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IHS Markit / CIPS Flash UK Composite PMI®

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

Sharp slowdown in UK private sector growth in December as Omicron variant hits spending on consumer services

Key data

Flash UK Composite Output Index
December: 53.2, 10-month low (November final: 57.6)

Flash UK Services Business Activity Index
December: 53.2, 10-month low (November final: 58.5)

Flash UK Manufacturing Output Index
December: 53.3, 4-month high (November final: 52.7)

Flash UK Manufacturing PMI
December: 57.6, 3-month low (November final: 58.1)

December data were collected 6-14 December 2021.

December PMI® data compiled by IHS Markit and CIPS pointed to the worst month for the UK economy since February as private sector output growth eased considerably in response to tighter pandemic restrictions and renewed business uncertainty. The slowdown was centred on the service sector, which more than offset a modest acceleration in manufacturing production at the end of 2021.

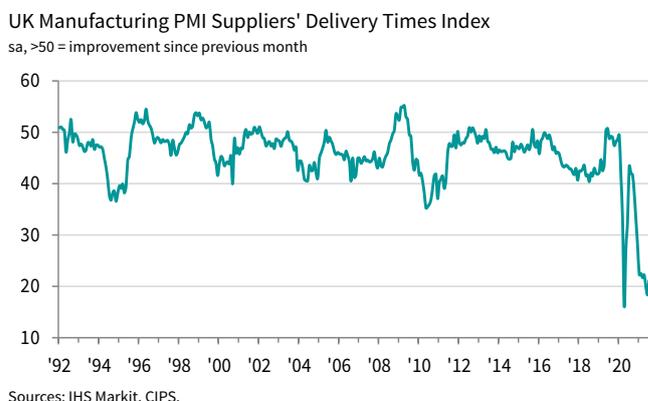
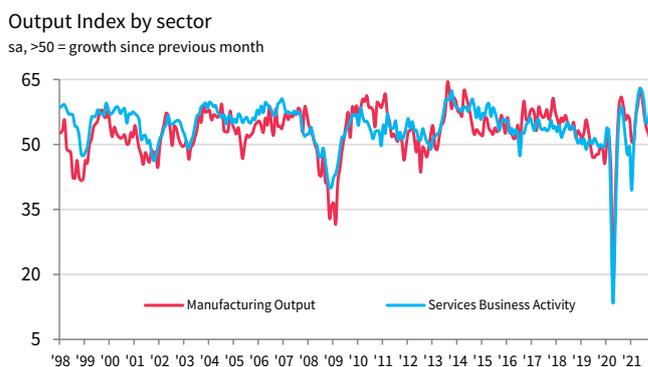
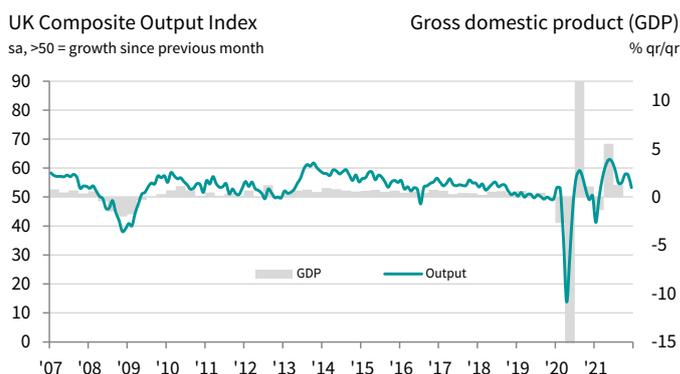
Meanwhile, optimism regarding the year ahead outlook for business activity eased for the fourth consecutive month in December. This largely reflected a slump in confidence among consumer-facing service providers. Private sector growth expectations for the next 12 months are now the lowest since October 2020 and considerably weaker than seen during the early stages of the vaccine rollout.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index dropped to 53.2 in December, from 57.6 in November. Any figure above 50.0 indicates an overall expansion of UK private sector output. The index has registered in growth territory during each month since lockdown measures were lifted in March, but the latest reading was the weakest over this period.

Weaker recovery momentum in the service sector (index at 53.2) was the main reason for slower output growth in December. Survey respondents widely cited a negative impact on consumer demand from tighter COVID-19 stringency measures and renewed travel restrictions. There were also reports that business uncertainty related to the Omicron variant had led to a reluctance to spend.

Manufacturing output (index at 53.3) remained constrained by raw material and staff shortages in December, but only a small minority of survey respondents cited tighter pandemic restrictions. Moreover,

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the latest data indicated that overall production growth hit a four-month high, due to work on unfinished orders in December and signs that the supply chain crisis has started to stabilise.

