

UK economic recovery falters due to supply chain issues and job shortages

The UK's economic recovery stumbled in August as companies faced labour and supply shortages and rising COVID-19 case numbers deterred consumers, according to a closely-watched business survey.

The IHS Markit/CIPS Flash UK Composite PMI – an early indicator of economic health – gave a reading of 55.3 for August – the lowest since February and down from last month's 59.2.

Scores over 50 on the index represent growth while numbers under 50 represent an economic contraction.

The reading of 55.3 for the month was worse than the 58.4 figure pencilled in on average by experts polled by Reuters.

Chris Williamson, chief business economist at IHS Markit: "Despite COVID-19 containment measures easing to the lowest since the pandemic began, rising virus case numbers are deterring many forms of spending, notably by consumers, and have hit growth via worsening staff and supply shortages.

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"Supplier delays have risen to a degree exceeded only once before – in the initial months of the pandemic – and the number of companies reporting that output had fallen due to staff or materials shortages has risen far above anything ever seen previously in more than 20 years of survey history.

"In manufacturing, sectors including automotive production and electrical goods have fallen into decline due mainly to supply constraints."

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In the services sector – which represents the majority of UK output and ranges from bars and hotels to law firms accountants – growth was boosted by the reopening of the economy.

But firms also reported that the recovery was constrained by staff shortages as well as “less favourable demand conditions”, according to the survey.

In manufacturing, the report suggested weaker growth in the volume of goods being turned out was the result of temporary supply issues.

Factories were also hit by a lack of staff availability due to self-isolation as well as long wait times to fill vacancies.

Meanwhile, inflationary pressures showed signs of relenting in August, with input prices rising at the weakest pace for three months.

However, many firms commented on higher wages due to tight labour market conditions, while severe shortages of raw materials and critical components continued to push up purchasing prices the report found.

“An abnormally large slowdown in overall activity in August offers a stark warning to the UK economy that the accelerated levels of growth we’ve seen earlier this summer are not sustainable,” said Duncan Brock, group director at CIPS, one of the organisers of the survey.