News Release

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IHS Markit / CIPS Flash UK Composite PMI®

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

Service activity stabilises in February after sharp downturn at start of 2021. Worsening supply disruption holds back manufacturing growth.

Key data

Flash UK Composite Output Index
Feb: 49.8, 2-month high (Jan final: 41.2)

Flash UK Services Business Activity Index
Feb: 49.7, 4-month high (Jan final: 39.5)

Flash UK Manufacturing Output Index
Feb: 50.5, 9-month low (Jan final: 50.7)

Flash UK Manufacturing PMI
Feb: 54.9, 2-month high (Jan final: 54.1)

February data were collected 11-17 February 2021.

February data indicated only a fractional decline in UK private sector output, which contrasted with the sharp reduction seen at the start of the national lockdown in January. This largely reflected a near-stabilisation in service activity during the latest survey period. Manufacturing production continued to expand in February, but the rate of growth was only marginal and the weakest since the recovery began in June 2020.

Manufacturing companies often cited severe supply chain disruptions as a factor holding back production volumes. This was attributed to international shipping delays, strong worldwide demand for raw materials and Brexit-related trade frictions. Around 58% of the survey panel reported longer delivery times from suppliers, while only 2% saw an improvement in February. The scale of the downturn in vendor performance was the second-largest since the survey began in 1992 (exceeded only by those seen in April 2020).

At 49.8 in February, up from 41.2 in January, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index was close to the 50.0 no-change threshold. As a result, the flash reading in February – which is based on approximately 85% of usual monthly replies – signalled broadly stable levels of UK private sector output in comparison to those seen during January.

Service sector activity remained severely impacted by the coronavirus disease 2019 (COVID-19) pandemic in February, with output levels suppressed due to tight restrictions on travel, leisure and hospitality. Moreover, some manufacturers commented on weaker sales volumes due to temporary closures among clients in the consumer services sector, especially hospitality businesses.

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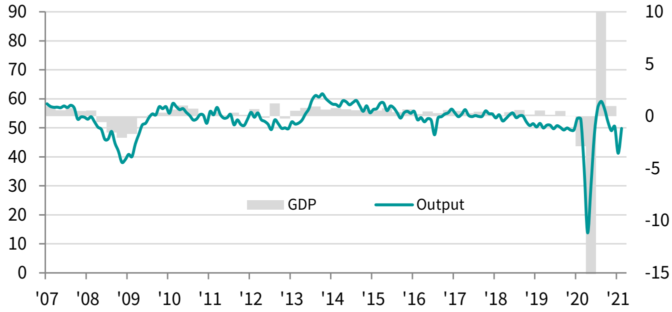
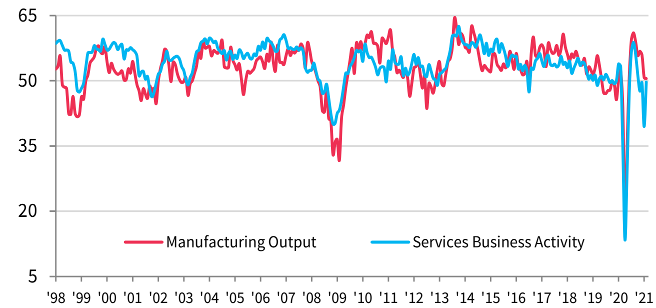
UK Composite Output Index
sa, >50 = growth since previous month

Gross domestic product (GDP)
% qr/qr



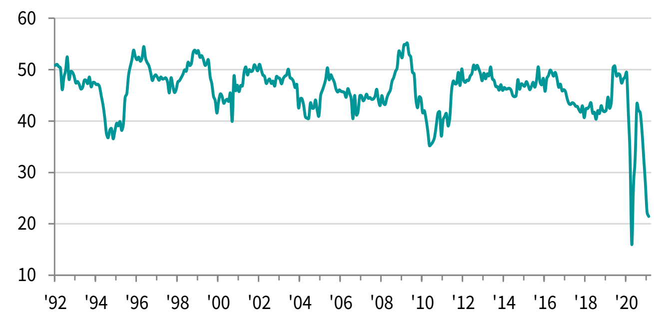
Sources: IHS Markit, CIPS, Office for National Statistics.

Output Index by sector
sa, >50 = growth since previous month



Sources: IHS Markit, CIPS.

UK Manufacturing PMI Suppliers' Delivery Times Index
sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

February data indicated a slight reduction in total new work received by UK private sector companies, which extended the current period of decline to five consecutive months. The latest survey suggested that export sales underperformed domestic orders for the first time since September 2020, which mostly reflected a downturn in new work from abroad among manufacturing companies.

Staffing levels showed signs of stabilisation during February as private sector employment decreased at the slowest rate since the downturn began in March 2020. Service providers indicated a much slower pace of job shedding in comparison to January, while manufacturers reported another marginal increase in payroll numbers. Survey respondents noted that hopes of a rebound in customer demand after the national lockdown had boosted their appetite to retain staff and accelerate investment plans.

