News Release

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IHS Markit / CIPS Flash UK Composite PMI®

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

Input price inflation hits fresh record high in November

Key data

Flash UK Composite Output Index
November: 57.7, 2-month low (October final: 57.8)

Flash UK Services Business Activity Index
November: 58.6, 2-month low (October final: 59.1)

Flash UK Manufacturing Output Index
November: 52.9, 3-month high (October final: 51.3)

Flash UK Manufacturing PMI
November: 58.2, 3-month high (October final: 57.8)

November data were collected 12-19 November 2021.

UK private sector firms experienced another month of rapid input cost inflation, according to November PMI® data compiled by IHS Markit and CIPS. The latest increase in average cost burdens was the fastest since this index began in January 1998, driven by higher wages and a spike in prices paid for fuel, energy and raw materials.

Customer demand continued to rise sharply in November, despite the pass through of higher costs to clients, with the overall rate of new order growth accelerating to a five-month high. Service providers reported a faster recovery in new work than goods producers. Subdued momentum in the manufacturing sector again reflected constraints on growth due to the global supply chain crisis.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index registered 57.7 in November, down fractionally from 57.8 in October but comfortably above the average seen in the third quarter of 2021 (56.3). Service sector growth outpaced the manufacturing recovery in November, although the latter saw its strongest expansion for three months. Survey respondents typically commented on rising client demand due to improving economic conditions and a continued boost from the roll back of pandemic restrictions.

New order intakes increased at the strongest pace since June, fuelled by robust rises in business and consumer spending. Exports expanded only marginally, however, as a resurgence in the service economy was offset by falling sales in the manufacturing sector. The latest rise in new business from abroad in the service sector was the strongest since June 2018, while goods producers reported a drop in export orders for the third month running in November.

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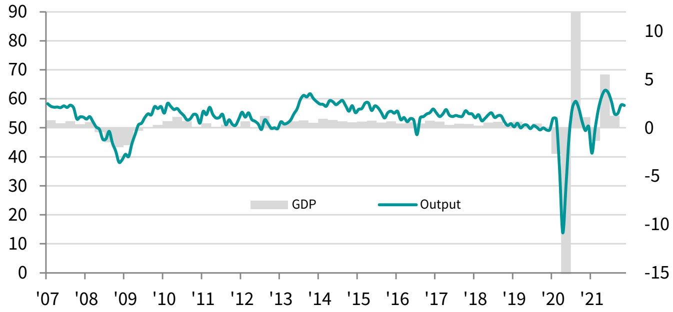
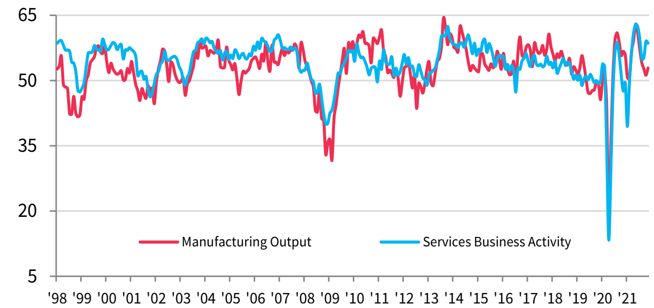
UK Composite Output Index
sa, >50 = growth since previous month

Gross domestic product (GDP)
% qr/qr



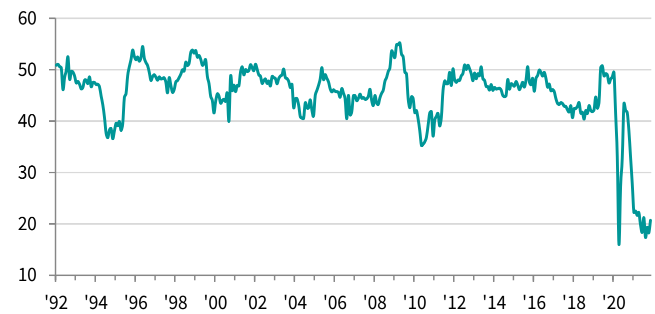
Sources: IHS Markit, CIPS, Office for National Statistics.

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



Sources: IHS Markit, CIPS.

UK Manufacturing PMI Suppliers' Delivery Times Index
sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

Strong customer demand and increased backlogs of work contributed to another marked rise in private sector employment during November. Staffing numbers have now picked up in each of the past nine months, although the latest increase was the slowest since April. Survey respondents widely noted that recruitment difficulties and unexpected staff departures for higher wages or lifestyle changes had constrained employment growth.

Around 63% of UK private sector companies reported an increase in their average cost burdens during November, while only 1% signalled a decline. The resulting index pointed to the steepest rate of input price inflation since the series began in January 1998. Record rises in operating expenses were seen in both the manufacturing and service sector during November.

Exceptionally strong cost pressures meant that prices charged by manufacturers increased at the steepest rate since the index began 20 years ago. However, service providers indicated a slight slowdown in output charge inflation to its lowest for three months, with some citing greater resistance to higher selling prices among clients.

