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IHS Markit / CIPS Flash UK Composite PMI®

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

UK private sector returns to growth in March, led by fastest increase in service activity since August 2020

Key data

Flash UK Composite Output Index
Mar: 56.6, 7-month high (Feb final: 49.6)

Flash UK Services Business Activity Index
Mar: 56.8, 7-month high (Feb final: 49.5)

Flash UK Manufacturing Output Index
Mar: 55.6, 3-month high (Feb final: 50.5)

Flash UK Manufacturing PMI
Mar: 57.9, 40-month high (Feb final: 55.1)

March data were collected 12-22 March 2021.

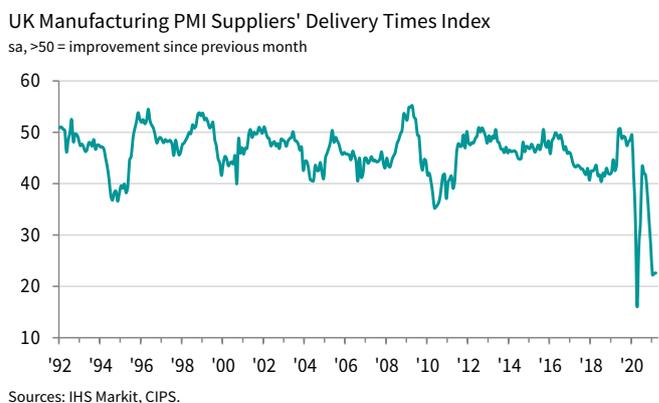
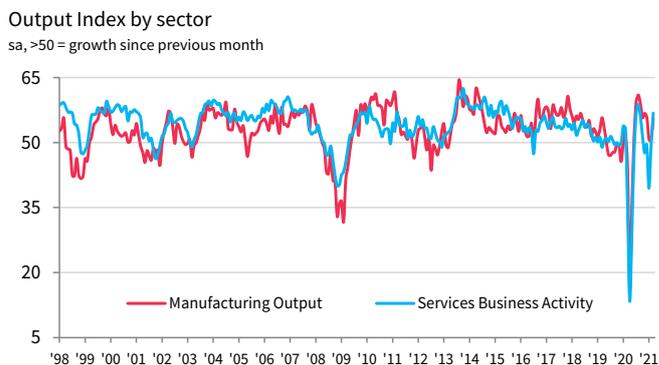
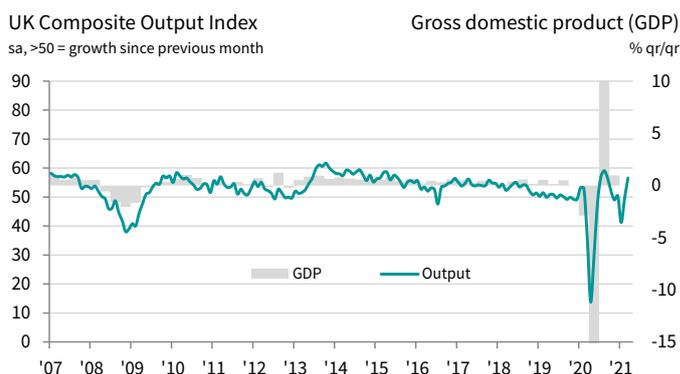
Business activity across the UK private sector increased in March and the rate of expansion was the fastest for seven months, according to the latest PMI® data compiled by IHS Markit and CIPS. This was fuelled by a rise in new orders for the first time since September 2020, which survey respondents attributed to a rebound in sales ahead of easing lockdown measures, alongside stronger consumer confidence and a surge in demand for residential property services.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index registered 56.6 in March, up sharply from 49.6 in February and above the crucial 50.0 no-change mark for the first time in three months. The latest reading signalled a strong rate of private sector output growth and the speed of recovery was the fastest since August 2020. For the first time since the start of the pandemic, service sector activity (index at 56.8) outpaced manufacturing production growth (55.6).

Higher levels of business activity were often linked to the prospect of looser restrictions on trade due to the coronavirus disease 2019 (COVID-19) pandemic. Moreover, the government roadmap for fewer stringency measures in the coming months contributed to the strongest rise in total new work since August 2020. Service providers noted forward bookings from domestic consumers, while some manufacturers cited advanced orders from hospitality businesses and high-street retailers. Export sales remained relatively subdued, however, with total new orders from abroad falling for the third month running.

A strong degree of pent-up domestic demand led to a renewed increase in unfinished work in March. Although only modest, the

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rate of backlog accumulation was the fastest since June 2018. Manufacturers typically cited capacity constraints due to supply chain difficulties, while service providers commented on staff shortages and better-than-expected sales volumes. There were also reports that a surge in residential property transactions continued to lead to rising levels of unfinished work in this area of the service economy.

