

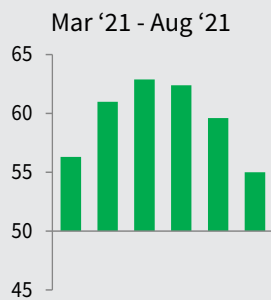


IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

Job creation hits record high, but supply shortages contribute to slowest output growth for six months

UK Services Business Activity Index



Recovery in business activity eases further from May's peak

Fastest rise in employment numbers since survey began in 1996

Business optimism climbs to three-month high

UK service providers signalled that August was the worst month for business activity growth since the current phase of recovery began in March. The slowdown partly reflected a normalisation of customer demand after the initial loosening of pandemic restrictions during the second quarter of 2021. However, there were also widespread reports that shortages of staff and disrupted supply chains had constrained growth in August.

Staff recruitment picked up to its strongest since the survey began in July 1996 as businesses sought to rebuild workforce numbers in response to rising sales. Competitive labour market conditions resulted in steep wage pressures during August. The overall rate of cost inflation eased since the previous month, but was the second-fastest seen over the past 25 years.

At 55.0 in August, the headline seasonally

adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index was down from 59.6 in July and well below May's record high of 62.9. The index has registered above the 50.0 no-change value in each of the past six months, but the rate of expansion was the slowest since the service sector returned to growth after the winter lockdown.

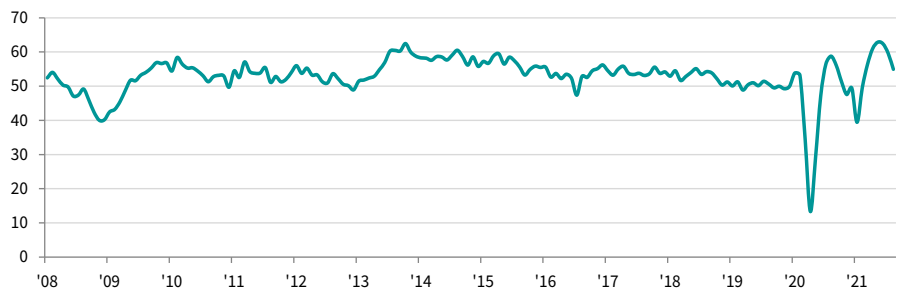
The recovery in new business volumes lost only a small amount of momentum in August. Softer new order growth was partly linked to the end of the full stamp duty holiday and a subsequent cooling in consumer demand arising from residential property transactions. Subdued export orders also weighed on overall new business intakes. Survey respondents often commented on a lack of inbound tourists, while some others cited Brexit trade frictions.

August data pointed to a solid increase

continued...

UK Services Business Activity Index

sa, >50 = growth since previous month



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in backlogs of work across the service economy, which extended the current period of accumulation to six months. Rising volumes of unfinished work were overwhelmingly attributed to staff shortages. Survey respondents noted unexpectedly high levels of employee turnover, as well as absences due to COVID-19 isolation rules.

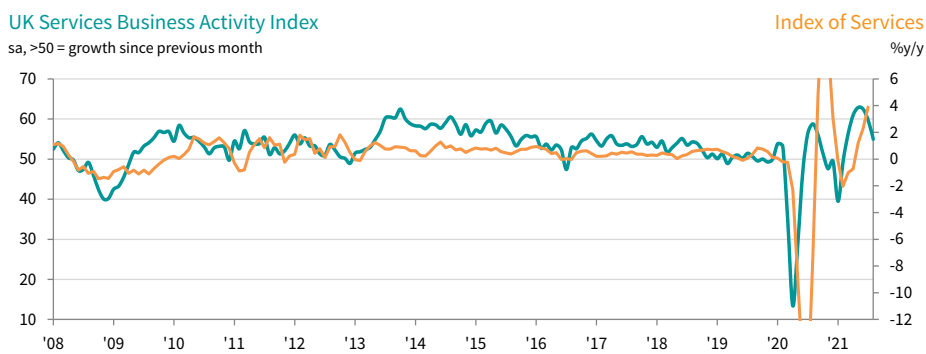
Capacity constraints encouraged additional staff recruitment during August. The rate of job creation surged higher than the previous record seen in June 2014 and a subsequent lack of candidates to fill vacancies led to steep increases in wages.

