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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 output growth. New work declines for first time since June

### Key data

Flash UK Composite Output Index  
Oct: 52.9, 4-month low (Sep final: 56.5)

Flash UK Services Business Activity Index  
Oct: 52.3, 4-month low (Sep final: 56.1)

Flash UK Manufacturing Output Index  
Oct: 56.4, 4-month low (Sep final: 59.0)

Flash UK Manufacturing PMI  
Oct: 53.3, 3-month low (Sep final: 54.1)

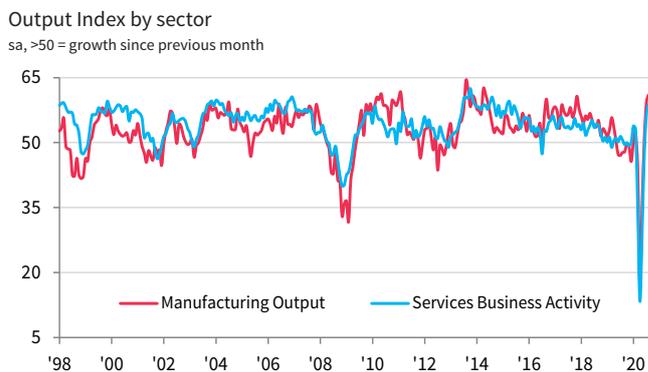
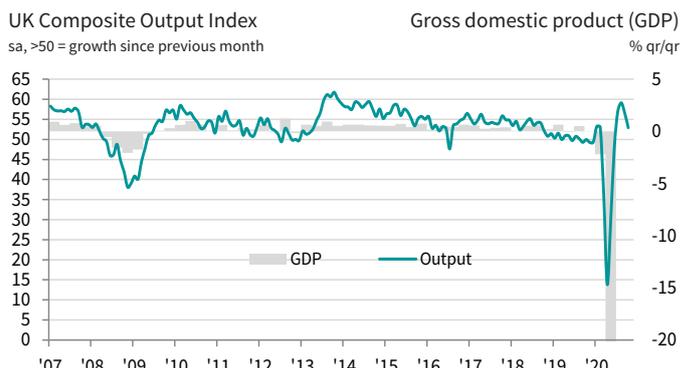
October 2020 data were collected 12-21 October 2020.

UK private sector companies indicated another overall increase in business activity during October, but the rate of expansion slowed considerably since the previous month. This reflected a much weaker contribution from the service economy, with survey respondents often commenting on tighter restrictions across the hospitality sector and the impact of local lockdowns on general consumer spending. As a result, service providers reported a decline in new business for the first time since June, which contrasted with another solid expansion in new orders received by manufacturing companies in October.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered 52.9 in October, down from 56.5 in September and further below August's recent peak of 59.1. Although still above the 50.0 no-change value, the latest reading pointed to the weakest rise in UK private sector output since a return to growth was first signalled in July.

Manufacturing production (index at 56.4) increased at a much faster pace than service sector activity (index at 52.3). In both sectors, the speed of recovery was the slowest for four months during October. Where a rise in output was reported, survey respondents pointed to factors such as pent up demand in the manufacturing sector, rising residential property transactions and the restart of work on projects that had been delayed at the start of the pandemic. Lower business activity was mainly linked to renewed COVID-19 restrictions and shrinking demand from clients that have been hard hit by the slump in travel and hospitality.

Total new business volumes across the UK private sector  
*continued...*



decreased during October, which ended a three-month period of expansion. That said, the rate of decline was only modest and much less marked than seen in the second quarter of 2020.

October data indicated a steep fall in employment numbers, with another month of deep job cuts signalled in both the manufacturing and service sectors. Lower staffing numbers were primarily widely attributed to redundancies and the need to reduce operating costs amid shrinking customer demand.

Business expectations for the next 12 months eased again in October and the degree of confidence was the lowest since May. Mirroring the trend for current business activity, the worsening outlook was centred on the service sector. In contrast, manufacturers reported the strongest optimism since September 2014, driven by hopes of a sustained recovery in order books from the low levels seen earlier in the pandemic.

