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IHS Markit / CIPS Flash UK Composite PMI®

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

Private sector activity falls again, led by fastest drop in manufacturing output since July 2012

Key data

Flash UK Composite Output Index
Dec: 48.5, 41-month low (Nov final: 49.3)

Flash UK Services Business Activity Index
Dec: 49.0, 9-month low (Nov final: 49.3)

Flash UK Manufacturing Output Index
Dec: 45.8, 89-month low (Nov final: 49.1)

Flash UK Manufacturing PMI
Dec: 47.4, 4-month low (Nov final: 48.9)

The latest IHS Markit / CIPS Flash UK Composite PMI® data revealed a decline in private sector output for the second month running in December.

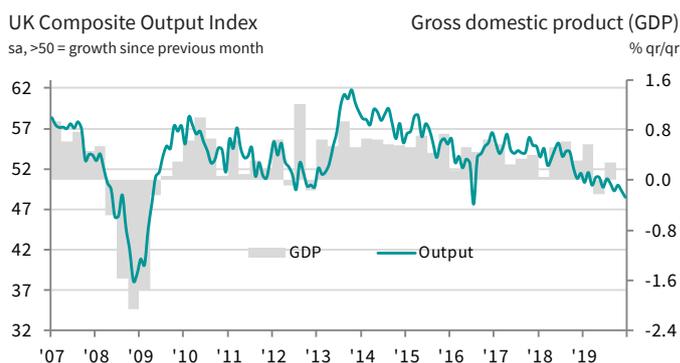
At 48.5, down from 49.3 in November, the seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – pointed to a modest reduction in overall business activity. Moreover, the rate of decline was the fastest recorded since July 2016.

December data pointed to lower volumes of service sector output and a much sharper drop in manufacturing production, with the latter falling to the greatest extent for almost seven-and-a-half years.

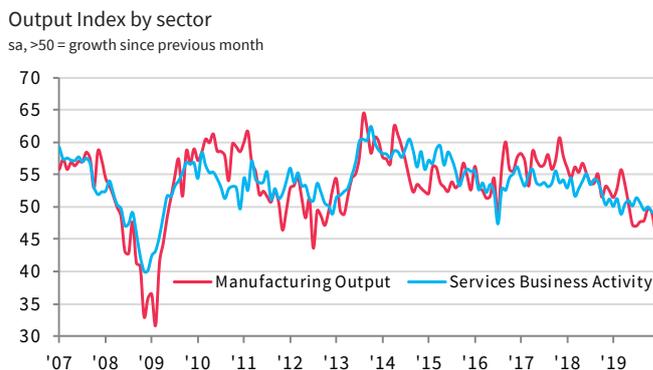
Survey respondents overwhelmingly attributed lower business activity to a combination of domestic political uncertainty, a lack of clarity in relation to Brexit and subdued global economic conditions. Manufacturers noted that efforts to trim their stocks of finished goods had acted as an additional brake on production at the end of 2019.

Private sector employment decreased for the fourth consecutive month in December, which was often linked to subdued order books and delays to decision making in the lead up to the general election. A sustained fall in new business intakes resulted in the sharpest reduction in backlogs of work since July 2016.

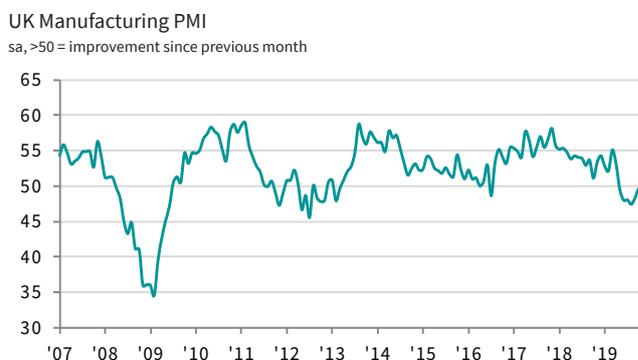
Meanwhile, input price inflation remained lower than seen
continued...



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



Sources: IHS Markit, CIPS.