Strong pay pressures, rising fuel bills and greater transport costs were the main factors contributing to higher operating expenses in August. Around 44% of the survey panel reported an increase

in overall cost burdens, while only 1% signalled a decline. Mirroring the trend for input prices, latest data indicated that prices charged inflation eased only slightly from July's peak.

Despite escalating costs and severe supply disruptions, service providers remain highly optimistic about the outlook for business activity growth during the next 12 months.

The proportion of survey respondents expecting an expansion (60%) exceeded those forecasting a decline (8%) by a wide margin. Moreover, the resulting index highlighted that business confidence rebounded to its strongest since May. Optimism was closely linked to positivity about the pandemic outlook and hopes that the roll back of COVID-19 restrictions would be sustained during the year ahead.



Sources: IHS Markit, CIPS, ONS.



Comment

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

"The service sector lost momentum for the third consecutive month as the impact of looser pandemic restrictions faded in August. Many businesses suffered constraints on growth due to staff shortages, self-isolation rules and stretched supply chain capacity.

"Service providers signalled the sharpest rise in employment since data collection began 25 years ago. Additional staff recruitment typically reflected efforts to return workforce numbers to pre-pandemic levels after widespread job cuts last year. Many survey respondents commented on long wait times to fill vacancies and an unexpectedly high staff turnover as the UK economy reopened.

"Tight labour market conditions pushed up wages as service sector companies sought to attract and retain employees. The overall rate of input cost inflation remained steep, but eased from the record high seen in July.

"Business optimism edged up to a three-month high during August, suggesting that service providers have become slightly more confident about longer-term prospects for demand and supply availability."

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

"The third consecutive monthly fall in growth in the services sector showed that a lack of staff and raw materials in August continued to rein back on recovery, after the spring surge.

"Service businesses were particularly hit by lockdowns and the loss of workforces, so it was no surprise that the opening of the UK economy led to the fastest levels of job creation in the sector since July 1996. Job seekers had the pick of the crop in terms of opportunities, but employers had to offer higher wages and more benefits to relieve the restrictions in operating capacity leading to another rapid rise in business costs. This in turn resulted in higher prices to customers and it's difficult to say how long supply imbalances in the economy will persist.

"With the third monthly fall in a row, new order growth failed to impress and work from overseas barely rose. Brexit continued to make its mark and supply shortages and logistics difficulties will pile on the pressure in the coming months but service companies remained buoyant about future opportunities."



Activity and demand

Business activity

August data signalled a solid increase in business activity across the UK service economy, but the speed of recovery slowed sharply since the previous month. Adjusted for seasonal influences, the Business Activity Index pointed to the weakest rate of expansion since the sector returned to growth in March.

Survey respondents noted that staff shortages and supplier disruptions were again constraints on output during August. Where growth was reported, this mainly reflected rising spending on business and consumer services due to looser pandemic restrictions.

New business

The seasonally adjusted New Business Index highlighted a slowdown in new order growth for the third month running, although the loss of momentum in August was only marginal. Some firms commented on a normalisation of customer demand after the spike in sales seen earlier this summer. There were also reports that the end of the full stamp duty holiday had weighed on sales in the residential property sector.

New export business

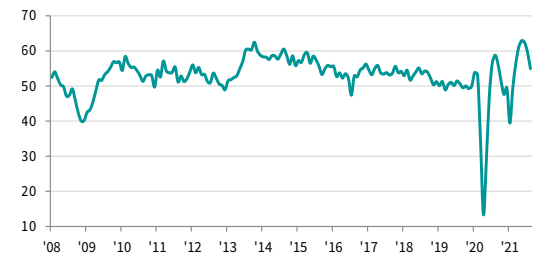
Service providers recorded only a fractional increase in new work from abroad during August. Some businesses noted a rise in orders due to looser overseas travel restrictions, but others cited subdued export demand that was linked to Brexit trade frictions and low numbers of inbound tourists.