December data indicated another strong rise in private sector employment. However, weaker rates of output and new business growth meant that the pace of job creation edged down to its lowest since April. Pressure on business capacity meanwhile eased considerably, as signalled by the smallest rise in backlogs of work for nine months.

There were encouraging signals for inflationary pressures as the latest increase in average cost burdens was much softer than November's survey-record high. At the same time, prices charged inflation moderated to its weakest since August. Reports from survey respondents highlighted that sharply rising wages, transport bills and raw material prices remained the main sources of cost inflation.

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 – registered 57.6 in December, down from 58.1 in November and the lowest reading for three months. Four of the five components of the headline PMI had a negative influence on the index movement since the prior month, with faster output growth the only exception.

A sharper rise in production volumes appeared to reflect efforts to process unfinished orders. The seasonally adjusted Backlogs of Work Index dipped from 58.6 to 51.8 in December, which signalled the slowest accumulation of work-in-hand since February. This was helped by reduced pressure on supply chains, as signalled by the least marked lengthening of delivery times for 12 months.

Exports remained the main area of weakness across the UK manufacturing sector, with new orders from abroad falling for the fourth month running. Brexit-related trade difficulties featured prominently in the comments from survey respondents that saw a drop in export sales during December.

IHS Markit / CIPS Flash UK Services PMI®

At 53.2 in December, down from 58.5 in November, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled a sharp slowdown in the service sector recovery. The latest reading was the lowest since February, reflecting a setback from weaker business and consumer confidence at the end of 2021.

Survey respondents in customer-facing areas of the service economy overwhelmingly cited a negative impact on customer demand from Omicron variant restrictions, especially those in the travel and hospitality sectors. Total new business growth was the weakest since lockdown measures were eased in March. New orders from abroad returned to contraction in December, which ended a five-month period of growth.

Increased staffing numbers contributed to the slowest accumulation of unfinished work since March. Weaker rates of input cost and prices charged inflation in December also provided signs that supply and demand imbalances have started to ease.

Concerns about prolonged pandemic restrictions and the subsequent hit to business and consumer confidence had a negative influence on growth expectations for 2022. This was signalled by a drop in service sector business optimism to its lowest for 14 months in December.

Comment

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

"The flash PMI data show the UK economy being hit once again by COVID-19, with growth slowing sharply at the end of the year led by a steep drop in spending on services by households. Some brighter news came through from manufacturing, where an easing of supply chain delays helped lift production growth, but more importantly also helped take some upward pressure off prices to hint at a peaking of inflation.

"With COVID-19 infections set to rise further in coming weeks due to the spread of the Omicron variant, and more restrictions being introduced, the pace of economic growth looks likely to continue to weaken as we head into 2022. The bigger uncertainty will be on how rising infection rates both at home and abroad might cause further supply and labour shortages, and whether this means the easing of inflationary pressures seen in December proves frustratingly short-lived."

Duncan Brock, Group Director at CIPS, said:

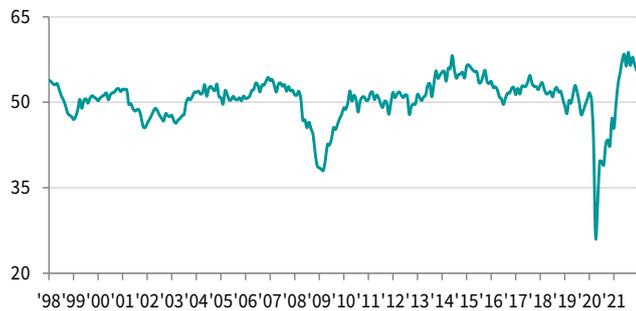
"Grim news for the UK economy in December as the positive gains over the last ten months were wiped out by yet another round of restrictions and curbs on consumers and businesses. Government restrictions associated with the latest covid variant introduced renewed hesitation amongst consumers and more volatility in the marketplace resulting in a fall in private sector business expectations to the lowest since October 2020.

"The services sector took the brunt of these changes with the softest expansion of new orders since the pandemic recovery started in March and curbs on travel hit overseas business growth for the first time in six months. Though UK consumers stayed away from restaurants and bars in greater numbers, there was one cup of good cheer in relation to the hoped-for softening in prices charges and business costs as both improved this month.

"For manufacturing, there was light at the end of tunnel with a slight recuperation in supply chain performance where more backlogs were cleared and output growth improved. Producers still struggled with the impact of Brexit and additional customs controls which meant export orders fell back for the fourth time in as many months. But with some prices stabilising and if the new variant is brought under control more quickly, this disappointing news could be short-lived and full recovery can continue."

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

December data were collected 6-14 December 2021.

Final manufacturing data are published on 4 January 2022, and final services and composite data on 6 January 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 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.