Sources: IHS Markit, CIPS.

in the first half of the year. Softer cost pressures and intense competition for new work contributed to the slowest rise in prices charged by private sector firms since April 2016.

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 – dropped to 47.4 in December, from 48.9 in November, to signal the sharpest downturn in overall business conditions since August.

Faster reductions in manufacturing output and new orders were the main factors weighing on the headline PMI in December. The latest fall in production volumes was the steepest since July 2012 and incoming new work has decreased in each month since May. Survey respondents often attributed subdued demand to weaker export sales and customer destocking in December, alongside delays to spending decisions ahead of the general election.

December data indicated a steep and accelerated fall in input buying across the manufacturing sector. The latest decline in purchasing activity was the fastest since April 2009, which was linked to fewer sales and planned inventory reduction. Both stocks of purchases and post-production inventories decreased in the latest survey period.

IHS Markit / CIPS Flash UK Services PMI®

Service sector output declined only slightly during December. At 49.0, down from 49.3 in November, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index remained below the 50.0 no-change level for the second month running.

The latest reading signalled only a marginal drop in business activity, but the rate of decline was the fastest since March. Moreover, new business volumes stabilised in December, which ended a three-month period of reduction.

There were signs that the improved trend for new work had been achieved through discounting strategies and a greater squeeze on margins. Reflecting this, average prices charged by service providers increased at the slowest rate since February 2016. In contrast, input cost inflation remained strong and picked up slightly since November.

Comment

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

"December's PMI survey data sadly lacked festive cheer, indicating that the economy contracted for the third time in the past four months. The latest decline was the second-largest recorded over the past decade, and increases the likelihood that the economy contracted slightly in the fourth quarter as Brexit-related uncertainty intensified in the lead up to the general election.

"New orders fell for a fifth straight month, causing jobs to be cut for a fourth successive month as firms scaled back operating capacity in line with weakened demand.

"The principal drag on order books was falling export sales, with overseas demand for UK-produced goods and services slumping in the past two months to an extent not seen since at least 2014.

"Manufacturing production is falling at a rate exceeded only once since the height of the global financial crisis in early-2009, but output of the vast service sector has now also fallen in each of the past two months, representing the first back-to-back declines since 2009.

"Any positive aspects of the survey came largely from the sentiment indicators, with future expectations rising to the highest since June as firms hope that the election will bring clarity on the outlook and remove some of the uncertainty that has been holding back demand."

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

"The continuing Brexit-related aversion to investment and a pre-election lack of consumer confidence led to the fastest fall in business activity in December since July 2016.

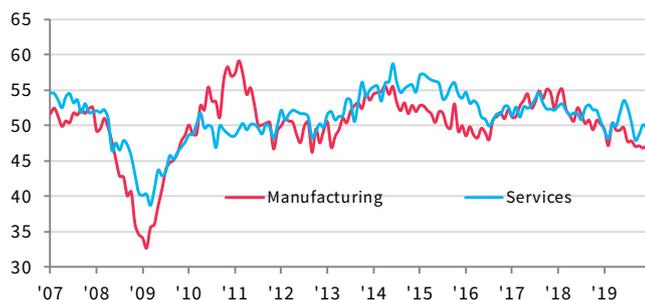
"European orders continued to dry up along with new jobs as the addition of a slowing global economy made trading conditions all the more challenging for both sectors.

"However the biggest shock came in the form of the worst output performance from the manufacturing sector since July 2012. A lack of new orders and the unravelling of pre-Brexit inventories hampered progress and supply chain managers' purchasing dropped at the fastest pace since 2009 in the absence of a pipeline of work ready and waiting. Service companies had challenges of their own in the form of another modest rise in costs for food and fuel.

"Any vestiges of hope are now pinned on the election results as the potential for reducing uncertainty may restore confidence in the months ahead. But the Brexit path is still littered with obstacles and the need for strong negotiation skills for a future EU agreement will be paramount to avoid this downward slide becoming the economic landscape for an extended period."

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.

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Survey dates and history

December flash data were collected 5-12 December 2019.

Final manufacturing data are published on 2 January, and final services and composite data on 6 January.

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.

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