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IHS Markit / CIPS Flash UK Composite PMI®

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

Sharpest increase in UK private sector output since October 2013, but the rate of job shedding accelerates in August

Key data

Flash UK Composite Output Index
Aug: 60.3, 82-month high (Jul final: 57.0)

Flash UK Services Business Activity Index
Aug: 60.1, 72-month high (Jul final: 56.5)

Flash UK Manufacturing Output Index
Aug: 61.6, 76-month high (Jul final: 59.3)

Flash UK Manufacturing PMI
Aug: 55.3, 30-month high (Jul final: 53.3)

August 2020 data were collected 12-19 August 2020.

UK private sector companies reported a sharp and accelerated increase in business activity during August, with both the manufacturing and service sectors continuing to experience a recovery in customer demand.

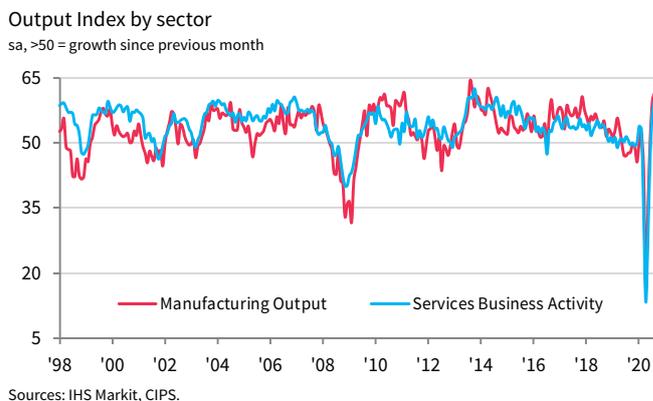
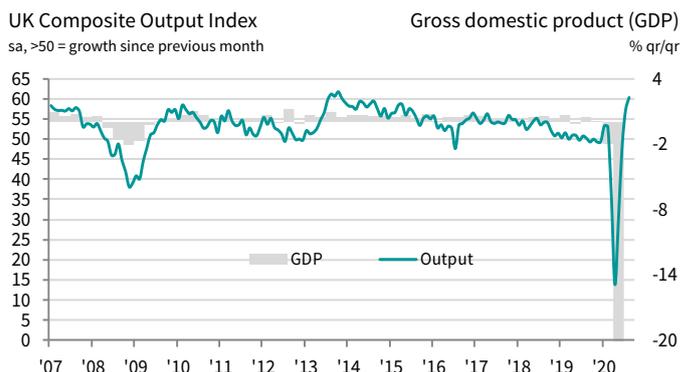
The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered 60.3 in August, up from 57.0 in July and signalling the fastest rate of business activity expansion since October 2013. Manufacturing production (index at 61.6) increased at a slightly quicker pace than service sector activity (60.1) during the latest survey period.

Higher levels of private sector output were overwhelmingly attributed to the reopening of the UK economy after the lockdown period in the second quarter of the year and a subsequent increase in both consumer and business spending.

Total volumes of new work expanded for the second month running in August, with the latest increase the fastest since July 2014. New order growth was mostly linked to an accelerated reopening among corporate customers, alongside greater willingness-to-spend among UK households. Survey respondents often commented on the restart of projects delayed during the public health emergency, but continued to note that levels of demand remained well below those seen prior to the pandemic.

Concerns about the speed and duration of the recovery resulted in sustained job cuts across the private sector during August. In contrast to the positive trends for output and new orders, latest data indicated the fastest pace of decline in employment numbers

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since May. Lower payroll numbers were primarily attributed to redundancy programmes in response to depleted volumes of work and the need to reduce overheads before the government's job retention scheme winds down. A sustained decline in backlogs of work across the private sector economy also suggested that incoming new orders fell short of business capacity.

Average cost burdens increased at a solid pace in August, although the rate of inflation eased since the previous month. Survey respondents noted that higher fuel bills and rising costs for imported items had pushed up operating expenses, which was only partially offset by higher average prices charged.

August data pointed to a setback for business expectations across the private sector economy. The index measuring growth projections for the next 12 months dipped for the first time since March, with some survey respondents citing concerns that the recovery will be slower than first expected.

