

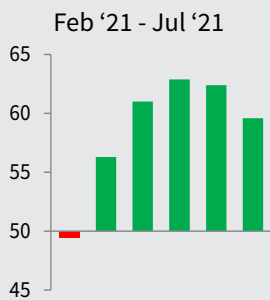


# IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

## Service sector recovery slows again in July, while inflationary pressures hit new record high

### UK Services Business Activity Index



### Weakest rise in business activity since March

### Strongest input cost inflation in 25 years of data collection

### Staff shortages constrain business capacity and recruitment

UK service providers recorded an increase in business activity for the fifth month running during July, but the rate of growth was the weakest since March. Staff shortages and supply issues were a severe constraint on business capacity, which led to another strong rise in backlogs of work.

Tight labour market conditions led to greater wage pressures across the service economy and this contributed to the fastest increase in overall input costs since the survey began in July 1996. Prices charged by service sector companies also rose at a survey-record pace.

At 59.6 in July, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index posted above the crucial 50.0 no-change mark, but dropped from 62.4 in June. The index was the lowest since March and therefore signalled the slowest rate of expansion

since the end of the winter lockdown. Staff shortages, supply chain issues and the end of the full stamp duty holiday for residential property sales were cited as factors leading to a slowdown since June.

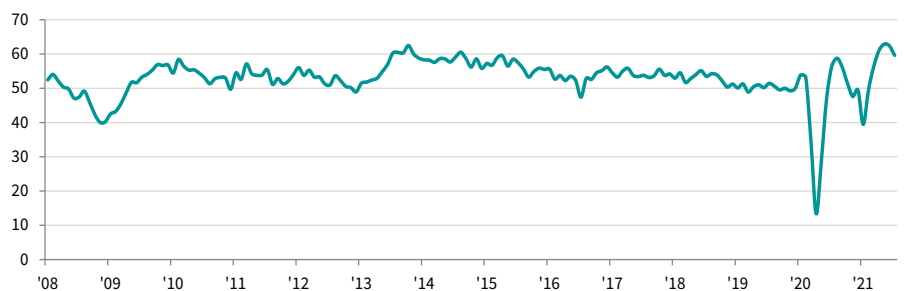
A substantial loss of momentum was seen for new business growth during July, with this index the lowest since February. While many firms commented on strong consumer spending and a sustained recovery in demand for business services, there were also reports that COVID-19 isolation rules had negatively influenced sales volumes.

New export orders returned to growth in July, helped by looser pandemic restrictions in overseas markets. The rate of growth was the strongest since June 2018, but still much weaker than seen for overall new work. Those reporting a drop in new work from abroad overwhelmingly cited tight restrictions on international

*continued...*

UK Services Business Activity Index

sa, >50 = growth since previous month



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travel.

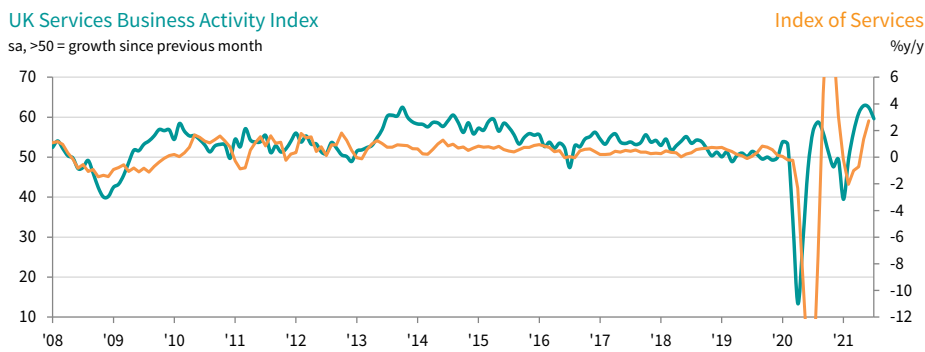
Backlogs of work increased for the fifth successive month in July and the rate of accumulation was only slightly slower than June's record high. Many service providers commented on staff shortages due to COVID-19 isolation rules. Anecdotal evidence also highlighted ongoing difficulties rebuilding business capacity due to supply issues and lengthy wait times to fill vacancies.

Job creation continued at a brisk pace in July, reflecting strong demand for staff across the service economy. However, the rate of employment growth slipped to a three-month low, which survey respondents often attributed to unexpected staff departures and delays with finding suitably skilled candidates.