Efforts to rebuild business capacity and respond to rising customer demand contributed to an increase in private sector employment during March. This represented the first upturn in staffing numbers since February 2020 and the rate of job creation was the fastest for nearly two years.

The return to net employment growth was supported by higher levels of optimism towards the business outlook. Latest data indicated that expectations for the year ahead picked up for the third month running and were the strongest since this index began in July 2012.

Positive trends for output, new work and staff hiring were accompanied by another round of steep input cost inflation during March. The latest increase in average cost burdens was the sharpest since February 2017. Private sector companies continued to pass on greater operating expenses to clients, as signalled by an acceleration in the rate of output charge inflation to its highest for over three years in March.

IHS Markit / CIPS Flash UK Manufacturing PMI®

March data indicated that the recovery in UK manufacturing output regained momentum, with production growth reaching its strongest since the end of 2020. New orders also increased at the fastest pace for three months, despite another relatively subdued rise in export sales. Hopes of a sustained rebound in customer demand contributed to robust job creation and the highest level of business optimism about the year ahead outlook since April 2014.

At 57.9 in March, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was up from 55.1 in February and the highest since November 2017.

The stronger PMI reading was supported by the fastest rise in employment for just over three years. Meanwhile, capacity pressures and supply shortages contributed to the quickest rise in backlogs of work across the manufacturing sector since May 2010. Longer wait times for supplier deliveries were overwhelmingly attributed to a lack of global shipping availability and customs delays. An imbalance of demand and supply pushed up raw material costs, with subsequent efforts to protect margins leading to the steepest increase in factory gate charges since January 2017.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index posted 56.8 in March, up from 49.5 in February and above the crucial 50.0 no-change mark for the first time in five months. Moreover, the rate of business activity expansion was the strongest seen since August 2020. March data also signalled a return to growth for new orders and employment across the service economy. Service providers widely commented on improving consumer confidence and signs of pent-up demand.

Expectations of rising sales after the national lockdown, and a boost to sentiment from the successful UK vaccine rollout, contributed to an increase in business optimism to its highest since January 2004.

Comment

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

“The UK economy rebounded from two months of decline in March, with business activity growing at its fastest rate since last August as children returned to schools, businesses prepared for the reopening of the economy and the vaccine roll-out boosted confidence. Companies reported an influx of new orders on a scale exceeded only once in almost four years, and business expectations for growth in the year ahead surged to the highest since comparable data were first available in 2012. Employment consequently rose for the first time since the pandemic struck as firms expanded capacity in response to the new inflows of work and brighter outlook.

“The surge in business activity is far stronger than any economists expected, according to Reuters polls, and hints at only a modest contraction of GDP during the first quarter, adding to evidence that the economy has shown far greater resilience in the third lockdown compared to the first. The encouraging readings on future expectations, job creation and new order inflows meanwhile all point to robust economic growth in the second quarter, especially if virus restrictions are lifted further.

“Worries persist though, especially in relation to near-record supply chain delays, a continued fall in exports and sharply rising prices, all of which are making life difficult for many companies. Many consumer facing companies meanwhile remain constrained by COVID-19 restrictions, which are likely to curb the overall pace of economic growth for some time to come, especially if we see a third wave of infections.”

Duncan Brock, Group Director at CIPS, said:

“It’s good to see the sectors out of contraction and the economy as a whole returning to growth in March but the fastest pace of cost inflation since February 2017 will be a cause for trepidation. The boost in employment numbers is also encouraging, but the sectors have a lot of catching up to do to meet the demands of the fastest rise in backlogs since June 2018.

“Even with slow supply chains, shipping shortages and new Brexit customs burdens, businesses were buying quickly and buying more, to head off any further disruptions on the horizon. The fastest rise in new manufacturing orders in three months led to the highest levels of optimism since 2014, though EU businesses were still reluctant to commit to business, as export growth remained disappointingly weak. “The services sector was even more hopeful with business future expectations rising to levels last seen in 2004. Dormant businesses were able to plan again with the imminent lifting of UK restrictions and consumers were securing their place in restaurants and holiday venues. Though international travel is still restricted, as long as the fastest rise in consumer costs for three years and the threat of new lockdowns doesn’t halt further progress, we can see more opportunities opening up in the coming 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

March data were collected 12-22 March 2021.

Final manufacturing data are published on 1 April 2021, and final services and composite data on 7 April 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.

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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.

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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.