Business Activity Index

sa, >50 = growth since previous month

55.0

Aug '21

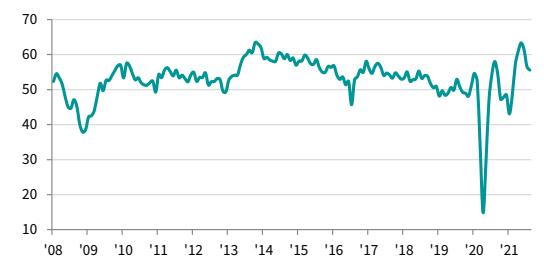


New Business Index

sa, >50 = growth since previous month

55.6

Aug '21



New Export Business Index

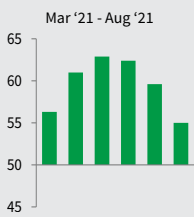
sa, >50 = growth since previous month

50.3

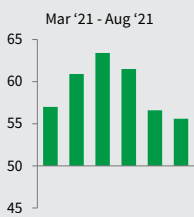
Aug '21



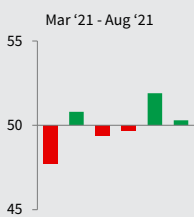
Business Activity Index



New Business Index

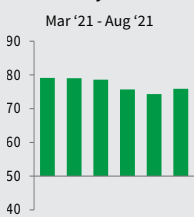


New Export Business Index



Business expectations

Future Activity Index



Confidence regarding the year ahead business outlook edged up to a three-month high in August. Around 60% of the survey panel forecast an increase in activity, while only 8% anticipate a reduction.

Anecdotal evidence suggested that optimism in relation to the pandemic situation was still the main driver of positive sentiment during the latest survey period.

Future Activity Index

>50 = growth expected over next 12 months

75.9

Aug '21



Employment and capacity

Employment

The seasonally adjusted Employment Index registered above the crucial 50.0 no-change value for the sixth consecutive month in August. Moreover, the rate of job creation accelerated to its fastest since the survey began in July 1996.

Rising levels of employment were widely linked to greater customer demand and subsequent efforts to rebuild staffing numbers. Many firms commented on unexpectedly high staff turnover and long wait times to fill vacancies.

Outstanding business

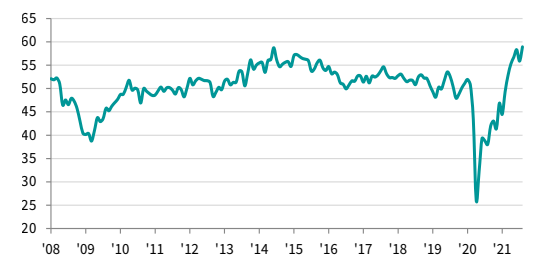
August data indicated severe pressure on operating capacity across the service sector. The seasonally adjusted Outstanding Business Index highlighted an increase in unfinished work for the sixth month in a row, although the rate of accumulation was the slowest since April. Labour shortages and supply chain delays were widely reported as factors leading to rising backlogs.

Employment Index

sa, >50 = growth since previous month

59.0

Aug '21

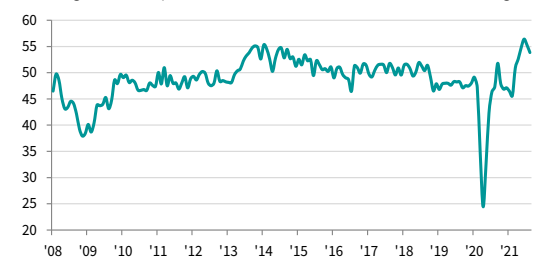


Outstanding Business Index

sa, >50 = growth since previous month

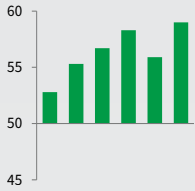
53.8

Aug '21



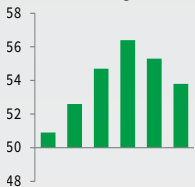
Employment Index

Mar '21 - Aug '21



Outstanding Business Index

Mar '21 - Aug '21



Prices

Input prices

Latest data pointed to the second-sharpest increase in average cost burdens since the survey began 25 years ago, with the rate of inflation only exceeded by that seen in July.

Around 44% of the survey panel reported an increase in their input prices during August, while only 1% saw a reduction. Service providers noted that extremely competitive labour market conditions had resulted in upward wage pressures to attract and retain employees. There were also widespread reports citing higher input prices due to supply shortages and a spike in transport costs.