IHS Markit / CIPS Flash UK Manufacturing PMI®

At 55.3 in August, up from 53.3 in July, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – posted above the crucial 50.0 no-change threshold for the third month running. Moreover, the latest PMI reading signalled the fastest improvement in overall business conditions since February 2018.

Strong expansions of production volumes and incoming new work were the main factors boosting the headline index during August. Manufacturing output increased at the steepest pace since April 2014, which highlighted a continued recovery from the low point seen in the second quarter of 2020. Goods producers noted that easing lockdown measures had led to a restart of their supply chains and efforts by customers to replenish inventories.

Despite reporting another month of improving demand, latest data indicated a steep and accelerated fall in employment. Moreover, business optimism eased slightly since July as some manufacturers began to cite worries about the sustainability of the recovery over the longer term.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index picked up to 60.1 in August, from 56.5 in July, which indicated the strongest rate of growth for six years.

New business volumes increased to the greatest extent since March 2015, with survey respondents often commenting on higher levels of consumer spending. Service providers noted that customer footfall had improved in August and easing lockdown measures had helped them to accelerate the restart of business operations. Hotels & Restaurants reported a notable boost from the Eat Out to Help Out scheme, while others in the leisure categories commented on a general rise in demand linked to the trend for staycations.

Mirroring the trends seen across the manufacturing sector, latest data revealed a setback for both employment and business optimism since July. The latest reduction in payroll numbers was the fastest since May, which service sector companies mostly linked to redundancy programmes following a slump in demand since the start of the pandemic. Moreover, business expectations for the year ahead eased in August, thereby ending a four-month period of rising optimism. Worries about the domestic economic outlook and the sustainability of the recovery were commonly cited by survey respondents.

Comment

Tim Moore, Economics Director at IHS Markit, said:

"August's data illustrates that the recovery has gained speed across both the manufacturing and service sectors since July. The combined expansion of UK private sector output was the fastest for almost seven years, following sharp improvements in business and consumer spending from the lows seen in April."

"There were encouraging signs that customer-facing service providers have started to catch up with the rebound seen earlier this summer across the wider economy, with easing lockdown measures, staycations and the Eat Out to Help Out scheme all reported as factors supporting growth in August."

"Positive signals for the recovery of course need to be considered in the context of UK GDP shrinking by around one-fifth during the second quarter of the year. Survey respondents often noted that it could take more than a year to return output to pre-pandemic levels and there were widespread concerns that the honeymoon period for growth may begin to fade through the autumn months."

"Worries about the state of the UK economy and the highly uncertain outlook for the pandemic led to a setback for business expectations in August, with confidence about growth prospects dipping for the first time since the slump in March."

"Private sector firms reported another sharp fall in employment numbers as scarring from the pandemic and lingering doubts about the sustainability of recovery resulted in a need to cut overheads. The rate of job shedding accelerated since July, with survey respondents frequently noting that redundancy programmes had been running in tandem with efforts to return some staff from furlough."

Duncan Brock, Group Director at CIPS, said:

"Driven by customer need and a greater appetite for spending, new order intakes across the sectors rose at the fastest rate since July 2014 as more projects started, staff returned and normality 2.0 was established. Manufacturing led the way with the strongest output growth since April 2014, and service companies reported the boost from government initiatives had brought more consumers back to restaurants and pubs as purse strings were loosened."

"However, as the UK heads for the deepest recession in living memory, any celebration is premature as firms moved from the protection of furlough schemes to the harsh reality of job shedding with employment levels declining at their fastest since May. Reducing headcount was a quick fix for many firms struggling to maintain strong supply chains and their position in the marketplace amidst higher raw material and import costs."

"With the fastest rise in activity in the private sector since October 2013, this shows an encouraging speed towards recovery which belies the fact there are still some dark forces at play. Rising inflation, the sustainability of the UK economy during a global pandemic and the poor employment figures means we're not out of the woods yet."

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

August flash data were collected 12-19 August 2020.

Final manufacturing data are published on 1 September, and final services and composite data on 3 September. Data collection began in January 1992 for manufacturing, July 1996 for services and January 1998 for the composite index.

About IHS Markit

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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.