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IHS Markit / CIPS Flash UK Composite PMI®

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

Rapid downturn in UK private sector output continues in May, but the speed of decline eases since April

Key data

Flash UK Composite Output Index
May: 28.9, two-month high (Apr final: 13.8)

Flash UK Services Business Activity Index
May: 27.8, two-month high (Apr final: 13.4)

Flash UK Manufacturing Output Index
May: 34.9, two-month high (Apr final: 16.3)

Flash UK Manufacturing PMI
May: 40.6, two-month high (Apr final: 32.6)

May 2020 data were collected 12-19 May 2020.

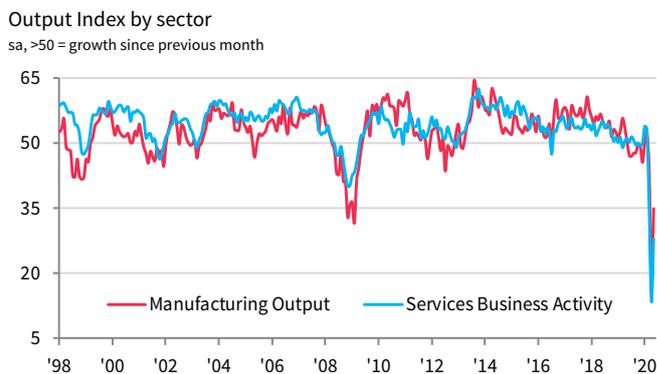
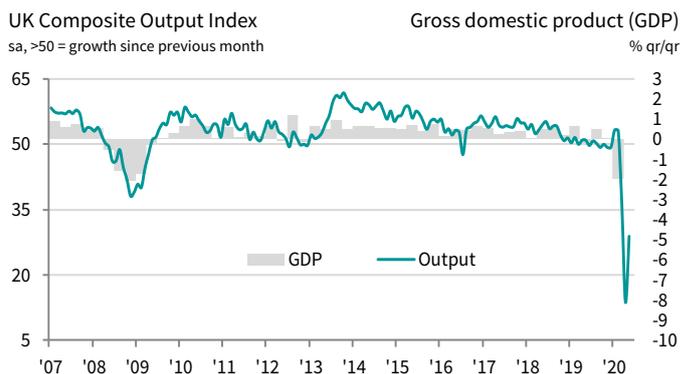
UK private sector output remained on a steep downward trajectory in May, according to the latest IHS Markit / CIPS Flash UK Composite PMI® survey. The rate of decline in overall business activity eased since April, but was much faster than at any other time since comparable data were first compiled in January 1998.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered 28.9 in May, to remain well below the crucial 50.0 no-change threshold. Although the index was up from 13.8 in April, the latest reading still signalled a far steeper pace of contraction than at the worst point of the global financial crisis (index at 38.1 in November 2008).

Lower volumes of business activity were again almost exclusively linked to business shutdowns, cancellations of customer orders and a general slump in demand amid the coronavirus disease 2019 (COVID-19) pandemic.

May data also signalled rapid declines in new work and employment across the UK private sector, with both rates of contraction the second-fastest in more than 20 years of data collection (exceeded only by that seen in April). Survey respondents commented on a severe lack of new business to replace completed contracts. Among those noting that staff had been placed on furlough, anecdotal evidence indicated that this often accounted for more than half of all employees.

Average prices charged were cut again in May, largely reflecting discounting strategies across the service economy in response to a slump in sales volumes. Lower input costs were also reported in *continued...*



the latest survey period, driven by reduced fuel prices and falling payroll expenses. Manufacturers bucked the overall trend, with survey respondents noting that rising freight costs, the need to source alternative suppliers and exchange rate depreciation had all pushed up purchasing prices.

Meanwhile, the index measuring business expectations for the next 12 months continued to improve from the series record low seen in March. Survey respondents nonetheless widely commented on concerns that customer demand would take a long time to recover to levels seen before the public health crisis, with some service sector companies still deeply pessimistic about their near-term prospects.