Prices charged

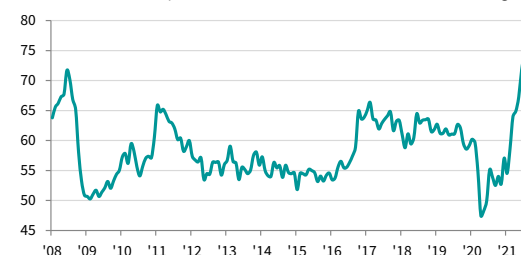
The seasonally adjusted Prices Charged Index eased from July's survey-record high but still signalled a steep rate of inflation during August. Survey respondents often noted that higher supplier charges had been passed on to clients, especially those linked to rising fuel bills and shipping costs.

Input Prices Index

sa, >50 = inflation since previous month

72.3

Aug '21

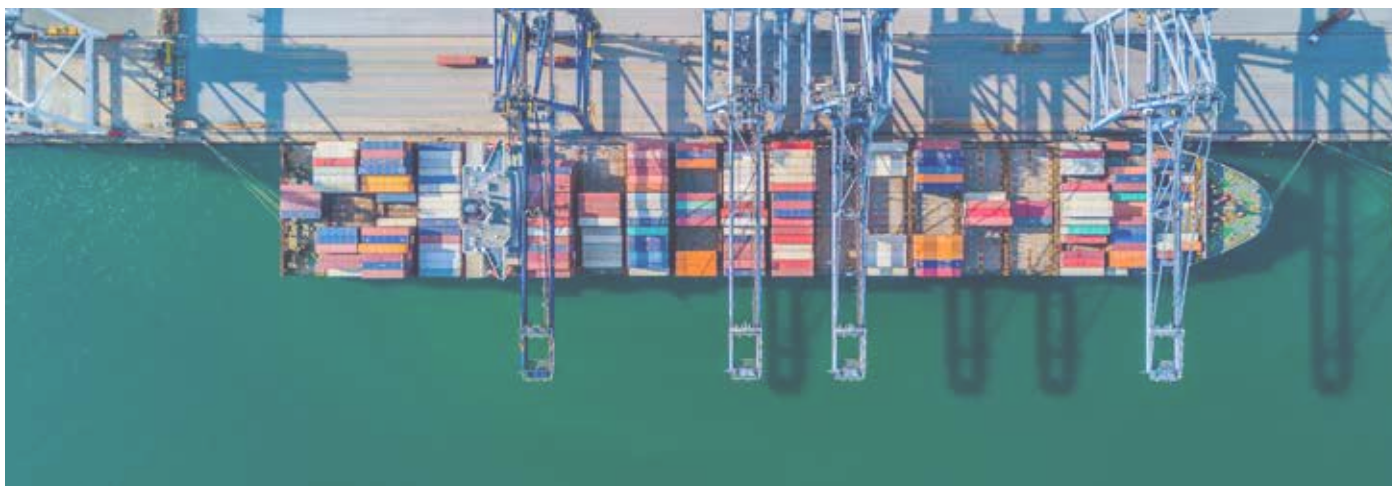
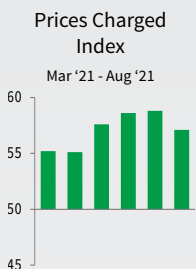
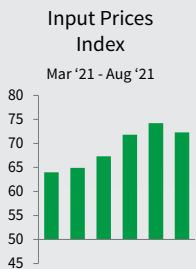
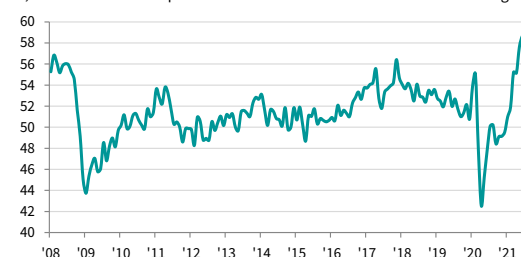


Prices Charged Index

sa, >50 = inflation since previous month

57.1

Aug '21



Services sub-sectors: Three-month moving average

Hotels, restaurants & catering



Latest data indicated a sharp and accelerated rise in business activity across the Hotels, Restaurants & Catering sub-sector. The rate of expansion was the fastest for almost 18 years and exceeded that seen in all other parts of the service economy.

Rapid growth in Hotels, Restaurants & Catering activity was mainly linked to looser pandemic restrictions and surging demand related to staycations.