Wage pressures, higher fuel prices and

greater transport bills were the most commonly cited factors pushing up input costs in July. The overall rate of inflation was the steepest since the survey began 25 years' ago. A combination of rising input prices and stronger demand meant that service providers increased their average charges at a survey-record pace in July.

Finally, the latest survey indicated that service sector companies remain highly upbeat about their growth prospects for the year ahead. Around 57% predict an expansion, while only 9% anticipate a decline in business activity. However, the degree of confidence has now slipped for four months in a row and the latest reading was the lowest since January. Some firms noted that the peak phase of recovery had passed, and others cited concerns about capacity constraints.



Sources: IHS Markit, CIPS, ONS.



## Comment

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

*"July data illustrates that recovery speed across the UK economy has slowed in comparison to the second quarter of 2021. More businesses are experiencing growth constraints from supply shortages of labour and materials, while on the demand side we've already seen the peak phase of pent up consumer spending.*

*"The full easing of pandemic restrictions appears to have helped limit the overall loss of momentum towards the end of July. At 59.6, the PMI reading for services output was much stronger than our earlier 'flash' figure of 57.8 in July, largely due to the final index covering an extra five days since 'freedom day'.*

*"Any re-acceleration of growth in August looks unlikely, however, as new orders increased at a much-reduced pace at the start of the third quarter. Moreover, business expectations softened again during July, with UK firms the least optimistic about the growth outlook since January. Survey respondents cited worries about recruiting staff to meet business expansion plans and some suggested that escalating costs would hinder the recovery."*

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

*"With new orders the weakest since February, demand in the services sector appears to be waning along with business optimism as supply and staff constraints impacted on activity last month.*

*"Unfilled vacancies due to skills shortages and low stocks at suppliers meant further gains were obstructed and backlogs of work increased. Adding to capacity pressures, the relentless rise in input cost inflation to its highest for a quarter of a century meant businesses were paying more for wages, transport and food, and consumers were beginning to bear the brunt with onward price inflation the most elevated since the survey began in 1996.*

*"We suspect the best of the post-pandemic recovery could be behind us, especially if higher leisure and hospitality costs diminish appetite for consumer spending. Consumer Price Inflation reached 2.4% in June, surpassing the 2% target set by the Bank of England, and it is likely to go higher in the coming months as salary increases add pressure on prices through the summer."*



## Activity and demand

### Business activity

UK service providers reported a sharp increase in output volumes during July, which extended the current period of expansion to five months. However, the latest reading signalled the slowest rate of growth since March.

Anecdotal evidence suggested that staff shortages, supply chain issues and the end of the full stamp duty holiday for residential property sales had all contributed to the slowdown since June.

### New business

July data indicated that new business growth eased for the second month running and the respective index was the weakest since February (when sales dipped during the national lockdown). Service sector companies noted that strong consumer spending continued to boost new order volumes, especially in relation to bookings for domestic leisure and tourism. However, some firms noted that COVID-19 isolation rules had negatively influenced client demand.

### New export business

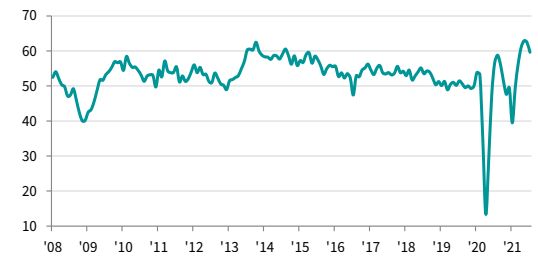
Adjusted for seasonal influences, the New Export Business Index registered above the 50.0 no-change threshold for the first time in three months. Although only marginal, the rate of expansion was the fastest recorded since June 2018.

