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IHS Markit / CIPS Flash UK Composite PMI®

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

Record declines in UK manufacturing and service sector output as public health crisis continues

Key data

Flash UK Composite Output Index
Apr: 12.9, survey-record low (Mar final: 36.0)

Flash UK Services Business Activity Index
Apr: 12.3, survey-record low (Mar final: 34.5)

Flash UK Manufacturing Output Index
Apr: 16.6, survey-record low (Mar final: 43.9)

Flash UK Manufacturing PMI
Apr: 32.9, survey-record low (Mar final: 47.8)

Widespread business shutdowns at home and abroad in response to the coronavirus disease 2019 (COVID-19) pandemic unsurprisingly resulted in a rapid reduction in UK private sector output during April. The latest IHS Markit/ CIPS Flash UK Composite PMI® signalled by far the fastest decline in business activity since comparable figures were first compiled over two decades ago.

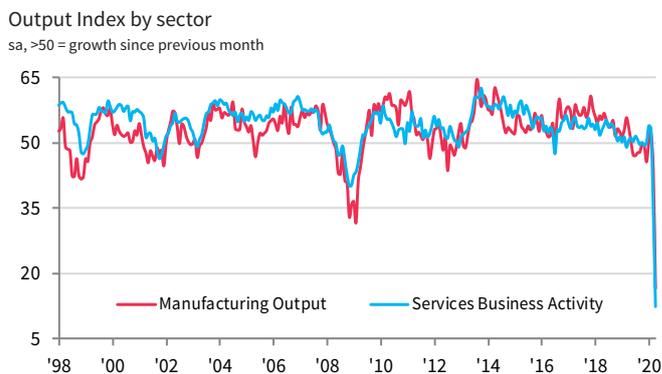
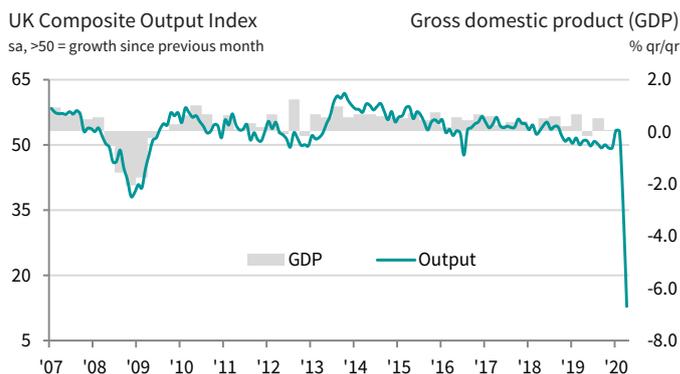
The latest IHS Markit/ CIPS Flash UK Composite PMI® was compiled between 7-21 April 2020 and the response rate from members of the survey panel was not affected by shutdowns in place due to the COVID-19 outbreak.

At 12.9 in April, down from 36.0 in March, the seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – indicated that the combined monthly decline in manufacturing and services activity exceeded the downturn seen at the height of the global financial crisis by a wide margin. Prior to March, the survey-record low was 38.1 in November 2008.

Around 81% of UK service providers and 75% of manufacturing companies reported a fall in business activity during April, which was overwhelming attributed to the COVID-19 pandemic.

The small minority of manufacturers reporting output growth were mostly involved in medical supply chains or producers of food & drink. In the service economy, there were sporadic reports of growth in April among those with major clients in either online retail or the public sector.

Mirroring the trend for private sector output, the latest survey also signalled survey-record declines in new orders, backlogs of work and employment. Around half of all survey respondents reported *continued...*



lower staffing numbers in April, although there were numerous reports that the fall reflected the use of the UK government scheme to place employees on furlough.

Average prices charged decreased at the steepest pace since this index began in November 1999, reflecting widespread discounting strategies to help stimulate sales. At the same time, average cost burdens dropped for the first time in just over five years.

A small degree of positivity was seen in the measure of sentiment regarding the year ahead outlook for business activity. Latest data pointed to a modest rebound from the record-low seen in March, but optimism remained much weaker than at the start of 2020.

IHS Markit / CIPS Flash UK Manufacturing PMI®

At 32.9 in April, down from 47.8 in March, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was the lowest since this survey began in January 1992.

The Manufacturing PMI is a weighted average of five indices, with the production, new orders and employment components all exerting severely negative influences in April. However, the fall in the Manufacturing PMI since March was softened by a comparatively modest reduction in stocks of purchases and a survey-record lengthening of suppliers' delivery times (which has an inverse contribution to the headline index).

