Steepest fall in UK private sector output since last May as third national lockdown hits service economy at start of 2021

Key data

Flash UK Composite Output Index  
Jan: 40.6, 8-month low (Dec final: 50.4)

Flash UK Services Business Activity Index  
Jan: 38.8, 8-month low (Dec final: 49.4)

Flash UK Manufacturing Output Index  
Jan: 50.3, 8-month low (Dec final: 55.9)

Flash UK Manufacturing PMI  
Jan: 52.9, 7-month low (Dec final: 57.5)

January data were collected 12-20 January 2021.

UK private sector companies signalled a renewed downturn in business activity during January, which largely reflected national lockdown restrictions due to the coronavirus disease 2019 (COVID-19) pandemic. The service economy was hard-hit by restrictions on trade and reduced consumer spending at the start of the year, with business activity falling at the fastest pace for eight months.

Manufacturers recorded a fractional rise in production volumes, but the rate of expansion eased sharply since December. Weaker export orders and short-term supply chain difficulties contributed to the slowdown in output growth, according to survey respondents. Apart from April 2020, latest data pointed to the largest increase in suppliers’ delivery times since the UK Manufacturing PMI® survey began almost 30 years ago.

Despite a swift return to falling business activity at the beginning of the year, latest data indicated that UK private sector companies remain upbeat about their prospects on a longer-term basis. The index measuring business expectations for the next 12 months picked up slightly since December and was the highest since May 2014. Continuing the trend seen in recent months, survey respondents overwhelmingly attributed their positive business expectations to a successful vaccine roll-out during 2021.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered 40.6 in January, down sharply from 50.4 in December and well below the neutral 50.0 threshold.

The index was the lowest since May 2020 and much weaker than in the second national lockdown period during November (49.0).

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However, the speed of the downturn in UK private sector output was still softer than at the start of the pandemic (13.8 in April 2020), with many businesses citing successful efforts to adapt and prepare for new COVID-19 restrictions.

Volumes of new work meanwhile decreased for the fourth consecutive month in January. The rate of contraction accelerated to its sharpest since May 2020. Survey respondents often reported a rapid drop in consumer spending due to the third national lockdown and a headwind to sales from business closures in customer-facing areas of the economy.

Strong cost pressures persisted at the start of 2021, with the overall rate of inflation holding close to December’s 11-month peak. This was driven by the steepest increase in manufacturing sector input prices for nearly four years. Higher operating expenses, squeezed margins and lower demand also contributed to a modest acceleration in the pace of private sector job shedding in January.

**IHS Markit / CIPS Flash UK Manufacturing PMI®**

Manufacturing output (index at 50.3) continued to outperform the trend seen in service sector activity during January (38.8). Higher levels of production mostly reflected a strong increase in new orders during the final quarter of 2020 and subsequent efforts to work through backlogs in the New Year. However, the overall rate of production growth was the slowest since the recovery took hold last June.

There were reports citing shortages of critical manufacturing inputs as a factor holding back growth in January. More than half of the survey panel (55%) reported a deterioration in supplier performance, while only 1% noted an improvement. This was almost exclusively linked to both Brexit disruption and a severe lack of international shipping availability.

Latest data meanwhile signalled a renewed drop in orders from abroad, following the surge in export sales as clients sought to beat the Brexit transition deadline in December 2020. The decline in new work from overseas was the fastest for seven months.

The headline seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers’ Index® (PMI®) – a composite single-figure indicator of manufacturing performance – registered 52.9 in January, down from 57.5 in December and the lowest since May 2020, discarding jobs as workforces shrank again. Overwhelmed. Whilst services had their worst overall result since May 2020, discriminating jobs as workforces shrank again.

Duncan Brock, Group Director at CIPS, said:

“This is a sudden blow to the UK economy as recovery in the two sectors lost its momentum after some improvement at the end of last year. Affected by consumer caution and dried-up pipelines of new work from domestic and export customers, new orders dropped to an extent not seen since May, underlining the continuing instability in a marketplace no longer propped up by pre-Brexit stockpiling or reduced restrictions on business conditions.

“Where the manufacturing sector maintained stronger production last year, the start of this year showed a worsening picture for factories. Suppliers put in some of the slowest delivery times in the last 30 years as port delays and shipping shortages preventing the distribution of much-needed goods, compounded by mounting price rises as supply chains were overwhelmed. Whilst services had their worst overall result since May 2020, discriminating jobs as workforces shrank again.

“Though worrying, this was not an unexpected downturn from businesses ravaged by restrictions, lockdowns and post-Brexit disruption. But with the highest level of business optimism since May 2014, firms are keeping their plates spinning and responding as well as can be expected to the changing environment, placing hope in vaccine programmes bringing more normality soon.”

**Comment**

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

“A steep slump in business activity in January puts the locked-down UK economy on course to contract sharply in the first quarter of 2021, meaning a double-dip recession is on the cards.

“Services have once again been especially hard hit, but manufacturing has seen growth almost stall, blamed on a cocktail of COVID-19 and Brexit, which has led to increasingly widespread supply delays, rising costs and falling exports.

“Worryingly, January also saw companies reduce headcounts at an increased rate again – albeit less so than seen between March and November. The steepest loss of jobs was recorded in the hotels, restaurants, travel and leisure sectors, reflecting the new lockdown measures.

“Encouragingly, the current downturn looks far less severe than that seen during the first national lockdown, and businesses have become increasingly optimistic about the outlook, thanks mainly to progress in rolling out COVID-19 vaccines. Business hopes for the year ahead have risen the highest for over six-and-a-half years, boding well for the economy to return to solid growth once virus restrictions ease.”

IHS Markit / CIPS Flash UK Services PMI®

The downturn in service sector output stretched to a third consecutive month during January. At 38.8, down sharply from 49.4 in December, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled a steep and accelerated fall in total business activity. The rate of contraction was also the fastest since May 2020.

Lower levels of activity reflected cutbacks to both business and consumer spending at the start of 2021. Outside of the leisure, travel and hospitality sectors, survey respondents often noted that they had avoided temporary business closures during the third national lockdown, but client demand had softened considerably and new projects were delayed as a result.

Hopes of a rebound in the second half of 2021 were signalled by a further rise in the business expectations index during January. The degree of positive sentiment reached its highest since April 2014.
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.

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 manufacturing and services are calculated by weighting together comparable manufacturing and services indices using official manufacturing and services annual value added.

Composite indices for manufacturing are calculated by weighting together comparable manufacturing and services indices including 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 all 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.

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.

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