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IHS Markit / CIPS Flash UK Composite PMI®

Including IHS Markit / CIPS Flash UK Manufacturing and Services PMI®

Two-speed recovery in January as Omicron variant continues to weigh on customer-facing parts of the economy

Key data

Flash UK Composite Output Index
January: 53.4, 11-month low (December final: 53.6)

Flash UK Services Business Activity Index
January: 53.3, 11-month low (December final: 53.6)

Flash UK Manufacturing Output Index
January: 53.8, 5-month high (December final: 53.6)

Flash UK Manufacturing PMI
January: 56.9, 11-month low (December final: 57.9)

January data were collected 12-20 January 2022.

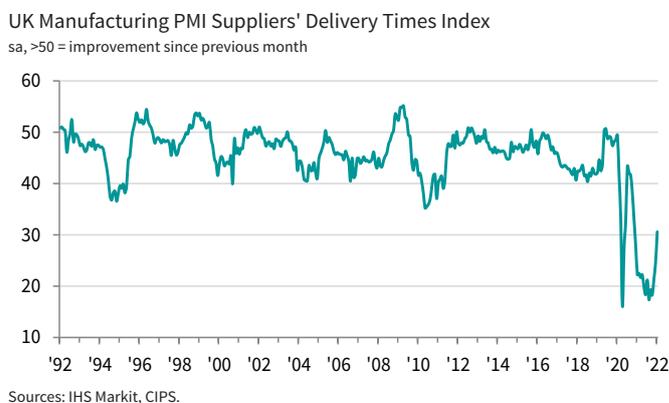
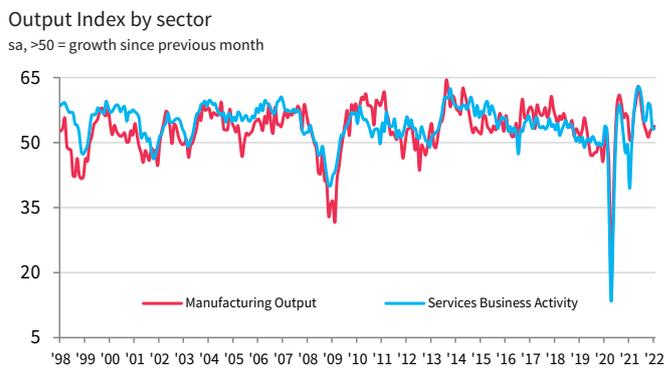
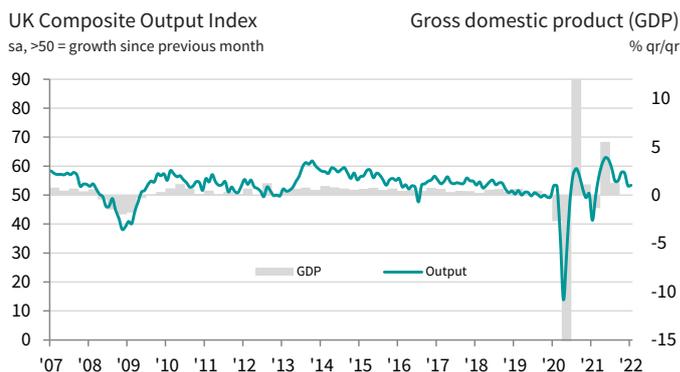
Another slowdown in the service sector held back the UK economy at the start of 2022, according to the latest PMI® data compiled by IHS Markit and CIPS. With hospitality, leisure and travel all struggling due to Omicron restrictions, this offset resilient growth in business and financial services. Manufacturers outperformed service providers as a sustained turnaround in materials availability led to the fastest rise in production volumes for five months. However, all types of private sector businesses commented on capacity constraints and rising backlogs of work as a result of staff absences in January.

Input cost inflation remained stubbornly high and accelerated to its second-fastest since the survey began 24 years ago (exceeded only by last November's peak). This largely reflected stronger cost pressures in the service sector. In contrast, manufacturers reported a slowdown in purchase price inflation to its weakest since April 2021.

At 53.4 in January, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index remained above the 50.0 no-change threshold for the eleventh consecutive month (since March 2021). However, the index was down slightly from 53.6 in December and signalled the slowest rate of output expansion since the recovery from lockdown began last spring.

Service sector growth (index at 53.3) has now weakened for three months in a row, with the latest loss of momentum attributed to ongoing pandemic disruptions and very subdued demand in customer-facing parts of the economy. Manufacturing output (index at 53.8) increased to the greatest extent since August 2021, despite survey respondents often reporting a negative impact on production from staff isolating due to COVID-19 and supplier delays.

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In contrast to the weaker trend for business activity, latest data highlighted a robust and accelerated expansion of new work received by UK private sector companies. Higher levels of incoming new business and persistent constraints on capacity contributed to another increase in unfinished orders during January. That said, a further strong rise in employment meant that the rate of backlog accumulation was much slower than on average in the second half of last year.

Business expectations for the year ahead were upbeat in January and the degree of optimism rebounded to its strongest since August 2021. This mainly reflected higher levels of positive sentiment in the service economy. Reports from survey respondents suggested that looser pandemic restrictions and strong projections for customer demand had helped to boost business expectations in January.

