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IHS Markit / CIPS Flash UK Composite PMI®

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

UK private sector output edges up in December. Rush to beat Brexit deadline boosts manufacturing orders, but port delays hit supply chains

Key data

Flash UK Composite Output Index
Dec: 50.7, 2-month high (Nov final: 49.0)

Flash UK Services Business Activity Index
Dec: 49.9, 2-month high (Nov final: 47.6)

Flash UK Manufacturing Output Index
Dec: 55.3, 6-month low (Nov final: 56.7)

Flash UK Manufacturing PMI
Dec: 57.3, 37-month high (Nov final: 55.6)

December 2020 data were collected 4-14 December 2020.

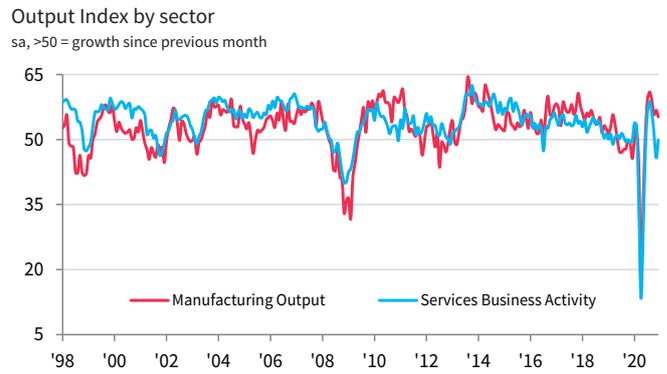
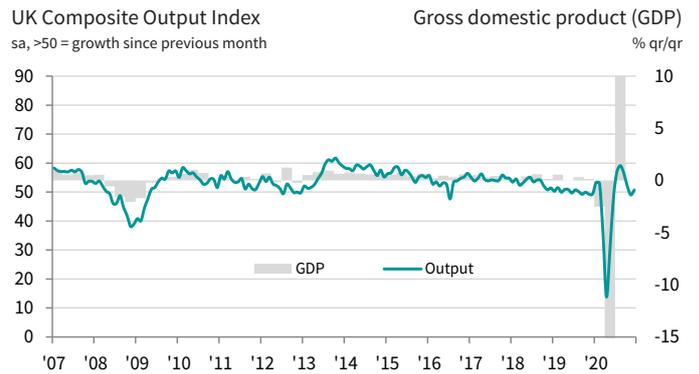
December data highlighted a marginal expansion of UK private sector output, driven by another solid increase in manufacturing production. In contrast, overall levels of service sector activity stagnated at the end of 2020, largely due to ongoing coronavirus disease 2019 (COVID-19) restrictions on hospitality, leisure and travel businesses.

The latest survey also indicated severe pressure on manufacturing supply chains, which was overwhelmingly linked to freight delays following congestion at UK ports. Around 45% of the survey panel reported longer wait times from suppliers, while only 2% saw an improvement. The lengthening of lead times in December was the third-steepest since the survey began in 1992, exceeded only by those seen amid COVID-19 shutdowns in April and May. Shortages of critical inputs, alongside pressure on capacity following forward-purchasing by clients ahead of Brexit, contributed to the sharpest rise in backlogs of work across the manufacturing sector since May 2010.

At 50.7 in December, the seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – was up from 49.0 in November and back above the crucial 50.0 no-change mark. However, the latest reading signalled only a slight rise in private sector output and the rate of growth was slower than seen from July to October 2020. A relatively subdued service sector performance (49.9) continued to hold back the recovery, while manufacturing production was firmly in growth territory (55.3).

Total new business volumes stagnated across the UK private sector as a whole in December, with manufacturing growth offset by a

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sustained downturn in the service economy. Survey respondents often cited restrictions on consumer-facing businesses, while others noted delays to new projects amid heightened economic uncertainty.

A robust and accelerated rise in input prices added to pressure on UK private sector firms during December. The latest increase in average cost burdens was led by the steepest rate of manufacturing sector input price inflation for two-and-a-half years.