### Business Activity Index

sa, >50 = growth since previous month

59.6

Jul '21

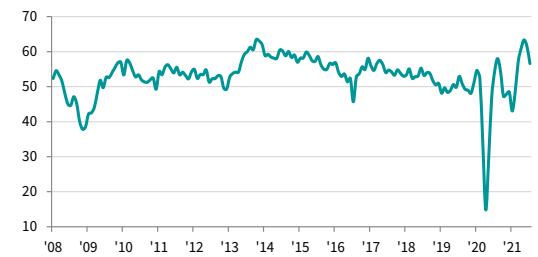


### New Business Index

sa, >50 = growth since previous month

56.6

Jul '21



### New Export Business Index

sa, >50 = growth since previous month

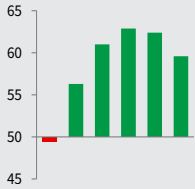
51.9

Jul '21



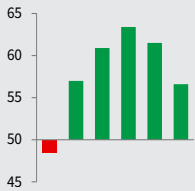
### Business Activity Index

Feb '21 - Jul '21



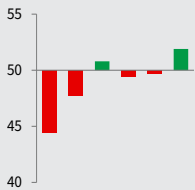
### New Business Index

Feb '21 - Jul '21



### New Export Business Index

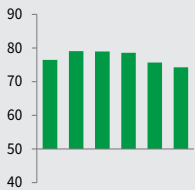
Feb '21 - Jul '21



## Business expectations

### Future Activity Index

Feb '21 - Jul '21



Around 57% of the survey panel forecast a rise in business activity during the year ahead, while only 9% predict a decline. The resulting Future Activity Index was well inside positive territory and much stronger than the long-run survey average.

Nonetheless, the degree of confidence has now eased for four months in a row and the latest reading was the lowest since January.

### Future Activity Index

>50 = growth expected over next 12 months

74.3

Jul '21



## Employment and capacity

### Employment

The seasonally adjusted Employment Index posted above the 50.0 no-change value for the fifth consecutive month in July and signalled a strong rate of job creation across the service economy. That said, the rate of staff hiring eased from June's recent peak. Survey respondents often commented on unexpected departures among employees and severe difficulties with finding candidates to fill vacancies.

### Outstanding business

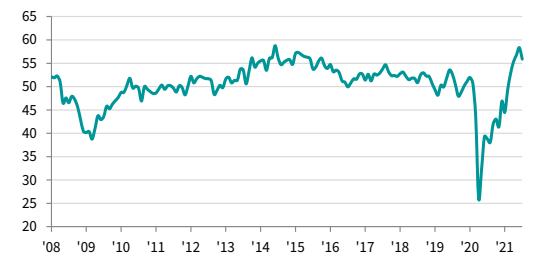
Service sector companies indicated another sharp increase in backlogs of work during July and the rate of accumulation eased only slightly from June's survey-record high. The seasonally adjusted index has pointed to rising volumes of unfinished business in each month since March. Higher backlogs were overwhelmingly attributed to staff shortages during July.

### Employment Index

sa, >50 = growth since previous month

55.9

Jul '21

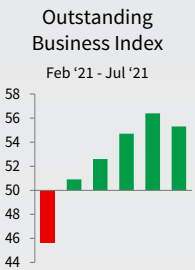
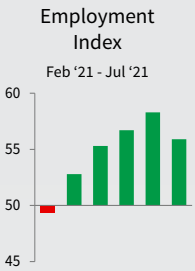
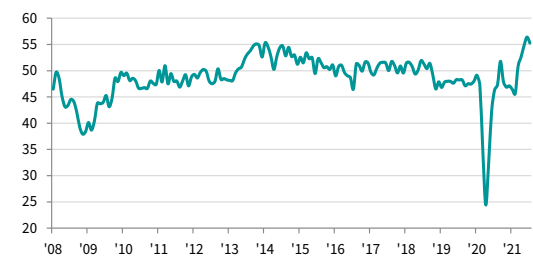


### Outstanding Business Index

sa, >50 = growth since previous month

55.3

Jul '21



## Prices

### Input prices

The seasonally adjusted Input Prices Index pointed to a rapid pace of cost inflation across the service economy in July, with the latest reading signalling the strongest rise in operating expenses since the survey began 25 years ago.

Higher input costs were mostly linked to wage inflation, alongside rising fuel prices and transport bills. Service providers also noted that suppliers had passed on increased raw material prices.

### Prices charged

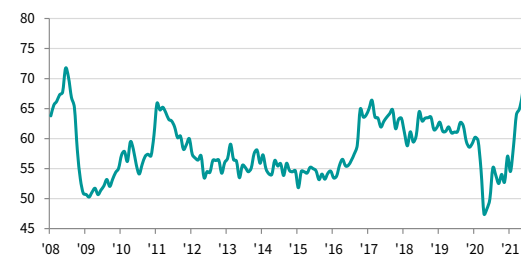
Average prices charged by service sector companies increased for the seventh month running, which was overwhelmingly attributed to rapid cost inflation. Moreover, the latest rise in prices charged was the steepest since the survey began in July 1996.

