News Release

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IHS Markit / CIPS Flash UK Composite PMI®

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

Sharpest fall in UK private sector output since May. Manufacturing growth offset by renewed downturn in services

Key data

Flash UK Composite Output Index
Nov: 47.4, 6-month low (Oct final: 52.1)

Flash UK Services Business Activity Index
Nov: 45.8, 6-month low (Oct final: 51.4)

Flash UK Manufacturing Output Index
Nov: 56.3, 2-month high (Oct final: 55.8)

Flash UK Manufacturing PMI
Nov: 55.2, 3-month high (Oct final: 53.7)

November 2020 data were collected 12-19 November 2020.

Business activity across the UK private sector decreased in November, which ended a four-month period of expansion. The downturn was driven by the fastest reduction in service sector output since May amid temporary business closures among leisure and hospitality companies. In contrast, manufacturing production expanded at a robust pace during November and the rate of growth accelerated since the previous month. The latest manufacturing PMI survey nonetheless pointed to a sharp lengthening of supplier delivery times amid severe delays at UK ports, alongside a robust degree of stock building as manufacturers sought to accumulate critical inputs before the end of the Brexit transition period on 31st December 2020.

Adjusted for seasonal influences, the IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – dropped from 52.1 in October to 47.4 in November and pointed to the sharpest downturn in overall business activity since May. The underperformance of the service economy (45.8) relative to the manufacturing sector (56.3) was the widest in almost 25 years of data collection, reflecting the severe impact on business activity from a second lockdown in England and tightened COVID-19 restrictions across the rest of the UK.

Manufacturing growth was mainly linked to a sustained recovery in production volumes after stoppages at the start of the pandemic. Survey respondents also commented on rising demand from export markets, especially in China and the EU. The latter was often linked to pre-purchasing due to Brexit uncertainty as European customers sought delivery of orders before the end of the transition period.

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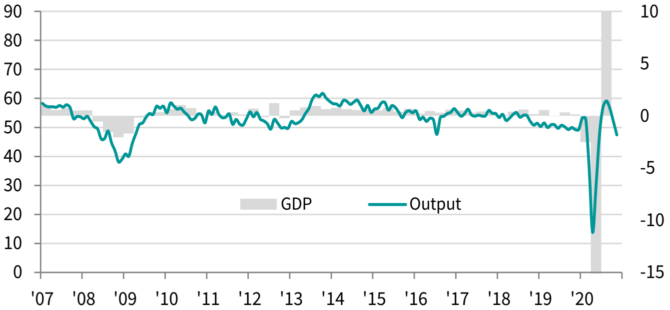
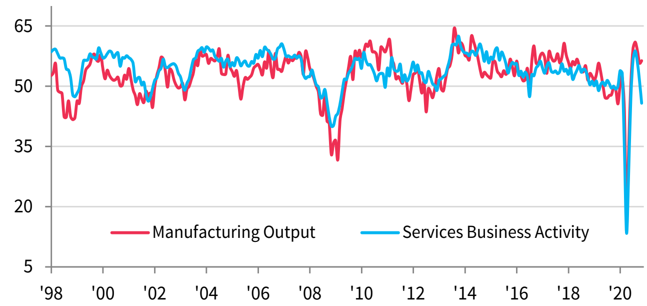
UK Composite Output Index
sa, >50 = growth since previous month

Gross domestic product (GDP)
% qr/qr



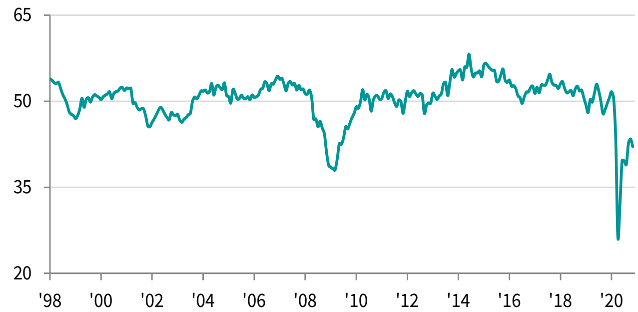
Sources: IHS Markit, CIPS, Office for National Statistics.

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



Sources: IHS Markit, CIPS.

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



Sources: IHS Markit, CIPS.

Total new work received by UK private sector firms decreased for the second month running in November. Another fall in new business across the service economy more than offset a solid improvement in order books in the manufacturing sector. Backlogs of work decreased at the fastest pace since June amid shrinking demand and a lack of pressure on business capacity.

November data indicated that job shedding accelerated across the UK private sector, with the rate of decline in staffing numbers the steepest for three months. Lower employment was mainly attributed to redundancy measures, although some service providers also commented on the renewed use of the government furlough scheme during the latest survey period.