On a more positive note, there were signs of stabilisation in employment numbers after the steep cuts seen since the start of the pandemic. The rate of job shedding across the UK private sector was the slowest for 10 months in December.

Meanwhile, business optimism about the year ahead outlook eased only slightly since November and meanwhile remained much stronger than seen from March to October 2020. Confidence was mostly attributed to favourable news about vaccine roll-outs and hopes of a return to more normal trading conditions, although a number of customer-facing service providers also commented on severe concerns about the near-term outlook.

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 57.3 in December, up from 55.6 in November and the highest since November 2017.

While output growth eased to a six-month low, the remaining four PMI sub-components all helped to lift the headline index from the level seen in November. New orders expanded at the fastest pace since August, supported by a temporary boost to purchasing ahead of the Brexit deadline, while stocks of purchases were accumulated to the greatest extent since April 2019. A slower rate of job shedding and a faster lengthening of supplier lead times also contributed to a rise in the headline PMI in December.

Input buying across the manufacturing sector increased at the strongest pace since August 2013, reflecting efforts to boost inventories and meet higher levels of customer demand. A combination of stretched supply chain capacity, the need to source alternative vendors and rising commodity prices resulted in the steepest rate of cost inflation since June 2018.

In some cases, manufacturers noted that supply chain difficulties had restricted their production volumes in December. This contributed to a rise in unfinished work across the manufacturing sector for only the second time in the past three years.

IHS Markit / CIPS Flash UK Services PMI®

At 49.9 in December, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index rose from a five-month low of 47.6 in November but remained fractionally below the neutral 50.0 threshold. While some service providers noted a rise in activity following an easing of lockdown measures, there were still widespread reports that COVID-19 restrictions had either reduced customer demand or even led to ongoing business closures.

New business volumes dropped for the third month running in December. However, staffing levels were cut at the slowest pace since the downturn began in March. A number of survey respondents commented that hopes of a rebound in business activity in the next 12 months, alongside the use of furlough schemes, had encouraged them to retain staff where possible.

Comment

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

"The UK economy returned to growth in December after the lockdown-driven downturn seen in November, adding to signs that the hit to the economy from the second wave of virus infections has so far been far less harsh than the first wave in the spring.

"The recovery lacked vigour, however, as the service sector remained under particular strain, contracting marginally again as ongoing social distancing measures due to tiered lockdowns continued to hit many parts of the economy. Consumer-facing services, notably hotels, restaurants and tourism, reported further marked declines in output, largely offsetting renewed growth in business services, transportation and manufacturing.

"The manufacturing and transport sector improvements were linked to reviving global trade and a temporary boost from Brexit-related stockpiling, which reportedly buoyed order books and exports during the month.

"While job losses continued to be reported during the month, it was encouraging to see the rate of job cutting ease to the lowest since the start of the pandemic. Business optimism about the year ahead also remained buoyant, reflecting the light at the end of the tunnel created by the roll-out of the COVID-19 vaccines. Optimism waned slightly compared to November, however, largely due to rising concerns over a no-deal Brexit."

Duncan Brock, Group Director at CIPS, said:

"Job shedding was reduced this month to the slowest rate the pandemic began as optimism was maintained across manufacturing and services sectors about operating conditions in 12 months' time. However in the near-term supply chain managers identified some serious obstacles that could impede further progress and pull the sectors into recession again.

"Though manufacturing was buoyed up by Brexit panic-buying and saw the fastest rise in purchasing since August 2013, delivery times increased at the third highest rate since 1992 which meant many essential materials were not getting through. Manufacturing companies were also paying the price of goods shortages with the highest rise in cost inflation since June 2018 as shipping and commodity prices soared.

"In services the watchword was 'wait.' Clients delayed placing orders as potential Brexit disruption loomed large and more lockdowns restricted footfall in consumer-facing businesses resulting in new orders dropping for the third month in a row. As covid worries and no-deal uncertainty remains, firms will continue to face the most challenging business conditions in a generation for the next few months."

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

December flash data were collected 4-14 December 2020.

Final manufacturing data are published on 4 January 2021, and final services and composite data on 6 January 2021. 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.