### Input Prices Index

sa, >50 = inflation since previous month

74.2

Jul '21

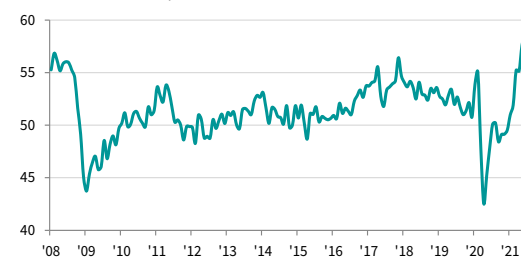


### Prices Charged Index

sa, >50 = inflation since previous month

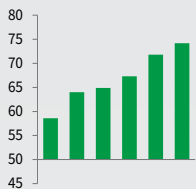
58.8

Jul '21



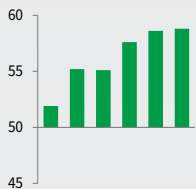
### Input Prices Index

Feb '21 - Jul '21



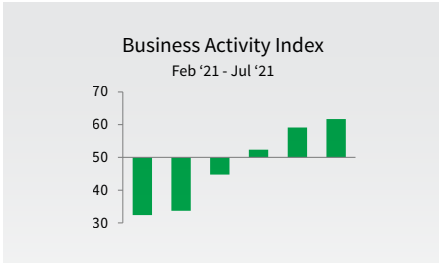
### Prices Charged Index

Feb '21 - Jul '21



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

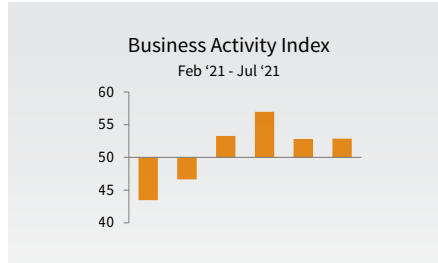
### Hotels, restaurants & catering



Hotels, Restaurants & Catering companies recorded a strong increase in business activity during the three months to July, driven by looser pandemic restrictions. However, new order growth eased slightly from the peak seen in the second quarter of 2021.

Backlogs of work increased more quickly than in all other sub-sectors. The latest rise in unfinished business was the fastest since this index began in 1996.

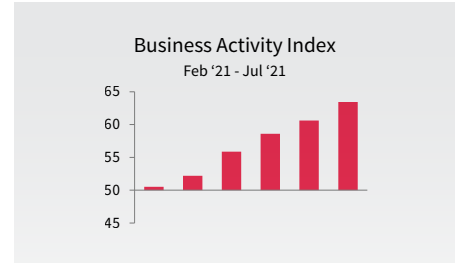
### Transport & communication



Business activity increased only slightly in the Transport & Communication Services category. The rate of expansion during the three months to July was weaker than seen in all other sub-sectors.

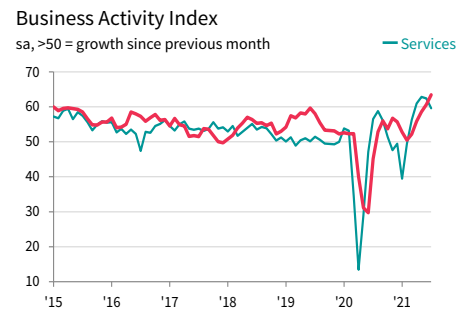
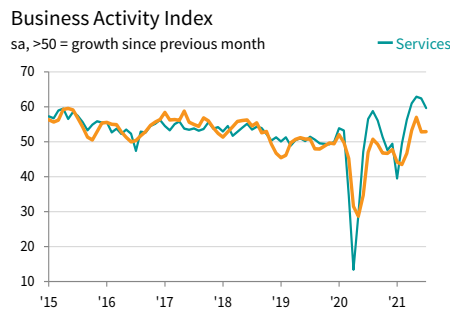
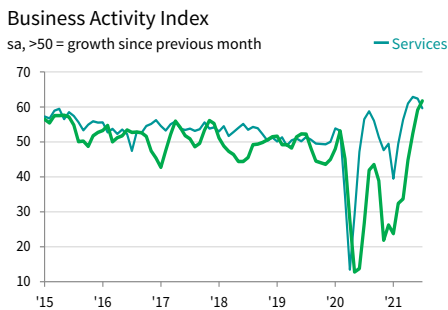
In contrast to the positive overall service sector trend, latest data pointed to a reduction in staffing numbers within the Transport & Communication Services category.

