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IHS Markit / CIPS Flash UK Composite PMI®

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

Manufacturing sector leads turnaround in momentum across UK economy in June

Key data

Flash UK Composite Output Index
Jun: 47.6, four-month high (May final: 30.0)

Flash UK Services Business Activity Index
Jun: 47.0, four-month high (May final: 29.0)

Flash UK Manufacturing Output Index
Jun: 50.8, four-month high (May final: 35.0)

Flash UK Manufacturing PMI
Jun: 50.1, four-month high (May final: 40.7)

June 2020 data were collected 12-19 June 2020.

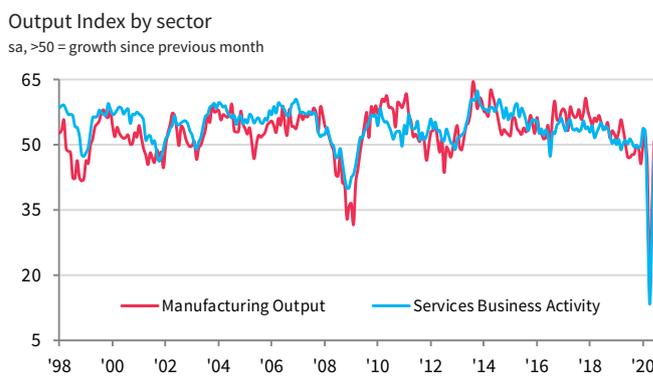
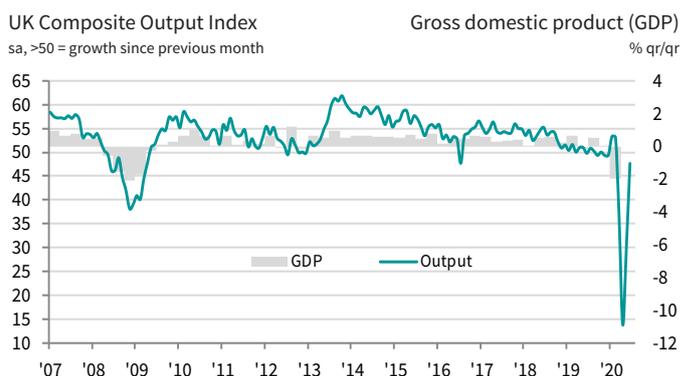
June data indicated a vastly improved overall picture across the UK private sector, with the downturn in total business activity continuing to steady after the record rate of decline seen at the height of the lockdown during April. Another drop in service sector activity contrasted with a return to production growth among manufacturing companies in June.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – rose to 47.6 in June, from 30.0 in May. The latest reading was below the 50.0 no-change threshold, but signalled the slowest pace of decline since the start of the downturn in March.

Looking at the month-on-month change in the headline index, the rise since May (+17.6 points) was the largest since the start of the series in January 1998, which highlighted a decisive shift in momentum. At the same time, private sector firms also signalled a rebound in business expectations for the year ahead, with confidence reaching a four-month high in June.

Survey respondents mainly noted that the easing of restrictions related to the coronavirus disease 2019 (COVID-19) pandemic had a favourable impact on economic activity, with business operations gradually resuming in a number of sectors and staff brought back from furlough. However, there were also widespread reports that underlying demand remained very subdued and cutbacks to client spending had acted as continued drag on overall business activity.

June data signalled a reduction in new work received by UK private sector firms for the fourth month running, although the pace of *continued...*



decline eased sharply since May. Concerns about the likely speed of recovery in customer demand also weighed on employment numbers during June, with the latest survey indicating another rapid, albeit slower, drop in total staffing levels.

UK private sector firms indicated a squeeze on margins during June, with subdued demand leading to widespread price discounting despite a rebound in average cost burdens. A number of survey respondents noted that they had absorbed extra operating costs amid efforts to adapt and restart business operations with COVID-19 safety measures.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – posted 50.1 in June, up from 40.7 in May and fractionally above the neutral 50.0 value.