### 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 – dropped from 54.1 in September to 53.3 in October, to signal the slowest improvement in overall business conditions since July. The fall in the headline PMI reflected weaker rises in output and new orders, alongside a faster decline in staffing numbers across the manufacturing sector.

A number of manufacturers linked higher production to a gradual rebuilding of capacity after business shutdowns at the start of the pandemic. Some firms also commented on pent up demand and new enquiries from customers linked to the wider global economic recovery. New export orders increased at the fastest pace since February 2018. Survey respondents noted rising demand from clients in China and the United States, alongside a temporary boost from Brexit stock building among clients in Europe.

Pre-production inventories continued to fall across the UK manufacturing sector in October, albeit at the slowest pace since December 2019. There were some reports of inventory building in response to Brexit uncertainty, but this was more than offset by those manufacturers reporting a deliberate streamlining of stocks due to working capital pressures.

Meanwhile, the latest data indicated a sharp and accelerated rise in average cost burdens. The rate of input price inflation was the fastest for almost two years in October, which manufacturers often linked to the weak pound and higher commodity prices (particularly for steel, timber and petrochemicals).

### IHS Markit / CIPS Flash UK Services PMI®

October data indicated a sharp loss of momentum across the service economy, with business activity growth easing for the second month running. Moreover, there was a reversal in customer demand, as signalled by a drop in new work for the first time since June, which contributed to another steep fall in staffing numbers.

At 52.3 in October, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index was down from 56.1 in September and well below August's recent peak of 58.8. The latest reading pointed to the worst performance for the sector since June.

Survey respondents overwhelmingly suggested that the latest setback for service sector output was due to a renewed downturn across the travel, leisure and hospitality industries amid tighter restrictions on trade and local lockdown measures.

## Comment

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

*"The pace of UK economic growth slowed in October to the weakest since the recovery from the national COVID-19 lockdown began. Not surprisingly the weakening is most pronounced in the hospitality and transport sectors, as firms reported falling demand due to renewed lockdown measures and customers being deterred by worries over rising case numbers.*

*"The slowdown would have been even more pronounced had it not been for exports rising as overseas customers sought to secure orders before potential supply disruptions as Brexit draws closer.*

*"The slower growth of output, the renewed fall in demand and further deterioration in the labour market suggest the economy started the fourth quarter on a weakened footing. While Brexit preparations may cause a short-term boost to some parts of the economy ahead of 31st December, rising COVID-19 cases and the imposition of local lockdown measures bode ill for the near-term economic outlook. While the fourth quarter still looks likely to see the economy expand, the rate of growth looks to have slowed sharply and the risk of a renewed downturn has risen."*

Duncan Brock, Group Director at CIPS, said:

*"Fears over inherent weaknesses in the UK economy materialised this month with a sudden fall in the overall index showing a sharp drop in new orders and a continuing erosion of employment opportunities.*

*"Where some businesses were largely unaffected or were able to recoup losses quickly following the worst of the pandemic, consumer-facing businesses were the worst hit and some are now concerned about the prospect of total ruin. Either unable to fully open or tempt customers through the doors, hospitality firms saw their hands tied by further lockdown restrictions, safety measures for staff and customers, and the public more reluctant to leave their homes.*

*"Manufacturing companies had a better month as production remained steady, but at its slowest pace since July when the recovery first started to pick up speed. Sharper falls in job numbers as a result of redundancies and reduced customer demand along with higher prices for raw materials means the sector is still under pressure.*

*"Optimism fell to levels last seen in May, and unpredictability remains the only predictable conclusion for the remainder of the year. With more lockdowns, Brexit within touching distance and new government support at weaker levels than when the pandemic hit, it is clear businesses will have figure out their own survival tactics as the economy heads back towards square one."*

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](mailto:economics@ihsmarkit.com).

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Survey dates and history

October flash data were collected 12-21 October 2020.

Final manufacturing data are published on 2 November, and final services and composite data on 4 November. 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.