### Computing & IT services



Service providers in the Computing & IT sub-sector recorded a sharp and accelerated rise in business activity. The rate of growth was the strongest for 24 years during the three months to July. New order volumes also rose at the fastest pace since mid-1997.

Latest data highlighted that employment growth was steeper than seen in all other sub-sectors.

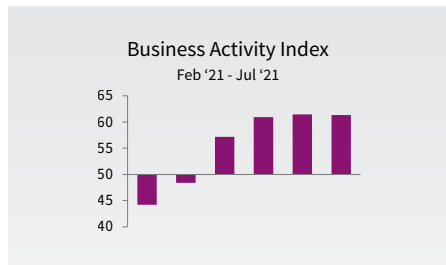


Sub-sector data are smoothed as a three-month average. Total services data are unsmoothed.



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

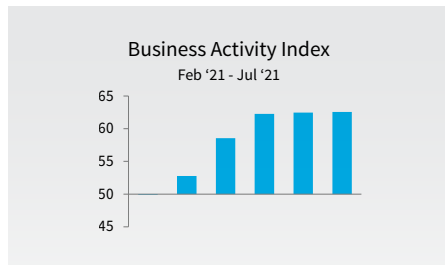
### Financial intermediation



Financial Intermediation experienced another strong rise in business activity during the three months to July. However, new work increased at a much slower pace than seen on average in the second quarter of 2021.

Meanwhile, job creation was the sharpest recorded for more than 24 years during the three months to July.

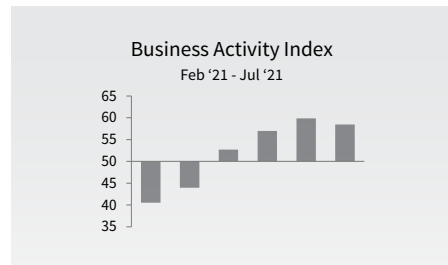
### Business-to-business services



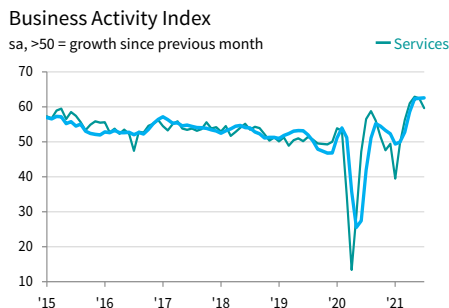
Business-to-business services remained an outperforming category in the three months to July. The rate of expansion was unchanged from the eight-year peak seen in the second quarter of 2021.

New business volumes and employment numbers continued to rise at sharp rates during the latest survey period.

### Other personal & community services



Latest data highlighted that activity in the Other Personal & Community Services category expanded again during the three months to July. However, the speed of recovery slowed since the previous survey period and was weaker than seen in all other sub-sectors except Transport & Communication.



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





## IHS Markit / CIPS UK Composite PMI®

# Weakest rise in private sector output since March

The seasonally adjusted UK Composite Output Index dropped from 62.2 in June to 59.2 in July, thereby signalling the slowest rate of private sector expansion for four months.

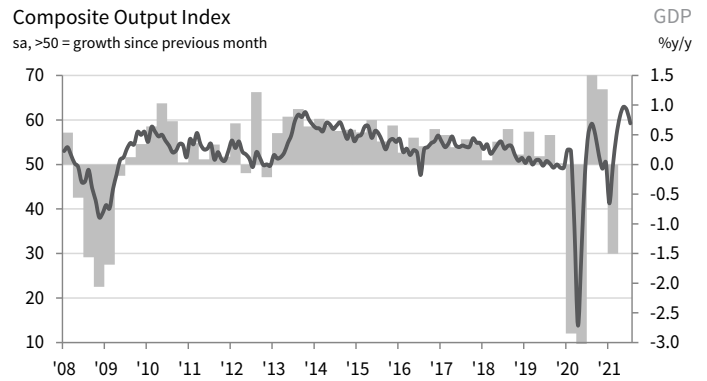
The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

Service sector activity (index at 59.6) rose at a faster pace than manufacturing production (57.1), but both sectors experienced a further slowdown in recovery momentum during July.