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 40.6 in May, up from April's survey record low of 32.6 but still far below the 50.0 no-change mark.

Production volumes dropped sharply in May (index at 34.9), and the overall pace of decline was the second-fastest since February 2009. Around 54% of manufacturing companies reported a fall in output during May, while 24% signalled an expansion since the previous month.

Where manufacturing output growth was reported in May, this was often linked to healthcare-related products. Survey respondents also attributed rising production to the reopening of manufacturing supply chains and, in some cases, renewed demand from the construction sector. Manufacturers commenting on initiatives to end factory shutdowns mainly noted a gradual increase in output and reduced plant capacity following social distancing measures.

However, there were widespread reports of a severe drop in customer demand during May, especially across the automotive supply chain. A number of firms noted that reduced production schedules among key clients had negatively impacted order books.

IHS Markit / CIPS Flash UK Services PMI®

At 27.8 in May, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index was up from 13.4 in April, but still far below the 50.0 value that separates expansion from contraction. In each of the past three months, the rate of decline in service sector activity has been faster than anything seen prior to this since the survey began in July 1996.

The latest survey highlights that the service economy remains especially hard hit by the public health crisis, with travel, tourism and leisure firms often noting that business had slumped to zero. Even among service providers able to implement remote working, there were widespread reports that clients had cutback spending and cancelled new projects in May.

Around 55% of service providers reported a drop in business activity during May, while only 12% experienced a rise since April. Those indicating a rise in business activity mainly linked this to greater demand for some technology services, as well as online sales initiatives and a boost from the reopening of business operations in other parts of the domestic economy.

Employment numbers meanwhile continued to fall rapidly across the service sector as a whole. The pace of job shedding eased only slightly since April and remained much deeper than during the global financial crisis.

Comment

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

"The UK economy remains firmly locked in an unprecedented downturn, with business activity and employment continuing to slump at alarming rates in May. Although the pace of decline has eased since April's record collapse, May saw the second largest monthly falls in output and jobs seen over the survey's 22-year history, the rates of decline continuing to far exceed anything seen previously."

"Travel and tourism firms, hotels, restaurants and producers of consumer goods such as clothing were again the hardest hit, reflecting virus containment measures, but this remains a shockingly broad-based downturn with very few companies left unscathed by the COVID-19 pandemic."

"An improvement in business confidence about the year ahead for a second successive month is welcome news, and the easing of restrictions in coming months should help boost activity in some sectors as we head into the summer."

"However, the UK looks set to see a frustratingly slow recovery, given the likely slower pace of opening up the economy relative to other countries which have seen fewer COVID-19 cases. Virus related restrictions, widespread job insecurity and weak demand will be exacerbated by growing business uncertainty regarding Brexit. We are consequently expecting GDP to fall by almost 12% in 2020. While the quarterly rate of decline looks likely to peak at around 20% in the second quarter, the recovery will be measured in years not months."

Duncan Brock, Group Director at CIPS, said:

"The minor easing in the downturn compared to last month's figures only serves to highlight the depth of the fall in April's output and does not signal that the pathway is clear for an improvement in the manufacturing and services sectors."

"This month saw another steep fall in overall business activity, surpassing for the third time the rates of decline seen during the global financial crisis in 2009. No new orders, premises shut down and furloughed staff unable to return to work were at the heart of the desolation as business struggled to continue with two hands tied behind their back."

"Even some heavy discounting by companies did little to offset their losses which are likely to be just the tip of the iceberg with businesses failing in increasing numbers."

"As the sectors prepare for a further easing in restrictions and becoming covid-ready for staff to return, the danger on the horizon is a second wave of infections threatening the health of the nation and dampening consumer confidence still further. In addition, if this intensity of job cuts continues, purse strings will be drawn tightly shut and spending severely curtailed, putting further pressure on the UK economy and ensuring any recovery is many years into the future."

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

May flash data were collected 12-19 May 2020. The response rate for May was not affected by shutdowns in place due to the Covid-19 outbreak.

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

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.