned to expansion in March. Staff shortages, supply issues and the end of the stamp duty holiday were among the most commonly cited reasons for softer demand.

A lack of candidates to fill vacancies and persistently high numbers of departing staff acted as a considerable brake on employment growth during September.

*continued...*

UK Services Business Activity Index

sa, >50 = growth since previous month



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Reports from survey respondents also suggested that the slowdown in job creation from August's record high also reflected some redundancies as furlough arrangements ended.

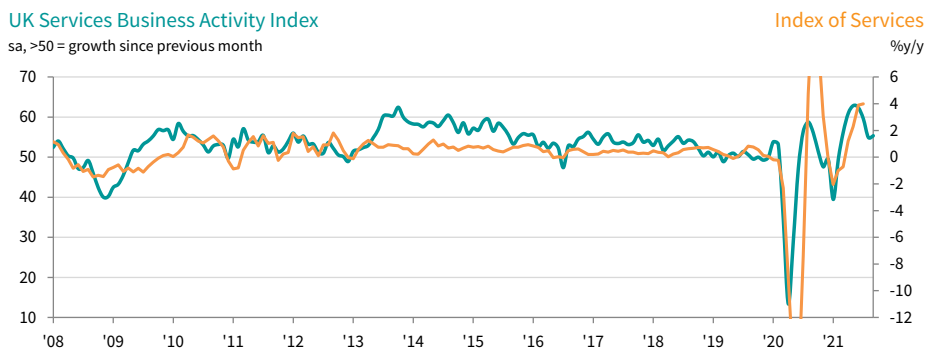
Shortages of staff and lengthy wait times for supplier deliveries stymied efforts to reverse the recent spike in backlogs of work across the service economy. Latest data showed that unfinished business has now built up for seven months running, which marked the longest phase of backlog accumulation since 2015.

Supply chain difficulties resulted in another round of steep input price inflation at service sector companies during September. Exactly half of the survey panel reported an increase in their average cost burdens, while only 1% signalled a reduction. This pointed to the

second-fastest rate of cost inflation since the survey began 25 years ago, exceeded only by that seen in July.

The percentage of service providers reporting an increase in their average prices charged jumped from 17% in August to 24% in September. Moreover, the latest index reading signalled that the rate of output charge inflation was the steepest since the survey began in July 1996. Service sector businesses widely noted that constrained supply, higher transport costs and rising salary payments had all pushed up inflationary pressures as customer demand recovered.

Finally, latest data indicated that business optimism eased slightly since August. However, the majority of panel members (57%) expect a rise in output during the year ahead, while only 8% forecast a fall.



Sources: IHS Markit, CIPS, ONS.



## Comment

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

*"The supply chain crisis put a considerable brake on recovery in the UK service sector during September. Survey respondents widely noted that shortages of staff, raw materials and transport had resulted in lost business opportunities. Consequently, new orders expanded at the slowest pace since the end of the winter lockdown, while backlogs of work accumulated as service providers struggled to find candidates to fill vacancies.*

*"Another spike in operating expenses was reported in September, even though this data is yet to fully reflect the inflationary impact of the UK fuel crisis and surging energy prices at the end of the month. Higher wages were also a key reason for increased cost burdens in September.*

*"Tight constraints on business capacity and rampant supply chain uncertainty meant that service providers have become more willing to pass on higher costs to customers. The latest rise in average prices charged by UK service sector firms was the fastest in over 25 years of data collection, with many businesses reporting more frequent reviews of pricing due to escalating cost increases by suppliers."*

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

*"Relentless supply chain disruption put a cap on activity and orders in September, as new work dropped to its lowest expansion level for over 6 months. Domestic sales faltered and export orders were hit by Brexit restraints as the thrust of recovery in the last few months slowed again.*

*"Though job creation was maintained in September, the services sector still had obstacles to overcome in terms of skills gaps and talent shortages as the competition for good employees deepened. Whilst many paid higher wages to secure necessary skills, some others responded with redundancies as furlough support ended and operations were restructured, leaving a mixed employment picture.*

*"The chokehold on supply chain deliveries also made food, fuel and logistics much more expensive, which was a factor in dampening business optimism for activity in the next 12 months. As prices charged rose at their fastest rate since 1996, it seems the floodgates are open for higher inflation to wash through the UK economy and firms fear the growth this month may be eroded further by higher costs and shortages as we move towards the festive period."*



## Activity and demand

### Business activity

UK service providers indicated a strong rise in business activity during September, but the rate of expansion remained much softer than the peak seen in the second quarter of 2021.