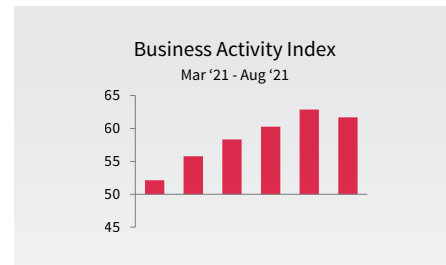
Transport & communication



Transport & Communication Services signalled a renewed decline in business activity during the three months to August, although the rate of contraction was only modest.

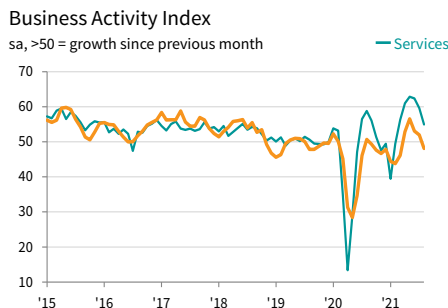
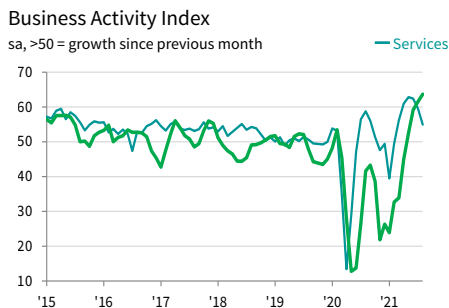
New order volumes also decreased in the latest survey period. Shrinking demand meant that Transport & Communication Services was the only area of the service sector to register a fall in employment during the three months to August.

Computing & IT services



Business activity growth eased from the 24-year peak seen in the three months to July. The latest survey data nonetheless pointed to another strong performance for the Computing & IT sub-sector, with job creation exceeding that seen in all other sub-sectors.

Backlogs of work increased at a quicker pace than elsewhere in the service economy, reflecting strong demand and difficulties filling staff vacancies.



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



Services sub-sectors: Three-month moving average

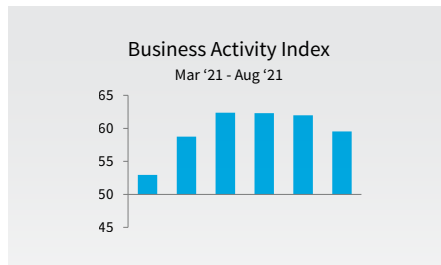
Financial intermediation



Businesses in the Financial Intermediation sub-sector saw a considerable slowdown in activity growth during the three months to August. The latest rise in output was much weaker than the peak seen in the second quarter of 2021.

Despite a slowdown in the speed of recovery, latest data highlighted another solid increase in backlogs of work, which suggested ongoing pressure on business capacity.

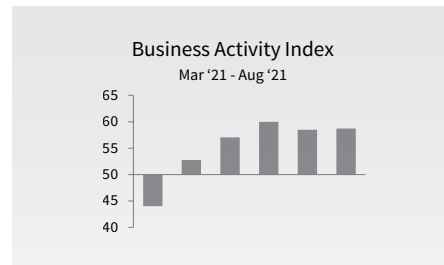
Business-to-business services



Latest data indicated that Business-to-business services experienced a growth slowdown during the three months to August.

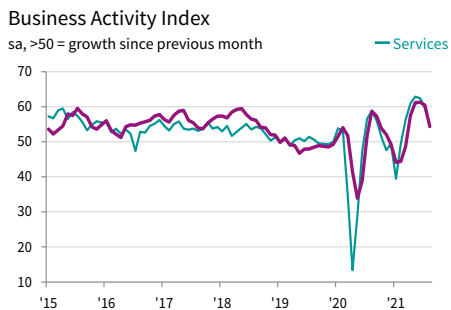
The rate of business activity expansion was the weakest since the three months to April, but still strong in comparison to the long-run survey average. Moreover, employment growth remained robust during the three months to August.

Other personal & community services



Other Personal & Community Services was one of the few categories to record faster business activity growth during the three months to August, although the speed of recovery accelerated only slightly.

Survey respondents commented on a boost to sales from looser pandemic restrictions and a general improvement in demand for consumer services.



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



IHS Markit / CIPS UK Composite PMI®

Private sector output growth eases considerably since July

At 54.8 in August, the seasonally adjusted UK Composite Output Index fell from 59.2 in July and therefore signalled a much slower speed of recovery across the private sector economy. The composite index has registered above the 50.0 no-change threshold in each month since March, but the latest reading was the weakest over this period.