Business expectations for the next 12 months picked up in February and were the highest since April 2014. This reflected stronger contributions from both manufacturing and services. Optimism was almost exclusively attributed to an expected economic rebound in the wake of the successful UK vaccine rollout. However, there were still many reports citing concerns about the long-term impact of Brexit on business operations.

The latest survey indicated that cost pressures intensified across the UK private sector during February. The rate of input price inflation accelerated to its fastest since January 2019, which contributed to the strongest increase in average prices charged for exactly one year.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The headline seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – posted 54.9 in February, up from 54.1 in January and well above the neutral 50.0 mark. This was helped by a return to new order growth during the latest survey period. Slightly slower rates of output and employment growth weighed on the headline PMI in February.

Export sales remained a weak spot across the manufacturing sector, with this index posting below the 50.0 no-change mark for the second month running. Survey respondents widely commented on difficulties fulfilling orders to existing clients in the EU due to higher costs and transportation delays.

Stretched supply chain capacity meanwhile contributed to another rapid lengthening of lead times for the receipt of raw materials in February. Manufacturers often noted that stock shortages among suppliers held back factory production and led to the sharpest rise in input prices since January 2017.

IHS Markit / CIPS Flash UK Services PMI®

February data pointed to a near-stabilisation in service sector output levels after the slump in activity at the start of 2021. At 49.7, up from 39.5 in January, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled the softest rate of decline since the current phase of contraction began in November 2020.

New order volumes and employment numbers decreased only marginally during February. Moreover, service providers expressed optimism that pent up demand would lead to a swift rebound in sales after the national lockdown period ends. The degree of positivity about the year ahead business outlook improved again in February and was the strongest since September 2009.

Comment

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

“The UK economy showed welcome signs of steadying in February after the severe slump seen in January, albeit with business activity remaining sharply lower than late-last year due mainly to the ongoing national lockdown.

"Although the hospitality sector, including hotels and restaurants, reported a further steep decline, as did the transport and travel sector, rates of contraction eased considerably. Business and financial services companies meanwhile recovered to register modest expansions, helping the hard-hit service sector to come close to stabilising.

"In contrast, the manufacturing sector’s performance worsened amid escalating Brexit-related export losses and supply chain disruptions. More than half of all companies reporting lower exports attributed to the decline to Brexit-related factors. Brexit was also the most commonly cited cause of supply delays.

"More encouragingly, although the data hint at a renewed contraction of the economy in the first quarter, business expectations for the year ahead improved to the highest for almost seven years, suggesting the economy is poised for recovery. Confidence continued to be lifted by hopes that the vaccine roll-out will allow virus related restrictions to ease, outweighing concerns among many other firms of the potential further damaging impact of Brexit-related trading issues.”

Duncan Brock, Group Director at CIPS, said:

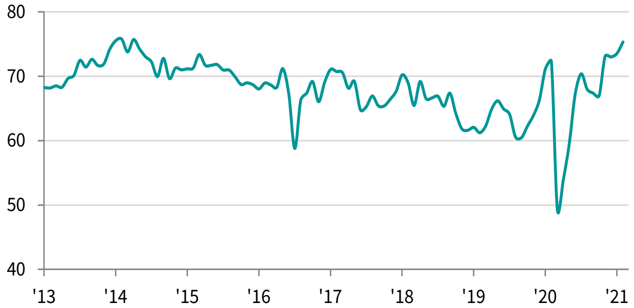
“February saw some of the worst supply chain disruptions since records began in the early 1990s, only surpassed by those reported in April last year as the pandemic first hit. Manufacturers were affected the most, as production in some cases was halted due to shortages in shipping and raw materials and many services businesses remained in a lockdown stranglehold unable to operate.

"New orders across private sector businesses declined for the fifth month in a row and export orders were a major drag on sales in February as customs disruptions and port delays encouraged EU businesses especially to look elsewhere. UK firms however remained resolute that things can only get better as optimism rose to the highest levels since April 2014, fuelled by hopes of a vaccine-driven revival. This is in spite of intensified marketplace competition along with the biggest rise in input prices since January 2019.

"On the face of it, a modicum of stability has returned to private sector business activity this month, but with small pockets of growth rather than any signs of a spectacular rebound. Digging a little deeper into the survey unearths some worrying trends that could shake the faith of even the strongest optimists in the next few months. Covid disruption has concealed the impact of Brexit on the UK economy and is still to be fully understood or managed, and pervasive supply chain upheaval is therefore a mounting risk for the speed of recovery."

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.

Survey dates and history

February flash data were collected 11-17 February 2021.

Final manufacturing data are published on 1 March 2021, and final services and composite data on 3 March 2021. 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.

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.

www.cips.org

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.

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