Higher levels of output were attributed to the ongoing pandemic recovery, robust business confidence and, in some cases, a boost to customer demand from the gradual return to offices. Meanwhile, companies reporting a drop in business activity often commented on supply chain disruptions and staff shortages in September.

### New business

Volumes of new work expanded for the seventh consecutive month in September, as signalled by the seasonally adjusted New Business Index registering above the crucial 50.0 no-change value. However, the latest reading signalled the slowest rate of new order growth over this period. Some survey respondents commented on a lack of willingness-to-spend, while others cited supply issues as factors that had constrained sales.

### New export business

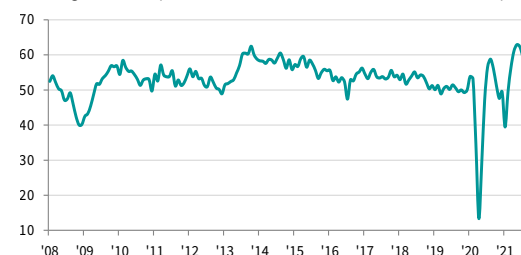
The latest index reading was the lowest for three months and signalled that demand from overseas customers was almost stagnant in September. Survey respondents noted that Brexit had adversely impacted sales to the EU, while there were also widespread reports that pandemic restrictions on travel had constrained new orders from abroad.

### Business Activity Index

sa, >50 = growth since previous month

55.4

Sep '21

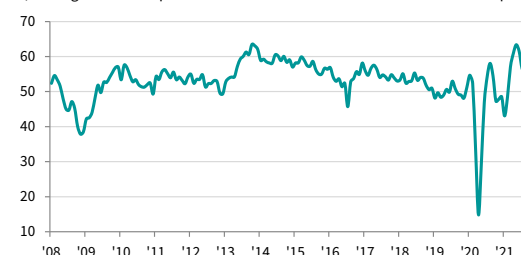


### New Business Index

sa, >50 = growth since previous month

54.8

Sep '21



### New Export Business Index

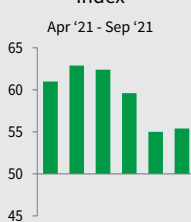
sa, >50 = growth since previous month

50.1

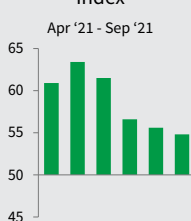
Sep '21



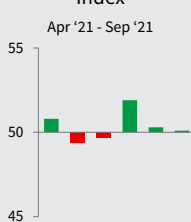
### Business Activity Index



### New Business Index

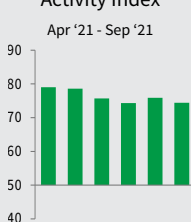


### New Export Business Index



## Business expectations

### Future Activity Index



September data indicated that service sector companies remain highly upbeat about the business outlook. Around 57% forecast a rise in output during the year ahead, while only 8% forecast a reduction. That said, the resulting index was down since August. Confidence has now eased in five of the past six months.

Survey respondents mostly commented on optimism about the pandemic recovery, but some noted pessimism due to supply issues.

### Future Activity Index

>50 = growth expected over next 12 months

74.4

Sep '21



## Employment and capacity

### Employment

Staffing numbers increased sharply in September and the rate of job creation was only slightly weaker than August's survey-record high. The seasonally adjusted Employment Index has now posted above the 50.0 no-change value in each of the past seven months.

Service providers typically commented on strong demand for new hires due to rising business activity and large numbers of unfilled vacancies. Many firms noted a severe lack of available candidates, especially for hospitality roles. However, there were also some reports citing redundancies and restructuring as the government furlough scheme ended.

### Outstanding business

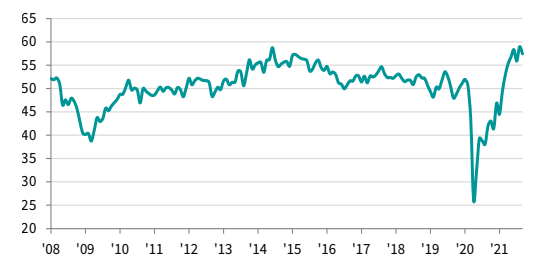
The seasonally adjusted Outstanding Business Index signalled another solid increase in backlogs of work, but the rate of accumulation was the slowest since April. Some firms noted that a slower recovery in new order growth had alleviated pressure on business capacity.