Moreover, the manufacturing output index also moved back into growth territory (50.8), which ended ending a three-month period of decline. Higher volumes of production were linked to a partial reopening of manufacturing plants.

However, total new orders continued to decline in June, with manufacturers often commenting on shortages of new sales to replace completed contracts. Survey respondents cited particularly weak demand across the automotive and aviation sectors in June.

Looking ahead, manufacturers indicated a rise in business optimism to its highest since September 2018. Expectations of higher output in the next 12 months reflected hopes of a sustained recovery in manufacturing operations from the slump in production volumes seen during the initial phase of the COVID-19 pandemic.

IHS Markit / CIPS Flash UK Services PMI®

June data indicated a much slower reduction in service sector activity than that seen in the previous month. This was highlighted by a rise in the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index to 47.0, up from 29.0 in May. The latest reading signalled the slowest pace of decline in service sector output since the start of the downturn in March.

Around 33% of the survey panel recorded a fall in business activity during June, while only 28% signalled an expansion. This was an improvement on the situation in May, when more than half of all respondents reported a drop in activity and just 13% experienced a rise.

Financial Intermediation was the best performing area of activity in June, followed by Transport & Communication Services, with survey respondents commenting on a boost to demand following the gradual restart of activity across the UK economy. Meanwhile, overall service sector output was held back by business closures in the Hotels, Restaurants & Catering category and another steep downturn signalled by Business-to-Business service providers.

The latest survey indicated a further sharp drop in staffing numbers across the service economy, despite some companies reporting a restart to recruitment activity and phased returns to work after furlough leave. Service providers reporting a fall in employment often commented that sharply reduced workloads had meant redundancy measures were operating in tandem with furlough schemes.

Comment

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

"June's PMI data add to signs that the economy looks likely return to growth in the third quarter, especially given the further planned easing of the lockdown from 4th July. June saw a record rise in the PMI for a second successive month, confirming that the economy is moving closer to stabilising after the worst of the immediate economic impact from the COVID-19 pandemic was felt back in April.

"However, while confidence is rising that the economy will soon return to growth as the lockdown continues to ease, the longer term recovery prospects remain highly uncertain. Some of the recent gains in the PMI reflect short-term bounces as businesses returned to work, but demand clearly remains weak, as indicated by a further steep decline in backlogs of orders and an ongoing fall in new orders. Many COVID-19 restrictions and social distancing measures will also need to stay in place until an effective treatment or vaccine is available, curbing demand in a variety of service sectors in particular.

"Uncertainty over recovery prospects and job prospects also mean demand for many goods, especially non-essential big-ticket items, is likely to remain weak for many months, with Brexit uncertainty also continuing to cast a shadow over the economy.

"Our forecasting team therefore expects the economy to contract by 11.9% this year before expanding by a relatively modest 4.9% in 2021, which is far more cautious than the 15% surge anticipated in 2021 by the Bank of England."

Duncan Brock, Group Director at CIPS, said:

"At the end of the second quarter we saw some uplift in the UK private sector as lockdown eased, businesses started opening up and activity increased from the crippling lows of the last few months.

"Though the index still remained below the no-change mark in June, its rise since May was a survey record, creating another signal that some bounceback has started to emerge following April's historic lows. This is just a beginning however as business spending remains flat and supply chains stutter into action.

"Manufacturing was the strongest of the two registering above the no change mark and optimism rose to its highest levels since September 2018. Services remained weakened and still in contraction and there are deep concerns about how the end of furlough support will affect employment levels in the next few months.

"In general, this is good news for the UK economy, but in terms of any significant recovery, 2020 is likely to be a write-off. The following year may see some more stability and real growth as the pandemic's effects continue to ripple through the remainder of 2020."

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

June flash data were collected 12-19 June 2020. The response rate for June was not affected by shutdowns in place due to the Covid-19 outbreak.

Final manufacturing data are published on 1 July, and final services and composite data on 3 July.

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

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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 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.