IHS Markit / CIPS Flash UK Manufacturing PMI®

The UK manufacturing recovery gained momentum in November, but the supply chain crisis showed little sign of easing. Severe shortages of materials and staff held back growth and led to escalating input prices, with the rate of cost inflation the fastest since the survey began in January 1992.

At 58.2 in November, up from 57.8 in October, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – was the highest for three months, driven by the strongest rises in output, new orders and employment since August.

Production growth nonetheless remained weaker than seen on average in the third quarter of 2021. Survey respondents continued to indicate that shortages of critical components had disrupted supply chains and led to production stoppages. As a result, backlogs of work were accumulated to the greatest extent for five months in November.

Latest data pointed to a solid overall rise in new work, but export sales decreased slightly since October. Manufacturers noted that long lead times and Brexit trade frictions had held back sales to customers in the EU.

IHS Markit / CIPS Flash UK Services PMI®

November data pointed to a slight loss of momentum for the service sector, but growth remained much stronger than in the third quarter of 2021.

The seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index posted 58.6 in November, down from 59.1 in October. This was nonetheless well above the post-lockdown low seen in August (55.0).

In contrast to the trend for business activity, new order growth accelerated to a five-month high during November. Survey respondents widely commented on robust domestic demand, alongside a gradual rebound in export sales. The latest rise in new work from abroad was the fastest for around three-and-a-half years, boosted by looser international travel restrictions.

Despite a strong recovery in sales volumes, margins were under pressure in November due to a survey-record rise in input costs and a slower increase in prices charged to clients.

Comment

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

"A combination of sustained buoyant business growth, further job market gains and record inflationary pressures gives a green light for interest rates to rise in December.

"Output growth across manufacturing and services came in slightly faster than expected in November, albeit heavily skewed towards the service sector as factories continued to struggle with supply shortages and falling exports.

"Encouragingly, an acceleration in growth of new business hints that December should bring a strong end to the year, meaning the fourth quarter should see a welcome pick up in GDP growth after the slowdown seen in the third quarter.

"For policymakers concerned about the health of the labour market after the end of the furlough scheme, the buoyant jobs growth signalled should bring some reassuring comfort.

"A record increase in firms' costs will meanwhile further stoke fears that inflation will soon breach 5%, with lingering near-record supply delays adding to indications that price pressures may show few signs of abating in the near-term.

"The relatively poor performance of manufacturing is likely to remain a concern for some time, however, as is the potential to see tighter growth-inhibiting COVID-19 restrictions applied amid high COVID-19 case numbers both at home and now also in continental Europe. The latest survey results will none the less likely shorten the odds of an interest rate hike at the Bank of England's December meeting."

Duncan Brock, Group Director at CIPS, said:

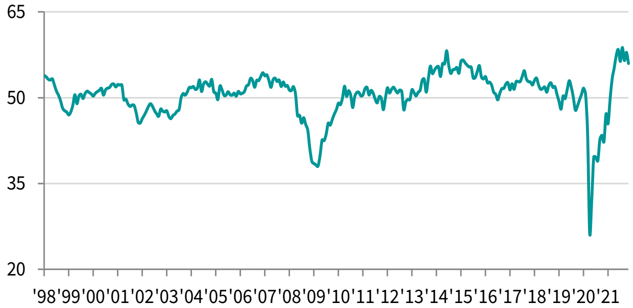
"Growth in private sector business continued in November, with a reversal of fortunes between the sectors still evident as services stormed ahead fuelled by consumer spending on hospitality but manufacturing progress was held back by supply chain snags.

"Another survey record of rising costs for fuel and wage demands led to the highest inflationary pressures since January 1998 as 63% of supply chain managers paid more for their materials. Shortages of staff and production stoppages due to a lack of supplies added to frustrations in the manufacturing sector as some machines fell silent.

"Service firms saw new orders escalate to the highest extent since June and overseas orders rose at the strongest pace since 2018 as the opportunities for international travel accelerated. The million-dollar question will be whether the effects of re-imposed restrictions in some European countries will act as a significant obstacle to this progress and whether supply chain tangles unravel a bit more to ease Christmas shortages from factories, making the last quarter of the year a pleasing end to 2021 for everyone."

UK Composite Employment Index

sa, above 50 = growth since previous month



Sources: IHS Markit, CIPS.

Contact

Tim Moore
Economics Director
IHS Markit
T: +44-1491-461-067
tim.moore@ihsmarkit.com

Chris Williamson
Chief Business Economist
IHS Markit
T: +44-207-260-2329
chris.williamson@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761-576
trudy.salandiak@cips.org

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 = 0.1 (absolute difference 0.6)

Services Business Activity Index = 0.1 (absolute difference (0.7)

Manufacturing PMI = 0.0 (absolute difference 0.4)

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 data were collected 12-19 November 2021.

Final manufacturing data are published on 1 December 2021, and final services and composite data on 3 December 2021. 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.

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.