### Employment Index

sa, >50 = growth since previous month

57.4

Sep '21

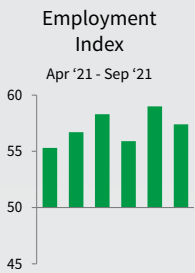
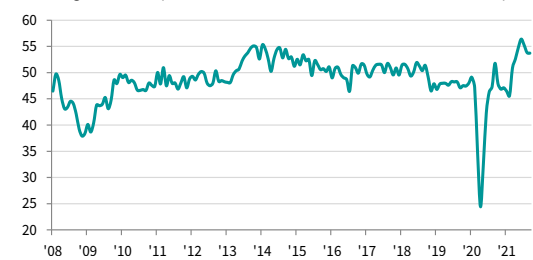


### Outstanding Business Index

sa, >50 = growth since previous month

53.7

Sep '21



## Prices

### Input prices

September data highlighted a renewed acceleration in input cost inflation across the service sector economy. The seasonally adjusted index reached its second-highest level since the survey began in 1996, exceeded only by the record set in July.

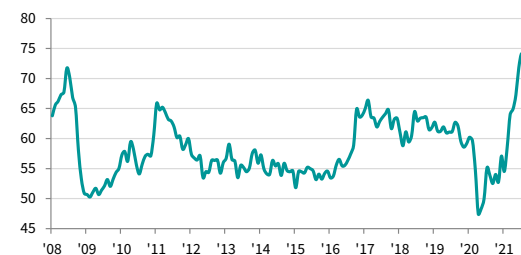
Exactly half of the survey panel reported an increase in their average cost burdens in September, while only 1% signalled a reduction. Higher prices paid for fuel, energy and wages were by far the most commonly cited factors leading to cost inflation in September.

### Prices charged

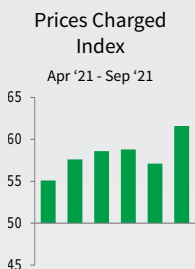
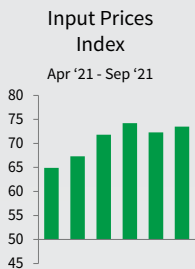
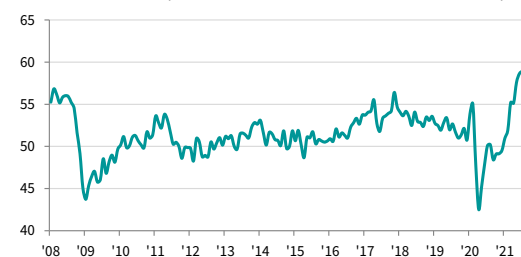
Average prices charged by service sector firms increased at a rapid pace in September. The seasonally adjusted Prices Charged Index jumped by 4.5 points and signalled the steepest rate of inflation since the survey began 25 years ago.

Service providers widely noted that constrained supply, higher shipping costs and rising salary payments had all pushed up inflationary pressures as customer demand recovered.

Input Prices Index 73.5  
 sa, >50 = inflation since previous month Sep '21

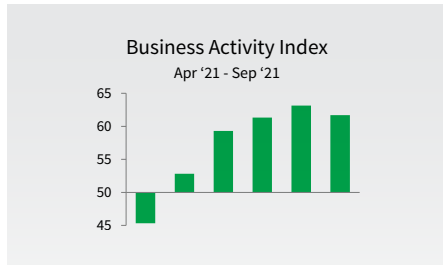


Prices Charged Index 61.6  
 sa, >50 = inflation since previous month Sep '21



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

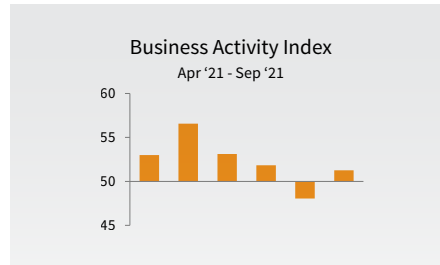
### Hotels, restaurants & catering



The Hotels, Restaurants & Catering sub-sector remained the best-performing part of the service economy in the three months to September. The rate of expansion was among the strongest seen over the past 18 years.

