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IHS Markit / CIPS UK Services PMI®

Including IHS Markit / CIPS UK Composite PMI®

New business growth hits five-month high despite surging price inflation

Key findings

Strongest increase in new work since June

Output growth eases slightly from October's three-month high

Input costs and prices charged rise at record rates in November

Data were collected 12-26 November 2021.

A strong recovery in UK service sector activity continued during November, helped by the fastest rise in new business intakes for five months. Export sales were a key factor supporting growth across the service economy in November, with looser travel restrictions contributing to the steepest upturn in new business from abroad since March 2017.

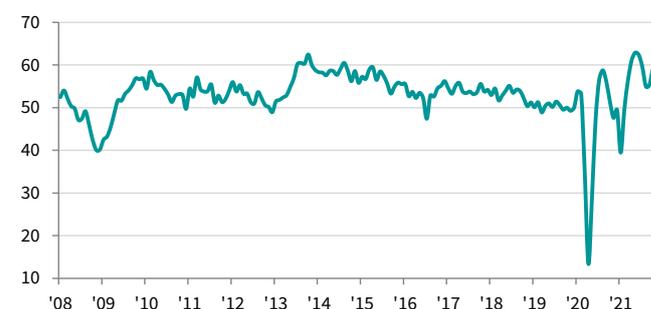
The latest survey data highlighted another round of rapid cost inflation, driven by higher fuel prices, wages and utility bills. Prices charged by service providers also increased at the fastest rate since the survey began in July 1996.

The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 58.5 in November, little-changed from the earlier 'flash' reading (58.6) and down only slightly from October's three month high of 59.1. As a result, output growth in the final quarter of 2021 remains well on track to exceed that seen in Q3 (average reading 56.7). Strong output growth was mostly attributed to a swift recovery in client demand, although some firms noted that shortages of staff and supply chain issues had acted as a constraint on expansion in November.

New business growth accelerated for the second month running in November and was the strongest since June. Twice as many survey respondents (32%) signalled a rise in new orders as those that reported a decline (16%). Service providers often commented on strong business and consumer spending, reflecting improving economic conditions and a sustained boost from reopening.

Export sales gained momentum in November, with the rate of growth the steepest for over four-and-a-half years. Companies

IHS Markit / CIPS UK Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

reporting a rise in new work from abroad mainly cited increased travel bookings and higher levels of spending by overseas visitors. Some firms commented on greater export sales due to a rebound in international business travel.

Service providers continued to indicate robust demand for staff in November, with employment numbers rising for the ninth consecutive month. The rate of job creation was the least marked since July, although the slowdown largely reflected difficulties finding candidates to fill vacancies. Survey respondents again commented on disruptions due to staff departures for higher wages or lifestyle changes.

Imbalance demand and supply contributed to another build up of unfinished work in November. Moreover, the rate of backlog accumulation was the steepest for four months.

November data pointed to surging input costs as suppliers passed on higher raw material prices and transportation bills. Service providers also noted escalating wage pressures and a spike in energy costs. Measured overall, the latest rise in input prices was the strongest in 25 years of data collection.

Prices charged by service sector firms also rose at a survey-record pace in November. Higher output charges mostly reflected increased operating expenses, although some firms commented that constrained supply and clients' focus on delivery schedules had helped to boost pricing power.

Finally, staff shortages and supply chain constraints continued hold back business expectations in the service sector. The degree of optimism about business activity growth was the lowest for 12 months.

Comment

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

"Surging price pressures have done little to dent business and consumer spending across the UK economy, according to the latest PMI data. New order growth hit a five-month high in November, job creation remained strong, and backlogs of work built up due to supply issues.

"The overall speed of recovery looks to have accelerated in comparison to the third quarter of 2021, with output growth mostly driven by services as manufacturers struggle with severe shortages of raw materials and critical components.

"The vast majority of survey responses in November were received prior to the news of the Omicron variant, however, which has the potential to derail near-term growth prospects and add to international supply chain disruption.