Supply shortages resulted in strong rises in backlogs of work across both the manufacturing and service sectors in July, with the former posting the faster rate of accumulation.

Average cost burdens increased at the sharpest rate since the composite index began in January 1998. Prices charged inflation across the UK private sector also hit a series-record high in July.

Manufacturers reported the stronger overall pace of inflation, but service providers drove the acceleration since June.

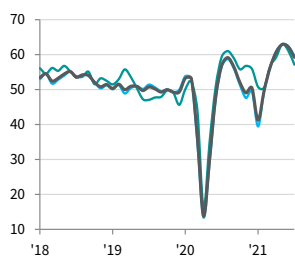


\*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

### Composite / Manufacturing / Services

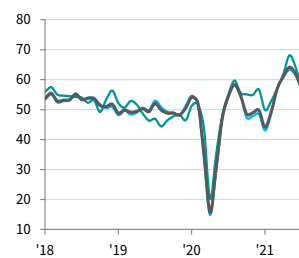
#### Output Index

sa, >50 = growth since previous month



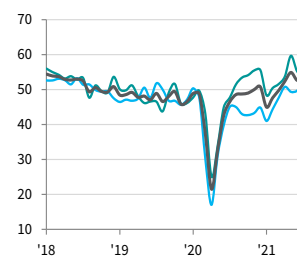
#### New Business Index

sa, >50 = growth since previous month



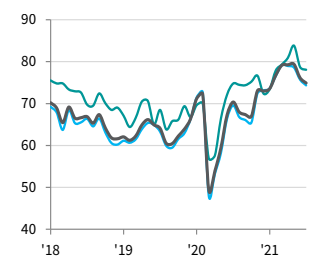
#### New Export Business Index

sa, >50 = growth since previous month



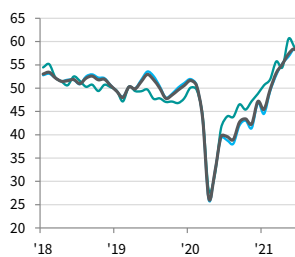
#### Future Output Index

>50 = growth expected over next 12 months



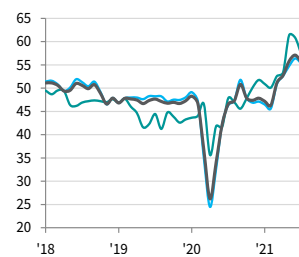
#### Employment Index

sa, >50 = growth since previous month



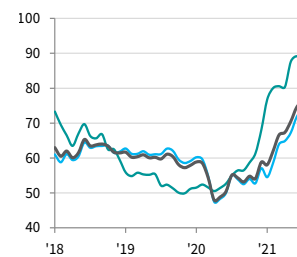
#### Outstanding Business Index

sa, >50 = growth since previous month



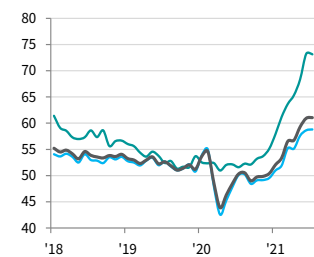
#### Input Prices Index

sa, >50 = inflation since previous month



#### Output Prices Index

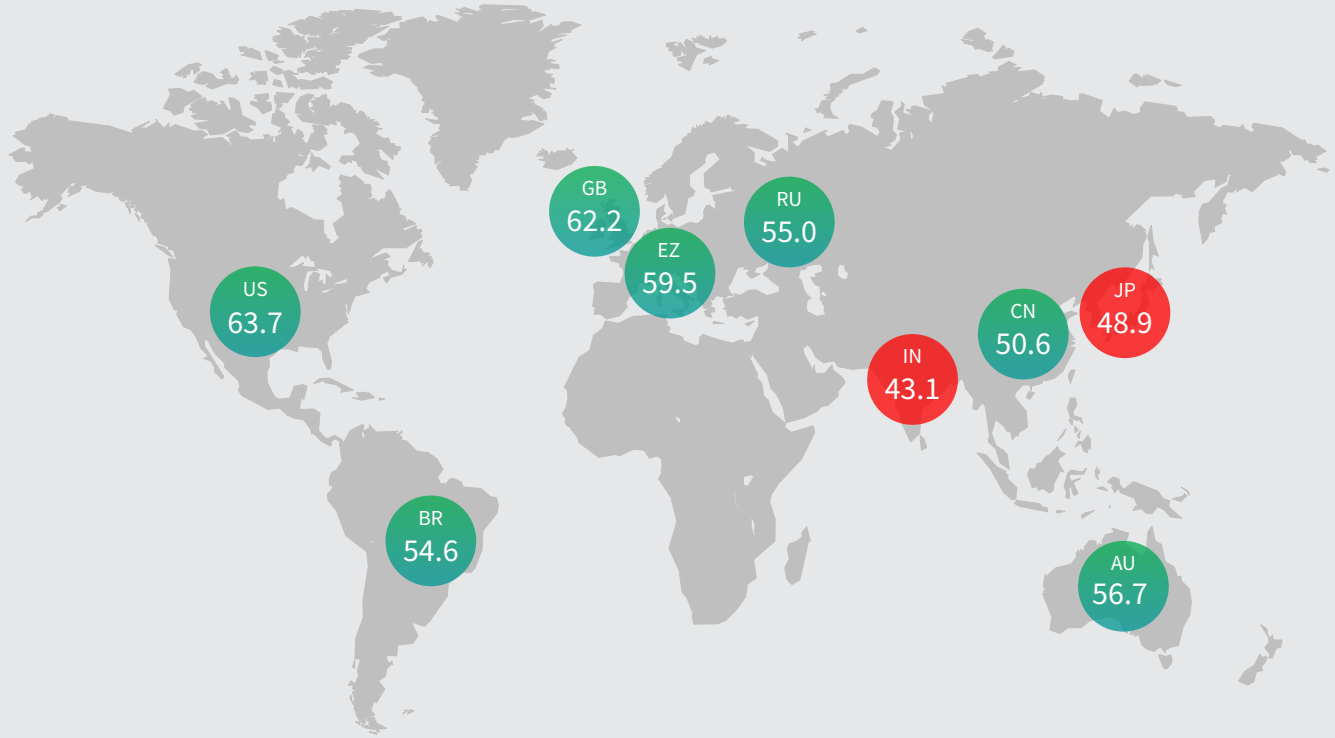
sa, >50 = inflation since previous month