Employment numbers in the Hotels, Restaurants & Catering category increased sharply in the third quarter of 2021, but the rate of jobs growth eased markedly from its recent peak amid a lack of candidates to fill vacancies.

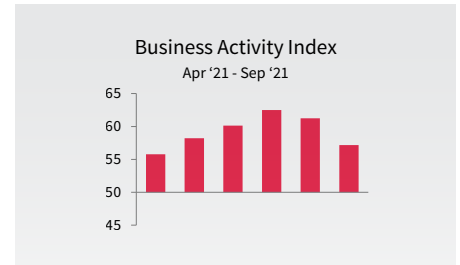
### Transport & communication



Business activity in the Transport & Communication Services category returned to growth, after a slight decline during the three months to August. However, the speed of recovery was slower than all other areas of the service sector.

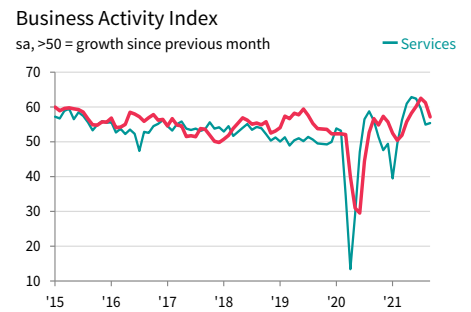
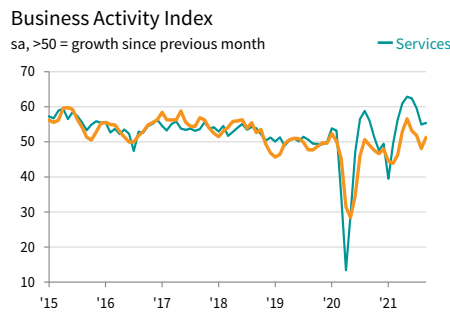
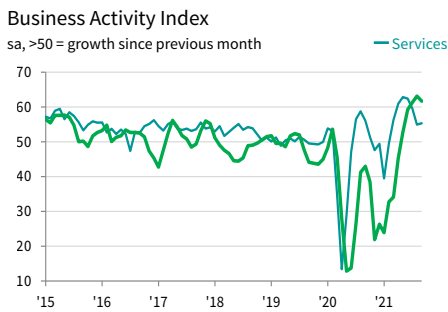
Transport & Communication Services remained the only category to signal a drop in staffing numbers during the latest three month period.

### Computing & IT services



Computing & IT service providers indicated a robust upturn in business activity during the three months to September. That said, the rate of growth lost further momentum and was the slowest since the three months to April.

Considerable pressure on business capacity continued in the latest survey period. Backlogs of work increased at a quicker pace than in all other parts of the service economy.

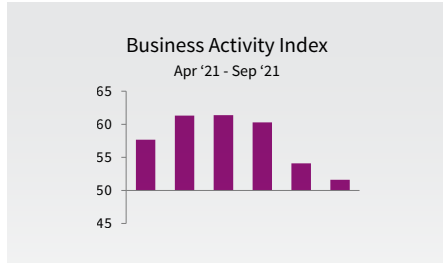


Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



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

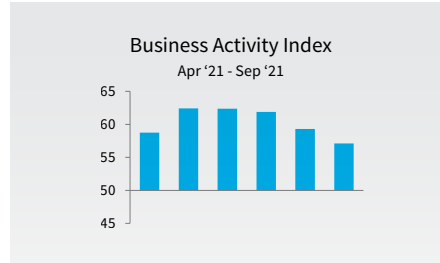
### Financial intermediation



Financial Intermediation recorded only a marginal rise in business activity during the three months to September. The latest expansion was much softer than seen in the second quarter of 2021.

Latest data indicated a slight reduction in new business volumes, which contrasted with new order growth in all other parts of the service economy.

### Business-to-business services



Business-to-business services posted a robust rate of expansion in the three months to September, supported by another strong rise in new work.