"Hospitality has been a top-performing area of the UK economy in recent months and looser international travel restrictions delivered a considerable boost to export sales in November. Worryingly, the fastest-growing parts of the service sector are also the most exposed to the return of tighter pandemic restrictions, especially as we approach the crucial festive spending period."

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

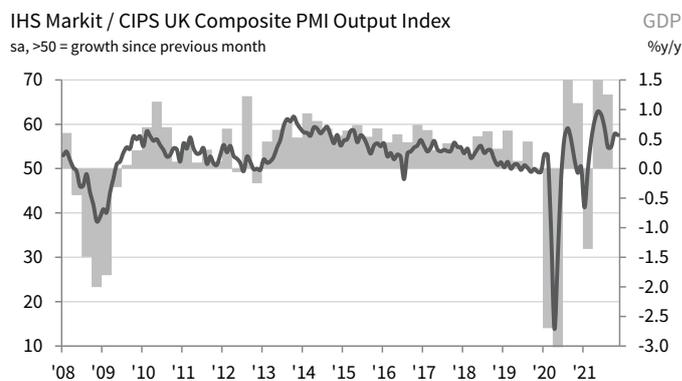
"Services provision in the UK continued to expand in November with only a small fallback in growth from October as domestic pipelines of work perked up and overseas orders piled in at the fastest rate since March 2017.

"This ongoing demand was fuelled by a slight recovery in supply chain performance in some quarters and travel opportunities opened up for more business. Firms were keen to improve on their capacity as hiring levels were maintained even if job seekers kept the upper hand in terms of choice and salary uplifts. Consumers were eager to enjoy the upcoming holidays and spend from their pandemic piggy banks in spite of prices rising at their highest levels since July 1996.

"With all these reasons to be jolly, firms remained short on festive cheer. Business optimism registered at the lowest level since November 2020 as higher wages, fuel, and material costs were still giving businesses a hangover. Input prices rose to another survey record with 64% of supply chain managers paying more to keep their businesses operating, which begs the question – how long can this continue and can businesses keep up?"

IHS Markit / CIPS UK Composite PMI®

Survey-record inflationary pressures



At 57.6 in November, the seasonally adjusted UK Composite Output Index dipped slightly from 57.8 in October but remained above the 50.0 no change threshold for the ninth consecutive month. The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

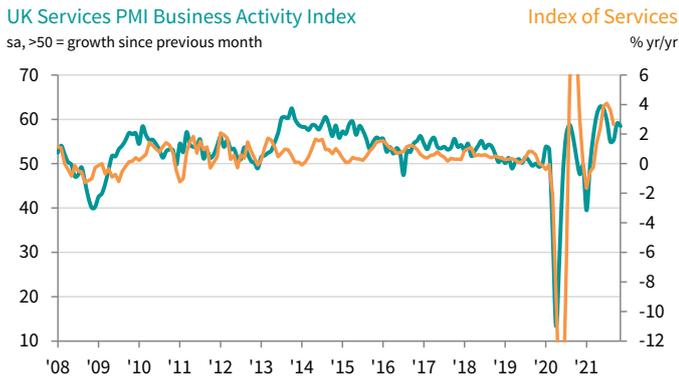
Service sector growth (index at 58.5) remained much stronger than the recovery in manufacturing production (52.7), with the latter once again held back by shortages of raw materials and electronics components.

November data indicated another sharp rise in private sector employment, although the rate of job creation moderated since October. Weaker rises in staffing levels in the service economy contrasted with an acceleration in hiring across the manufacturing sector to its fastest since August.

Record rates of cost inflation were seen in both the manufacturing and service sectors during November. As a result, the latest rise in operating expenses across the UK private sector was the steepest since this index began in January 1998.

Prices charged by UK businesses also increased at the sharpest pace in more than two decades, reflecting strong demand and continued efforts to pass on higher costs to clients.

*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.



Sources: IHS Markit, CIPS, ONS.

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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 November 2021.

Survey data were first collected July 1996.

Flash vs. final data

Flash data were calculated from approximately 74% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is 0.1 (0.3 in absolute terms).

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