News Release

Embargoed until 0930 GMT (0930 UTC) 22 November 2019

IHS Markit / CIPS Flash UK Composite PMI®

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

Sharpest drop in UK private sector output since July 2016

Key data

Flash UK Composite Output Index
Nov: 48.5, 40-month low (Oct final: 50.0)

Flash UK Services Business Activity Index
Nov: 48.6, 40-month low (Oct final: 50.0)

Flash UK Manufacturing Output Index
Nov: 48.3, two-month low (Oct final: 49.7)

Flash UK Manufacturing PMI
Nov: 48.3, two-month low (Oct final: 49.6)

Today sees the public release of the new IHS Markit / CIPS Flash UK Composite PMI®. Published on a monthly basis approximately one week before final PMI data are released, the Flash PMI will provide an even earlier indication of private sector business conditions in the UK.

The headline IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered 48.5 in November, down from 50.0 in October and below the crucial 50.0 no-change value.

Lower private sector output has now been recorded in two of the past three months, with the latest survey signalling the sharpest rate of decline since July 2016. The overall reduction in business activity reflected modest falls in both manufacturing and service sector output.

Reports from survey respondents largely attributed weaker domestic economic conditions to a lack of clarity in relation to Brexit, alongside a fresh injection of business uncertainty from the forthcoming general election. In the manufacturing sector, there were also reports that customer overstocking ahead of the Brexit deadline on 31st October had acted as a headwind to production volumes in November.

New work received by private sector firms dropped for the fourth month running during November. Mirroring the trend for output, the latest decline in new orders was also the fastest since July 2016. Softer demand contributed to the largest reduction in backlogs of work for over seven years in November. Private

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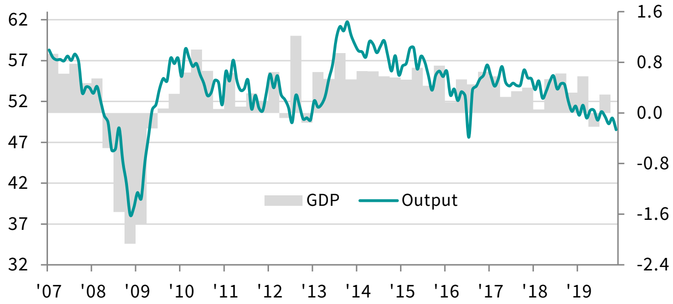
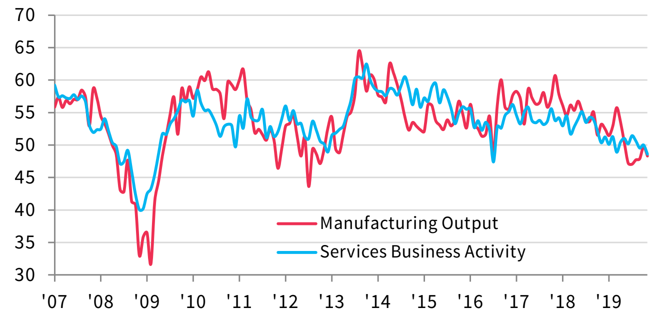
UK Composite Output Index
sa, >50 = growth since previous month



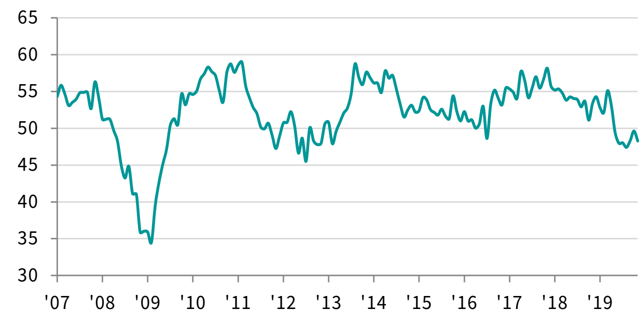
Sources: IHS Markit, CIPS, Office for National Statistics.

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



Sources: IHS Markit, CIPS.

UK Manufacturing PMI
sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

sector companies responded to a lack of pressure on capacity by trimming staffing numbers for the third consecutive month, although the rate of decline was only marginal.

Meanwhile, latest data revealed a moderation in the rate of input cost inflation to its weakest for almost three-and-a-half years. Despite softer cost pressures, average prices changed increased at the fastest pace since July, largely reflecting a steeper rise across the service economy.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – registered 48.3 in November, down from 49.6 in October. This index has posted below the neutral 50.0 threshold in each month since May.

Worsening manufacturing sector conditions mainly reflected lower levels of output, new orders and employment in November. An additional drag on the headline PMI was the sharpest fall in stocks of purchases since June 2018, which goods producers attributed to a reversal of stock building ahead of the 31st October Brexit deadline.