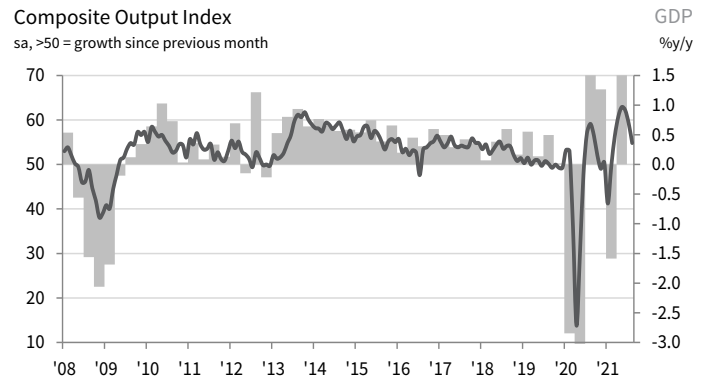
The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Service sector activity (index at 55.0) increased at a quicker rate than manufacturing output (54.1). Both sectors signalled the weakest growth for six months.

Private sector employment numbers increased at the fastest pace since this index began in January 1998, largely fuelled by a rapid rise in recruitment across the service economy.

Shortages of staff and raw materials acted as a constraint on the recovery in August, with supply chain disruption leading to an especially sharp rise in backlogs of work at manufacturing companies.

Strong inflationary pressures continued in August, but the latest rise in overall cost burdens was the slowest for three months. Meanwhile, prices charged inflation eased since July in both the manufacturing and service sectors.

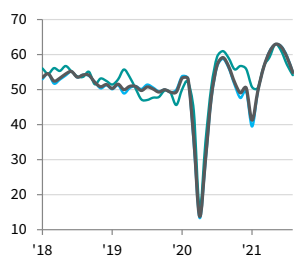


*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Composite / Manufacturing / Services