April data indicated that manufacturing output (index at 16.6) decreased at a slightly slower pace than services activity (equivalent index at 12.3), but the speed of decline was still the fastest since the survey began in 1992 by an extreme margin.

Goods producers overwhelmingly linked lower output to plant shutdowns or reduced production capacity, as well as cancelled orders across manufacturing supply chains following the COVID-19 pandemic.

In manufacturing, the sharpest drop in output was registered in the textiles & clothing sector, largely reflecting collapsed demand from the retail sector, though the transport sector, including car production, also reported an especially steep decline.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index plummeted to 12.3 in April, from 34.5 in March, to signal by far the sharpest reduction in service sector activity since the survey began in July 1996.

Customer-facing service providers often reported a complete shutdown of their business operations in April amid the public health emergency, while a wide range of survey respondents commented on weaker demand following temporary closures among their clients.

Hotels, restaurants and other consumer-facing business reported the steepest drop in output within the service sector, with many firms reporting a total halt in activity.

The least marked downturn was seen in financial services, though even here the scale of the decline was unprecedented, joining all major sub-sectors of services seeing record falls in business activity by wide margins.

Comment

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

"The UK economy has been hit by the COVID-19 outbreak in April to a degree far surpassing anything seen in the PMI survey's 22-year history. Business closures and social distancing measures have caused business activity to collapse at a rate vastly exceeding that seen even during the global financial crisis, confirming fears that GDP will slump to a degree previously thought unimaginable in the second quarter due to measures taken to contain the spread of the virus.

"Simple historical comparisons of the PMI with GDP indicate that the April survey reading is consistent with GDP falling at a quarterly rate of approximately 7%. The actual decline in GDP could be even greater, in part because the PMI excludes the vast majority of the self-employed and the retail sector, which have been especially hard-hit by the COVID-19 containment measures.

"Record falls in output across both manufacturing and services are being accompanied by job losses on an unprecedented scale, even if furloughed workers are excluded. Pricing power has also collapsed alongside the slump in demand, leading to the largest drop in average prices charged for goods and services ever recorded by the survey.

"The dire survey readings will inevitably raise questions about the cost of the lockdown, and how long current containment measures will last. One ray of light came from an improvement in business optimism about the year ahead compared to the all-time low seen in March, as an increased number of companies saw light at the end of the tunnel. Sentiment about the coming year nevertheless remained the second-lowest ever recorded to underscore how few businesses are anticipating a swift recovery."

Duncan Brock, Group Director at CIPS, said:

"The combined performance of services and manufacturing plunged the UK private sector into the twilight zone in April as the PMI index posted 12.9, again surpassing the survey low of 38.1 in November 2008.

"Around 81% of UK service providers reported lower business activity in April, which compared with 38% during the worst single month of the global financial crisis.

"Though this significant and further deterioration from last month's results came as no great surprise, it is no less devastating. Manufacturing output sometimes shrank into almost nothing as the pandemic's grip took hold and factory closedowns at home and abroad made regular production schedules impossible. Supplier delivery times lengthened to an unprecedented extent. Some manufacturers commented on switching plant capacity to assist healthcare supply chains. Meanwhile, service providers ramped up their online operations to survive, but others just hit a dead stop, shedding jobs and facing extreme cash flow difficulties.

"The overall services fall in output was faster than manufacturing and the steepest since records began in 1996 as social distancing measures enforced for the population stopped everything in its tracks and an eerie silence descended over the UK's streets.

"There's nothing to applaud in this month's results. Even the slight rise in optimism from last month's record low feels like a blip to what the economy is facing in 2020. The figures for April could not be more worrying but as we may not have reached pandemic peak yet, there's much more bad news to come."

UK Composite Future Business Activity Index

sa, above 50 = growth in next 12 months



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 = 0.0 (absolute difference 0.4)

Services Business Activity Index = 0.0 (absolute difference 0.3)

Manufacturing PMI = 0.0 (absolute difference 0.3)

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

April flash data were collected 07-21 April 2020. The response rate for April was not affected by shutdowns in place due to the Covid-19 outbreak.

Final manufacturing data are published on 1 May, and final services and composite data on 5 May.

Data collection began in January 1992 for manufacturing, July 1996 for services and January 1998 for the composite index.

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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.