Production volumes continued to fall in November, with manufacturers commenting that global economic uncertainty and domestic political upheaval had contributed to more cautious spending decisions among clients.

A lack of new work to replace completed projects resulted in more cautious hiring policies across the manufacturing sector. The latest reduction in workforce numbers was the largest since September 2012. Meanwhile, efforts to improve working capital efficiency led to the sharpest fall in stocks of finished goods for just over two-and-a-half years.

Input prices were broadly unchanged in November, which contrasted with the robust rises in cost burdens seen in the first half of 2019. Some manufacturers noted that a stronger sterling exchange rate had helped to alleviate inflationary pressures. However, the impact on margins was limited by subdued factory gate price inflation, which slipped to a three-and-a-half year low.

IHS Markit / CIPS Flash UK Services PMI®

At 48.6 in November, down from 50.0 in October, the IHS Markit/CIPS Flash UK Services PMI® Business Activity Index fell back below the 50.0 no-change level and signalled a modest reduction in service sector output. The latest reading was the lowest since July 2016.

Service providers continued to link weaker demand to delayed decision-making in response to domestic political uncertainty, especially among large corporates. Some survey respondents also commented on more subdued consumer spending patterns in November. As a result, new business volumes dropped for the third month running, partly reflecting the sharpest fall in sales to overseas clients since the start of 2019.

Meanwhile, the latest rise in operating expenses was the weakest since August 2016. Service providers noted that lower non-staff costs had helped to alleviate some of the pressure from rising salary payments at their businesses in November.

Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

"With an upcoming general election adding to Brexit-related uncertainty about the outlook, it's no surprise to see UK businesses reporting falling output and orders in November. The decline signalled by the flash PMI follows stagnation in October and adds to what has been the survey's worst spell since the recession of 2008-9.

"The weak survey data puts the economy on course for a 0.2% drop in GDP in the fourth quarter, and also pushes the PMI further into territory that would normally be associated with the Bank of England adding more stimulus to the economy.

"While Brexit issues such as stock-building and car factory closures have led to volatile GDP data so far this year, making monetary policymaking especially difficult and encouraging the Bank of England to sit on its hands until the fog clears, the PMI surveys are not only warning that the underlying trend in the economy is deteriorating markedly, but also that the labour market is cooling. A worsening jobs market has the potential to feed through to weaker consumer spending and slower wage growth, thereby undermining two of the key supports to the economy in recent months. The big question will be just how long can the Bank of England hold its nerve in keeping policy unchanged."

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

"With the longest stretch of weak numbers for a decade, the headline figure is a sad sight to behold. New orders fell at the fastest pace since July 2016, as domestic and overseas clients, worn-out by continuing political indecision withdrew from the marketplace, reducing overall activity in the manufacturing and services sectors.

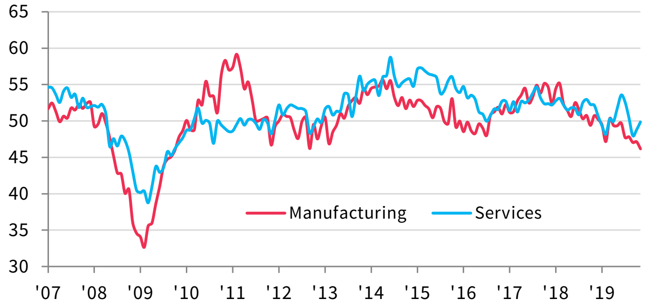
"Over the past few months we have seen manufacturing companies oscillate between stock building and unravelling and in November, the sharpest drop in stocks of purchases since June 2018 showed inventory levels being unpicked again as another Brexit deadline passed. Manufacturing output has dropped every month since June as the pipeline of work dwindled again resulting in bad news for job seekers, with the sharpest drop in employment since September 2012.

"There was some light relief from softer inflationary pressure. The weak pound has gathered a modicum of strength making raw materials a little more affordable, but there was no such respite for consumers. In the services sector, businesses assaulted by years of rising prices held back from passing on the full benefit of lower input cost inflation and held on to their margins, which did nothing to persuade already reluctant customers to spend.

"With a General Election added to the Brexit mix of general uncertainty and delayed decision-making, it would be a brave commentator who would suggest the possibility of any Christmas cheer as we head into the last month of the year."

Employment Index

sa, >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 in mmm YYYY, 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

November flash data were collected 12-20 November 2019.

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

Data collection began in January 1992 for manufacturing, and in July 1996 for services.

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. To learn more go to ihsmarkit.com/products/pmi.html.