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IHS Markit / CIPS Flash UK Composite PMI®

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

UK private sector signals fastest output growth for more than two decades. Prices charged inflation hits series-record high in May

Key data

Flash UK Composite Output Index
May: 62.0, record high since Jan 1998 (Apr final: 60.7)

Flash UK Services Business Activity Index
May: 61.8, 91-month high (Apr final: 61.0)

Flash UK Manufacturing Output Index
May: 63.2, 93-month high (Apr final: 59.2)

Flash UK Manufacturing PMI
May: 66.1, record high since Jan 1992 (Apr final: 60.9)

May data were collected 12-19 May 2021.

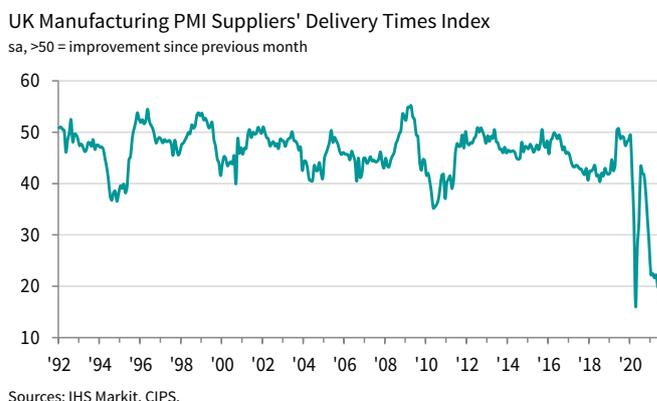
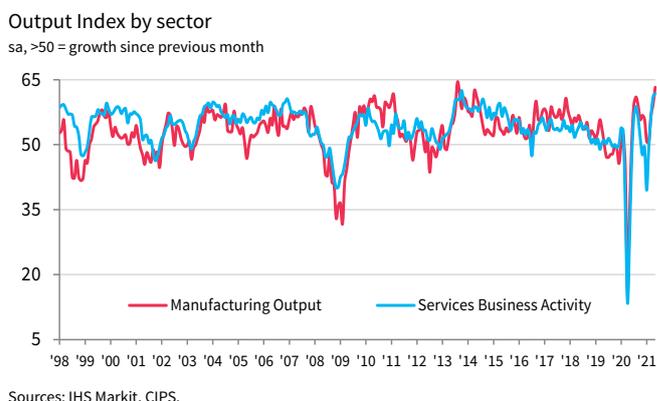
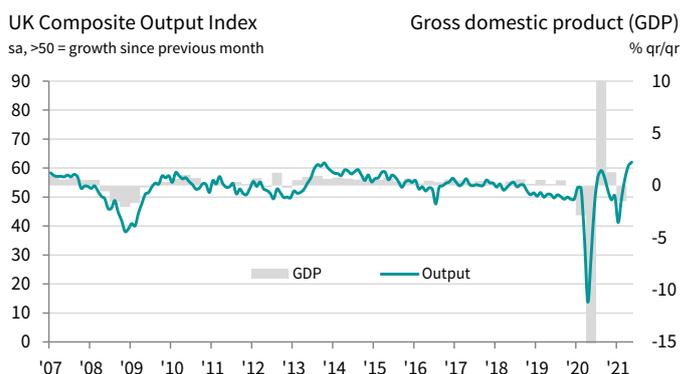
Business activity across the UK private sector expanded at a rapid pace in May, according to the latest PMI® data compiled by IHS Markit and CIPS. The rate of expansion was the fastest since the UK Composite Output Index began in January 1998, reflecting strong contributions from both manufacturing and services activity.

Looser pandemic restrictions and high levels of pent up demand meant that a swift turnaround in labour market conditions continued in May, with private sector employment rising at the quickest pace since June 2014. However, cost pressures were the strongest for nearly thirteen years. Subsequent efforts to protect margins resulted in the sharpest increase in average prices charged by UK private sector firms since this index began in November 1999.

The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index rose to 62.0 in May, from 60.7 in April, to signal the fastest rate of growth since the index was first compiled more than two decades ago. Survey respondents widely commented on a post-lockdown bounce in business and consumer confidence, alongside higher output levels due to the phased reopening of customer-facing areas of the UK economy.

May data pointed to the fastest increase in average cost burdens across the UK private sector since August 2008. Manufacturers mostly commented on price pressures due to shortages of raw materials and high shipping costs, while service providers often noted increased staff salaries. Strong customer demand helped to confer a greater degree of pricing power to private sector businesses in May, as signalled by the strongest rate of output growth since this index began nearly 22 years ago.

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Business expectations for the next 12 months edged up to a new record high during May, largely reflecting a surge in order books and a faster than anticipated recovery in demand since the lockdown period. Among the small minority of firms citing downbeat expectations, this was mainly attributed to Brexit-related issues. Some also cited worries about the prospect of prolonged international travel restrictions. However, there was a notable easing of concerns about future lockdowns and adverse impact on business activity from COVID-19.