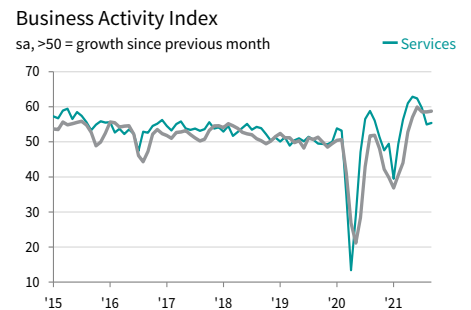
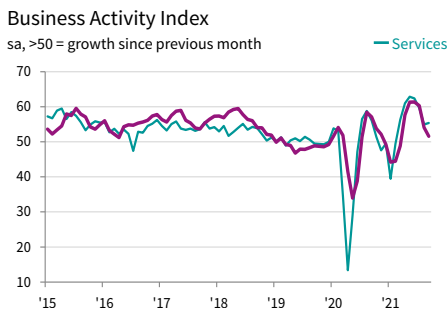
Latest data signalled another steep increase in average cost burdens, with survey respondents widely commenting on higher staff salaries.

### Other personal & community services



Other Personal & Community Services experienced a sustained recovery in business activity during the three months to September. Moreover, the rate of growth was little-changed from that seen earlier this summer.

Higher levels of business activity were linked to a continued boost from the reopening of customer-facing parts of the economy.



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





IHS Markit / CIPS UK Composite PMI®

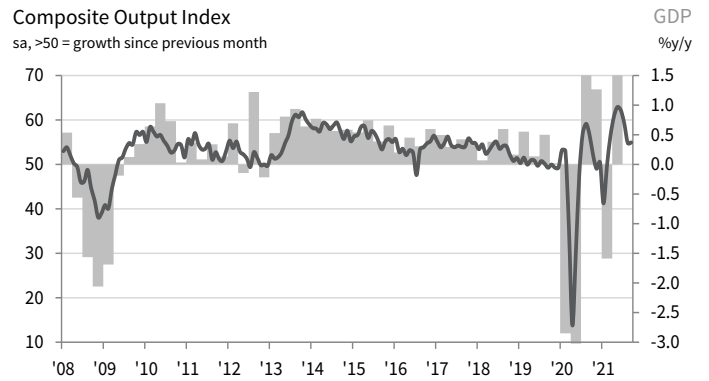
# Weaker manufacturing growth weighs on UK economy in September

The seasonally adjusted UK Composite Output Index posted 54.9 in September, up fractionally from 54.8 in August but still much weaker than the peak seen earlier this summer. On average in the third quarter this index eased to 56.3, down considerably from 61.9 in Q2 2021. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

Slower manufacturing production growth was a key factor holding back the UK economy in September (index at 52.7, down from 54.1 in August). The latest increase in manufacturing output was the weakest since February, largely due to severe supply chain difficulties at home and abroad. Service sector growth has now outpaced the manufacturing recovery for four months in a row.

September data highlighted a slowdown in private sector job creation from the survey-record high seen in the previous month. Manufacturers saw a particularly steep slowdown in employment growth, with staffing numbers rising at the weakest pace since January. Shortages of candidates to fill vacancies were widely reported across the private sector.

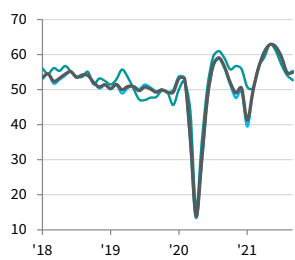
Turning to inflationary pressures, latest data pointed to the steepest rise in output charges since this index began in November 1999. On a more positive note, manufacturing sector input prices rose at the slowest pace since April.



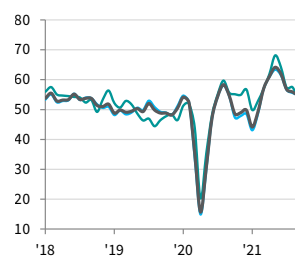
\*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Composite / Manufacturing / Services

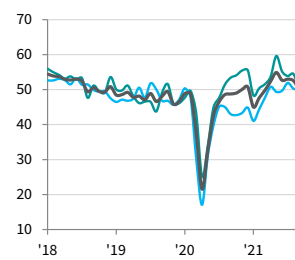
**Output Index**  
sa, >50 = growth since previous month



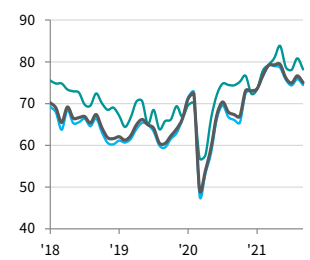
**New Business Index**  
sa, >50 = growth since previous month