## International PMI

Composite Output Index, Jun '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 12-28 July 2021.

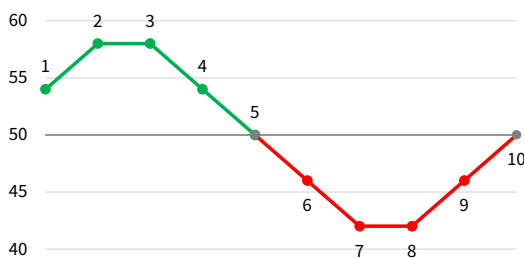
Survey data were first collected July 1996.

### Survey questions

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

### Index interpretation

50.0 = no change since previous month



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

### Sector coverage

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

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

\*Private sector

## Index summary

### Services

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

	Business Activity	New Business	New Export Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Feb '21	49.5	48.5	44.4	76.5	49.3	45.6	58.6	51.9
Mar '21	56.3	57.0	47.7	79.1	52.8	50.9	64.0	55.2
Apr '21	61.0	60.9	50.8	79.0	55.3	52.6	64.9	55.1
May '21	62.9	63.4	49.4	78.6	56.7	54.7	67.3	57.6
Jun '21	62.4	61.5	49.7	75.7	58.3	56.4	71.8	58.6
Jul '21	59.6	56.6	51.9	74.3	55.9	55.3	74.2	58.8

### 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
Feb '21	49.6	49.2	47.6	76.7	49.7	46.3	62.0	53.4
Mar '21	56.4	57.0	49.8	79.2	53.3	51.2	66.6	56.5
Apr '21	60.7	61.0	52.4	79.3	55.2	52.7	67.3	56.8
May '21	62.9	64.1	54.9	79.4	57.4	55.8	70.5	59.3
Jun '21	62.2	61.9	52.7	76.2	58.4	57.1	74.6	60.9
Jul '21	59.2	56.7	53.0	74.9	56.4	55.6	76.3	61.1

#### 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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