IHS Markit / CIPS Flash UK Manufacturing PMI®

January data highlighted positive trends across the manufacturing sector, especially in terms of output and employment growth. At 56.9, down from 57.9 in December, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was well inside positive territory but slipped to an eleven-month low. This partly reflected the worst month for new order intakes since January 2021. Some manufacturers noted lower sales to customers hit by Omicron restrictions, while others suggested that forward-purchasing to beat new price lists for 2022 had weighed on demand in January.

The latest survey also highlighted another strong increase in stocks of purchases, with the rate of inventory accumulation reaching its fastest since last October. Some manufacturers suggested that concerns about fresh delays from suppliers in China had resulted in safety stock building at the start of the year.

Measured overall, however, the latest lengthening of supplier delivery times across the UK manufacturing sector was the least marked since November 2020. A gradual turnaround in raw material availability helped to soften cost pressures during January, as signalled by the weakest rise in purchasing prices since April 2021.

IHS Markit / CIPS Flash UK Services PMI®

Service sector performance in January was impacted by weakness among customer-facing categories such as hospitality and travel but there were strong recoveries in other areas of activity.

The headline seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index registered 53.3 in January, down from 53.6 in December and well below last October's recent peak (59.1).

January data nonetheless indicated a marked rebound in new order growth after the ten-month low seen during December. Survey respondents widely noted that the prospect of looser pandemic restrictions and reduced Omicron concerns among consumers had helped to boost new business intakes.

Strong inflationary pressures continued across the service sector at the start of 2022. Both input costs and output charges increased at the second-fastest rate since the survey began in July 1996 (exceeded only by November 2021). Survey respondents overwhelmingly noted that higher raw material costs, staff wages and energy bills had led to a repricing of their services.

Comment

Chris Williamson, Chief Business Economist at IHS Markit, said:

"A resilient rate of economic growth in the UK during January masks wide variations across different sectors. Consumer-facing businesses have been hit hard by Omicron and manufactures have reported a further worrying weakening of order book growth, but other business sectors have remained encouragingly robust.

"Looking ahead, while the Omicron wave meant the hospitality sector has sunk into a third steep downturn, these restrictions are now easing, meaning this downturn should be brief. Many business and financial services companies have meanwhile been far less affected by Omicron, and saw business growth accelerate at the start of the year.

"Business confidence in the outlook also picked up, driving sustained solid jobs growth. With inflationary pressures remaining elevated at near-record levels, this all adds to the likelihood of the Bank of England hiking interest rates again at its upcoming meeting."

Duncan Brock, Group Director at CIPS, said:

"Companies in the private sector experienced the slowest rate of expansion overall since spring 2021 as January's data offered a mixed picture from all the sectors. Though professional and financial services in particular saw a resurgence in activity, hospitality and travel firms took another body blow as the marketplace stagnated.

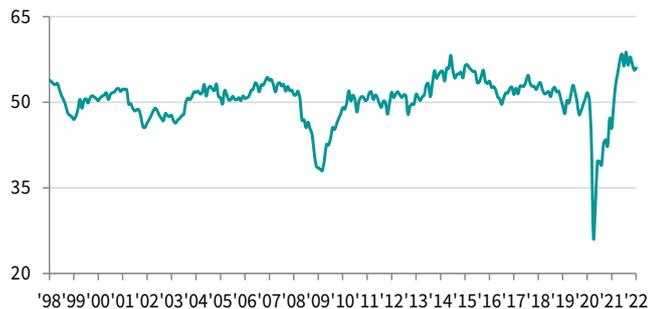
"In the gloomiest month of the year what is also disappointing for the UK economy is price inflation returning with a vengeance with the second highest jump in business expenses since 1998. Staff wages and energy price hikes made up the bulk of the extra burden and businesses will inevitably pass on these costs to consumers.

"Manufacturing had a better month resulting in the highest output growth since August 2021 and a moderate turnaround in supply chain performance coupled with some easing in raw material costs. Supply chain managers retained their 'just in case' mindset and still ramped up their stockpiling efforts to circumnavigate potential new restrictions from other regions of the world and further price rises.

"The private sector may be experiencing a sense of two steps forward and one step back with price and supply challenges, but with the strongest level of optimism since August 2021 we may be looking forward to a more favourable trading environment in the months ahead."

UK Composite Employment Index

sa, above 50 = growth since previous month



Sources: IHS Markit, CIPS.

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Survey methodology

The IHS Markit / CIPS Flash UK Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to survey panels of around 650 manufacturers and 650 service providers. The panels are each stratified by detailed sector and company workforce size, based on contributions to GDP. The services sector is defined by IHS Markit as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The following variables are monitored:

Manufacturing: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output.

Services: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

A diffusion index is calculated for each manufacturing and services 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.

Composite indices for are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

The headline figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the 'Composite PMI' but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline manufacturing figure is the Manufacturing Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

Flash data are calculated from around 80-90% of total responses and are intended to provide an accurate early indication of the final data. Since flash data were first processed, the average differences between final and flash index values for the headline indices are:

Composite Output Index = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.1 (absolute difference (0.7)

Manufacturing PMI = 0.0 (absolute difference 0.4)

Underlying final 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.

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Survey dates and history

January data were collected 12-20 January 2022.

Final manufacturing data are published on 1 February 2022, and final services and composite data on 3 February 2022. Data collection began in January 1992 for manufacturing, July 1996 for services and January 1998 for the composite index.

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.

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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.