IHS Markit / CIPS Flash UK Manufacturing PMI®

At 66.1 in May, up from 60.9 in April, the seasonally adjusted IHS Markit/CIPS Flash UK Manufacturing Purchasing Managers' Index® (PMI®) – a composite single-figure indicator of manufacturing performance – reached its highest level since the survey began in January 1992. This was helped by steep increases in output, new orders and employment, alongside a return to growth for the stocks of purchases component. The exceptionally high PMI reading also reflected a rapid lengthening of suppliers' delivery times during May (this component has a 15% weight in the Manufacturing PMI).

Manufacturing production (index at 63.2) gained considerable momentum in May, with the rate of growth the strongest since August 2013. Around 43% of the survey panel reported an increase in output since April, while only 15% signalled a decline. Moreover, among the minority reporting a drop in production, this was overwhelmingly attributed to supply issues (both materials and staff availability).

New orders increased at the strongest pace since data collection began almost 30 years ago (index at 69.1 in May), exceeding the previous record that had stood since July 1994. A rapid upturn in domestic demand was reported by manufacturing companies, driven by sales related to the reopening of the UK economy (especially the hospitality sector).

Workloads were also boosted by a turnaround in export sales, with new orders from abroad rising at the strongest pace since this index began in January 1996. Manufacturers noted a sharp improvement in demand from the US and China, alongside an easing in Brexit-related difficulties with exporting to EU clients.

Severe delays continued across global supply chains in May, as signalled by a steep lengthening of vendors' delivery times. Goods producers responded by accumulating stocks of purchases for the first time in 2021 to date. Strong demand for manufacturing inputs, higher transport bills and a spike in commodity prices resulted in the fastest increase in overall purchasing costs since this index began in January 1992.

IHS Markit / CIPS Flash UK Services PMI®

Adjusted for seasonal influences, the IHS Markit/CIPS Flash UK Services PMI® Business Activity Index reached 61.8 in May, up from 61.0 in April and above the 50.0 no-change value for the third month running. The latest reading indicated that service sector activity expanded to the greatest extent since October 2013. This was helped by the partial reopening of the hospitality sector and roll back of pandemic restrictions, alongside strong rises in spending by both consumers and businesses in May.

There were also positive near-term signals for activity in the service economy, with new business volumes and backlogs of work increasing at the sharpest rates for around seven-and-a-half years. Positive expectations for the business outlook meant that job creation accelerated to its strongest pace since May 2015.

Comment

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

"The UK is enjoying an unprecedented growth spurt as the economy reopens. Factory orders are surging at a record pace as global demand for goods continues to revive, and the service sector is reporting near-record growth as the opening up of the economy allows more businesses to trade. Business confidence has meanwhile hit an all-time high as concerns about the impact of the pandemic continue to fade.

"The strongest upturns in demand were reported for hotels, restaurants and other consumer-facing services, though improvements were reported across the board in all sectors.

"The output and order book growth seen in May, and record level of business optimism, are consistent with GDP rising sharply in the second quarter and for strong momentum to be sustained through the rest of the year, albeit with the current quarter likely representing a peak in the growth rate.

"Even with a near-record burst of hiring, the survey saw the largest ever reported rise in backlogs of uncompleted work and a severe worsening of supply chain delays as companies struggled to meet the surge in demand.

"A direct consequence of demand running ahead of supply was a steep rise in prices, hinting strongly that consumer price inflation has much further to rise after lifting to 1.5% in April. However, the inflationary spike could prove temporary, as many of the price hikes have reflected surcharges on shipping and other shortage-related issues emanating from the pandemic. As these constraints ease, price pressures should abate, but there remains a great deal of uncertainty as to how long it will take for global business and trade to return to normal functioning, especially if new virus variants appear."

Duncan Brock, Group Director at CIPS, said:

"Private sector businesses had their best month for two decades with an explosive return to activity and at the sharpest rate since the survey began in 1998. A strong influx of new work from domestic and export customers signalled the end of a covid-suppressed marketplace and job creation also expanded at the fastest pace since June 2014.

"Manufacturers keen to secure raw materials for the coming months were forward buying with greater intensity and contributing to the ongoing poor performance of supply chains as delivery times increased to record-levels. This in turn compounded the number of shortages and impacted on the costs of goods and raw materials. Manufacturing sector inflation rose to the highest since this index began in January 1992 as 76% of supply chain managers paid more for their goods. As the services sector opened up further, the rush to secure staff gave rise to the fastest increase in jobs since May 2015 and businesses competed to build capacity in their operations by paying higher wages.

"The performance of private sector business is hugely encouraging even with the obstacles of Brexit and Covid still in place, and becoming more resilient at a rate of knots. Had supply chains been less squeezed and the weather more seasonal for hospitality particularly, progress would have been off the scales."

UK Composite Employment Index

sa, above 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 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

May data were collected 12-19 May 2021.

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

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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.

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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.