Looking ahead, private sector companies remain optimistic that business activity will increase during the next 12 months. The degree of optimism improved since October and was the strongest since March 2015. While some firms simply commented on an expected rebound from low levels of activity in November, there were also widespread reports that hopes of an end to COVID-19 restrictions and positive vaccine news had spurred business confidence about the year ahead.

IHS Markit / CIPS Flash UK Manufacturing PMI®

At 55.2 in November, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was up from 53.7 in October and the highest since August.

The headline PMI was supported by a faster expansion of production volumes during November, alongside a slightly slower decline in employment. Moreover, the stocks of purchases component (10% of the PMI weight) pointed to the strongest increase in pre-production inventories since October 2019, which was almost exclusively attributed to Brexit uncertainty and a subsequent build up of critical inputs before the end of the transition period.

A robust rise in purchasing activity contributed to the sharpest lengthening of suppliers' delivery times since June. Around 32% of the survey panel reported longer lead times from suppliers, while only 2% noted an improvement. Worsening supplier performance was widely linked to shipping delays amid bottlenecks at UK ports. Rising freight costs and stretched supply chains contributed to the strongest rate of overall input price inflation for two years.

Export sales were a bright spot in November, with the latest increase the fastest since January 2018. However, the overall rate of new order growth eased since October, suggesting a weaker contribution from domestic demand.

IHS Markit / CIPS Flash UK Services PMI®

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index posted 45.8 in November, down sharply from 51.4 in October and below the neutral 50.0 mark for the first time since June.

Around 31% of the survey panel reported lower business activity in November, while only 21% signalled an expansion. Reduced output was almost exclusively attributed to greater restrictions on trade due to the COVID-19 pandemic and heavily concentrated in consumer-facing parts of the service economy.

Meanwhile, the rate of job shedding across the service sector accelerated to its fastest since August. Around three times as many survey respondents (27%) reported a decline in employment as those that indicated a rise during November (9%).

Comment

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

"A double-dip is indicated by the November survey data, with lockdown measures once again causing business activity to collapse across large swathes of the economy. As expected, hospitality businesses have been the hardest hit, with hotels, bars, restaurants and other consumer facing service providers reporting the steepest downturns.

"Some comfort comes from the data suggesting that the impact of the lockdown has not been as severe as in the spring, and manufacturing has also received a significant boost from inventory building and a surge in exports ahead of the UK's departure from the EU at the end of the year, providing a fillip for many companies. However, while the lockdown will be temporary, so too will this pre-Brexit boost.

"The health of the economy in the new year therefore remains highly uncertain, but it is very encouraging to see the survey's gauge of business optimism surge higher in November. Improved prospects for the year ahead are thanks mainly to the news of successful vaccine trials, which at last provides a light at the end of the tunnel for many businesses."

Duncan Brock, Group Director at CIPS, said:

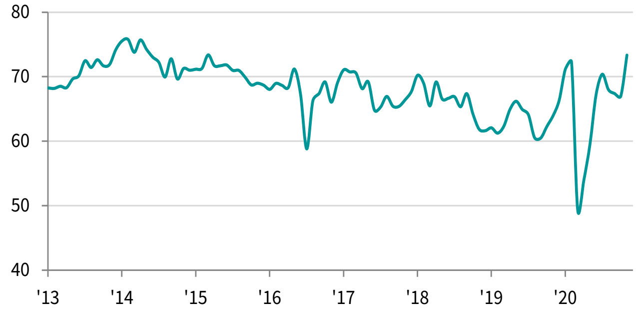
"With the biggest drop in private sector output since May, the end of the year unveils the different fates of the manufacturing and services sector as a result of continuing covid restrictions. Where manufacturing had a flat out month with the highest level of growth since September, the dominant services sector took another sudden tumble into contraction territory, resulting in deeps concerns for the health of the UK economy.

"Manufacturing's fortunes were fuelled by a rise in both domestic and export orders driven by forward-buying strategies to beat the approaching Brexit deadline. However, the flipside of this surge in activity was the sudden increase in delivery times, as supply chain snags in the form of shipping delays and UK port disruption offered both a glimpse into the coming months and contributed to the strongest cost inflation since 2018.

"News of potential vaccines bringing a return to normality lifted the mood with a big rise in optimism to its highest since March 2015. But in the meantime with service businesses still shedding jobs at a head-spinning rate, the New Year will be difficult as another recession waits on the doorstep."

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.

Survey dates and history

November flash data were collected 12-19 November 2020.

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

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.

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