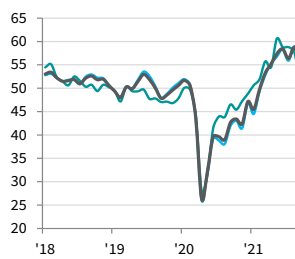
**New Export Business Index**  
sa, >50 = growth since previous month



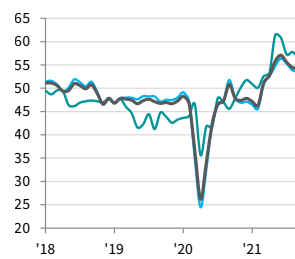
**Future Output Index**  
>50 = growth expected over next 12 months



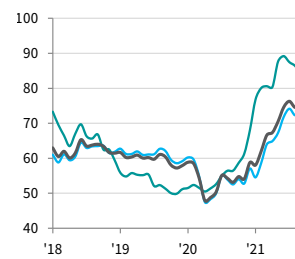
**Employment Index**  
sa, >50 = growth since previous month



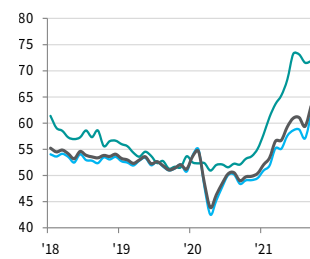
**Outstanding Business Index**  
sa, >50 = growth since previous month



**Input Prices Index**  
sa, >50 = inflation since previous month



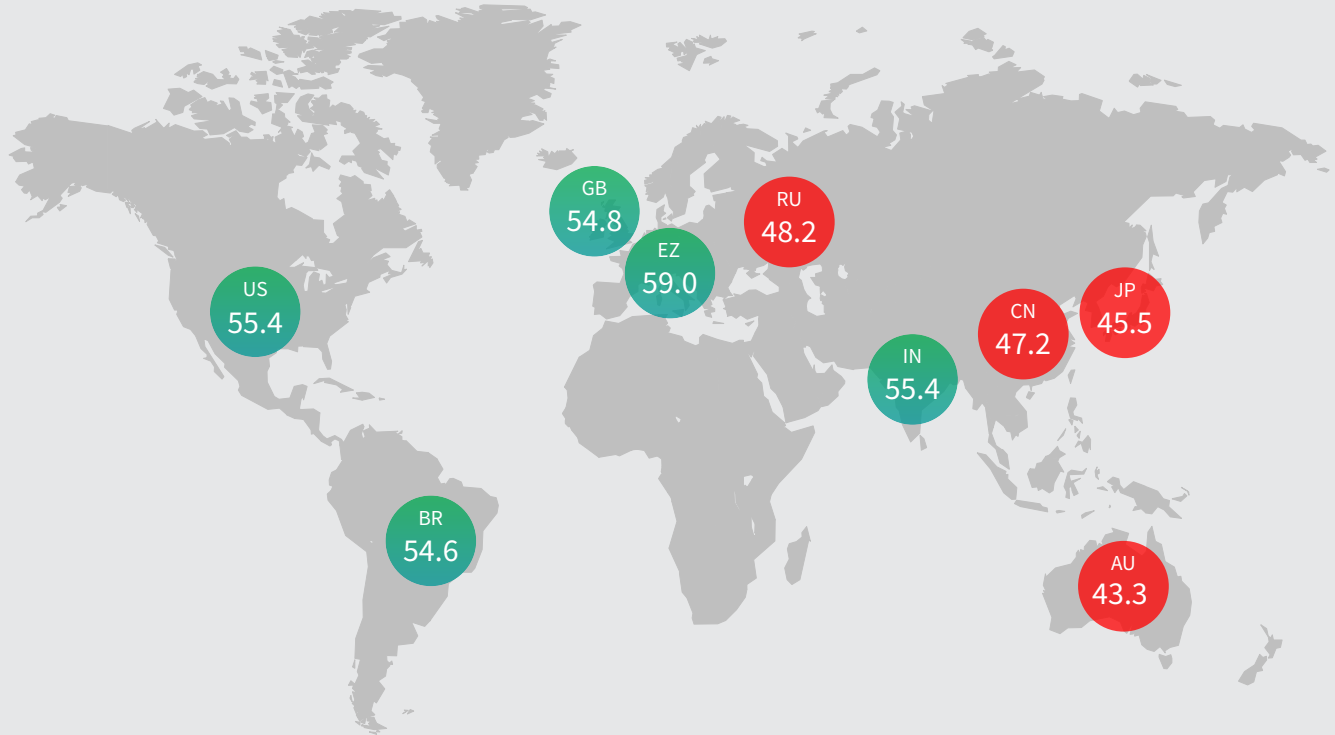
**Output Prices Index**  
sa, >50 = inflation since previous month