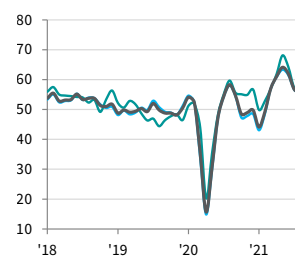
Output Index

sa, >50 = growth since previous month



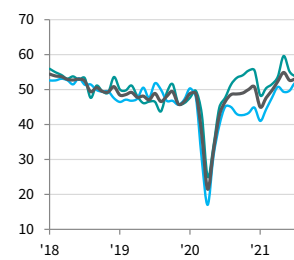
New Business Index

sa, >50 = growth since previous month



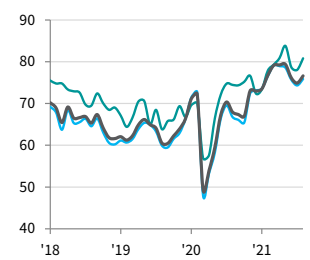
New Export Business Index

sa, >50 = growth since previous month



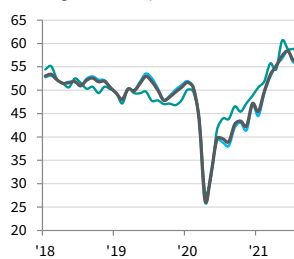
Future Output Index

>50 = growth expected over next 12 months



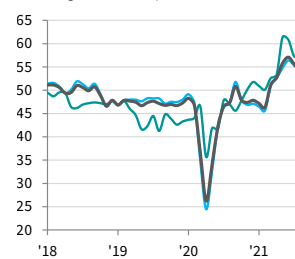
Employment Index

sa, >50 = growth since previous month



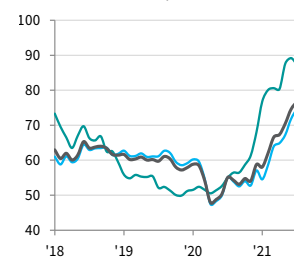
Outstanding Business Index

sa, >50 = growth since previous month



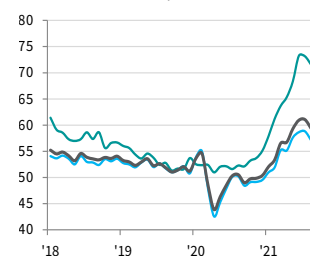
Input Prices Index

sa, >50 = inflation since previous month



Output Prices Index

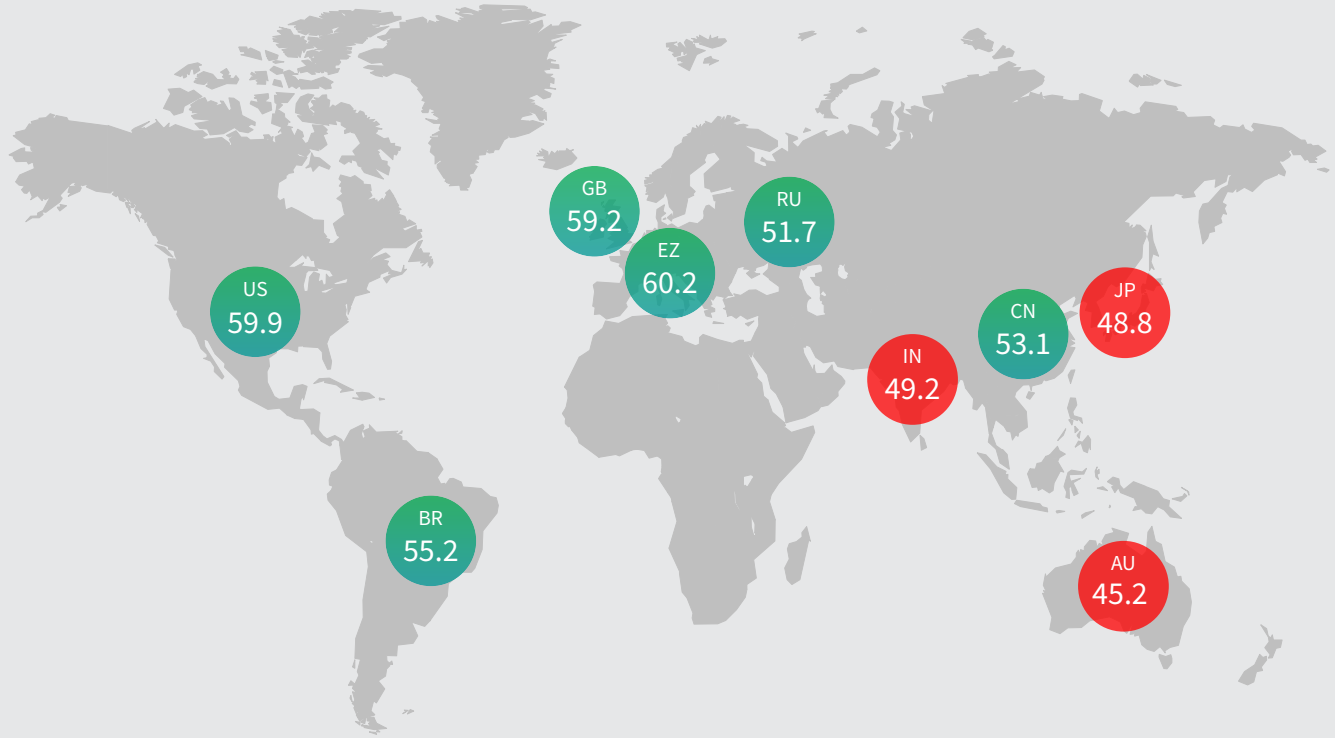
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Jul '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 August 2021.

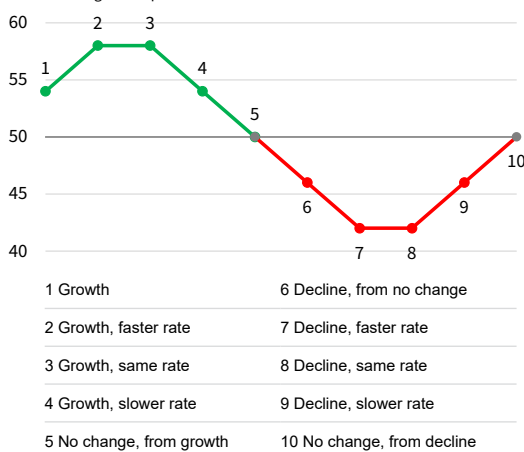
Survey data were first collected July 1996.

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
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
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

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
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
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

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.

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.