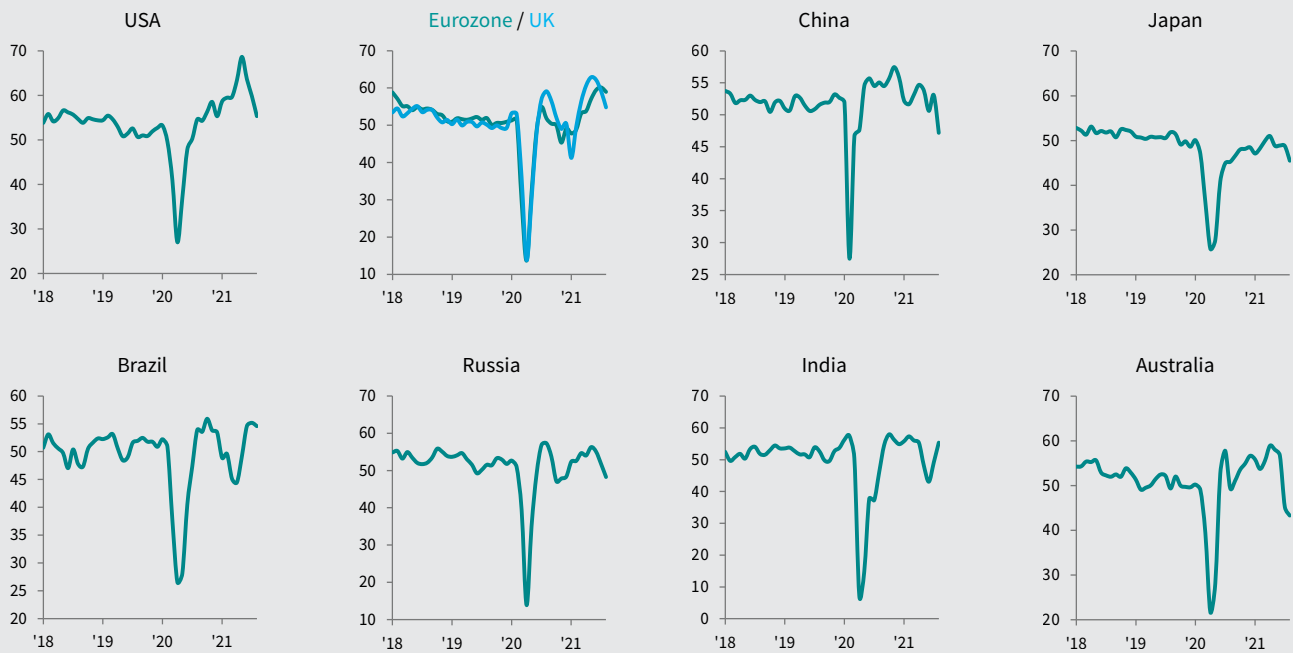
## International PMI

Composite Output Index, Aug '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 13-28 September 2021.

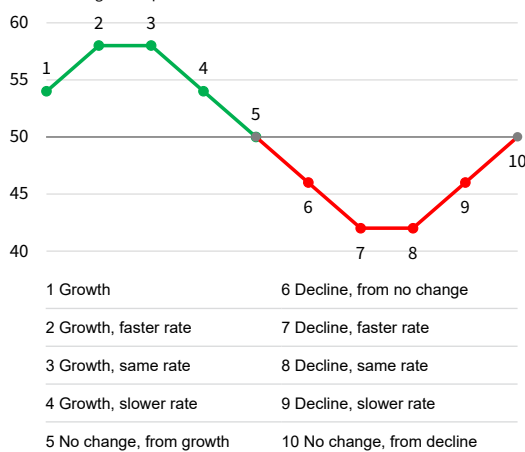
Survey data were first collected July 1996.

### 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
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
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

### 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
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
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

#### 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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