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IHS Markit / CIPS Flash UK Composite PMI®

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

UK private sector growth accelerates to its strongest since June 2021 as consumer service providers gain from looser pandemic measures

Key data

Flash UK Composite Output Index
February: 60.2, 8-month high (January final: 54.2)

Flash UK Services Business Activity Index
February: 60.8, 8-month high (January final: 54.1)

Flash UK Manufacturing Output Index
February: 56.7, 7-month high (January final: 54.5)

Flash UK Manufacturing PMI
February: 57.3, unchanged (January final: 57.3)

February data were collected 10-17 February 2022.

February PMI® data compiled by IHS Markit and CIPS indicated a swift rebound in UK economic conditions after disruptions due to the Omicron variant at the turn of the year. Private sector output expanded at the fastest pace for eight months, led by a strong recovery in consumer spending on travel, leisure and entertainment.

Input cost inflation accelerated again in February, however, and came close to breaching the survey-record high seen last November. Faster rises in operating expenses at service sector firms once again offset a slowdown in cost inflation at manufacturing companies.

Private sector business activity has now increased for 12 months in a row, as highlighted by the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index registering above the 50.0 no-change threshold. At 60.2 in February, up from 54.2 in January, the index was the highest since June 2021.

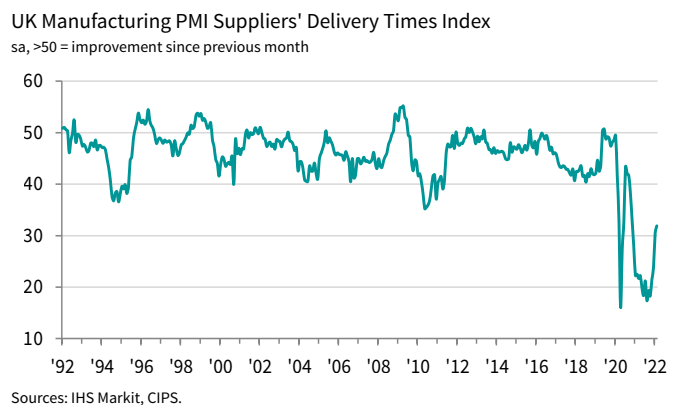
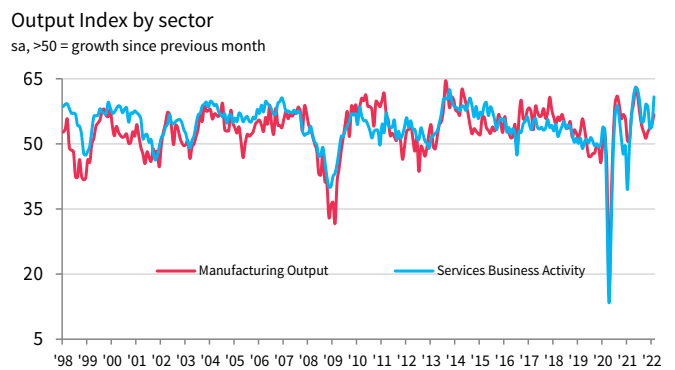
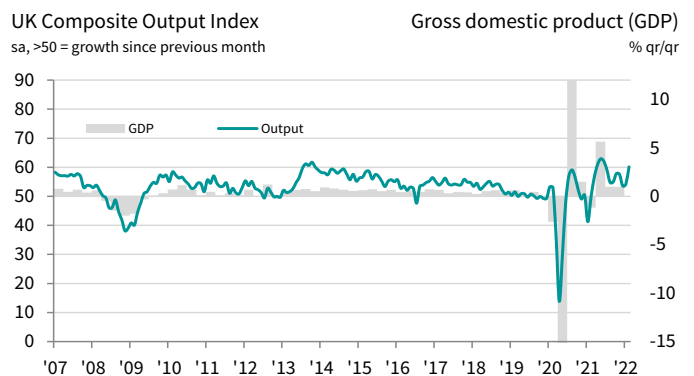
Output growth in the service economy (index at 60.8) exceeded that seen in the manufacturing sector by a wide margin (index at 56.7). In both cases, the rate of expansion accelerated sharply since January.

Production volumes in the manufacturing sector were helped by fewer raw material shortages and easing global supply chain pressures, according to survey respondents.

Private sector companies reported another steep increase in incoming new work in February. Mirroring the trend for business activity, the rate of new order growth was the fastest for eight months. Stronger client demand was widely linked to improving confidence about the UK economic outlook and roll back of pandemic restrictions.

Year-ahead business expectations picked up for the third month

continued...



running and were the most optimistic since May 2021, according to the latest survey data. Positive sentiment towards the business outlook was linked to a strong recovery in client demand after the Omicron wave, as well as long-term expansion plans and hopes that the worst phase of supply disruption has passed.

Staff recruitment accelerated again in February in response to increased workloads and favourable growth projections. The rate of private sector employment growth was the fastest since October 2021, which was largely driven by stronger job creation in the service economy.

Severe inflationary pressures persisted in February, as higher wages, energy bills and raw material costs all contributed to rising operating expenses. The overall rate of input cost inflation was the steepest since last November and the second-highest since the index began in January 1998. This resulted in another sharp increase in average prices charged by private sector firms, although the latest rise was softer than at the start of the year.

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 – registered 57.3 in February, unchanged from the index reading seen in January and well above the neutral 50.0 threshold. Stronger production growth and a steeper rise in stocks of purchases were the main factors boosting the PMI reading in February, while softer job creation acted as a drag on the headline index.

Output volumes expanded to the greatest extent since July 2021, which survey respondents widely linked to improved raw material availability and successful restocking of critical components. The seasonally adjusted Suppliers' Delivery Times Index continued to signal severe pressure on manufacturing supply chains in February, but reports of delays were the least widespread since November 2020.

Goods producers noted that staff absences due to COVID-19 and shortages of candidates to fill vacancies were the main constraints on production growth in February. Backlogs of work nonetheless decreased at the fastest rate since June 2020 as a combination of stalling new order growth and rising inventories helped to reduce pressure on business capacity.

IHS Markit / CIPS Flash UK Services PMI®

February data highlighted a rapid rebound in service sector activity after a soft patch around the turn of the year due to Omicron variant restrictions on consumer services. At 60.8, up from 54.1 in January and 53.6 in December, the headline seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled the strongest rate of output expansion since June 2021. The monthly gain in momentum (6.7 index points) was broadly in line with that seen in March 2021 as the roadmap out of lockdown restrictions began.

New order growth also accelerated sharply in February, with the speed of recovery the strongest for eight months. Survey respondents noted rising spending on travel, leisure and entertainment, alongside another month of robust demand for business services.

Exceptionally strong input cost inflation (second-highest since the survey began in July 1996) led to a further steep rise in output charges in February. That said, the latest increase in prices charged was slightly slower than January's record high.

Comment

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

"The latest PMI surveys indicate a resurgent economy in February, as business activity leapt as COVID-19 containment measures were relaxed.

"With the PMI's gauge of output growth accelerating markedly in February and cost pressures intensifying to the second-highest on record, the odds of an increasingly aggressive policy tightening have shortened, with a third back-to-back rate rise looking increasingly inevitable in March.

"However, the indications of a growing plight for manufacturers will need to be watched, and the service sector's new business index will need to be monitored for signs of the demand revival losing steam. Given the rising cost of living, higher energy prices and increased uncertainty caused by the escalating crisis in Ukraine, downside risks to the demand outlook have risen."

Duncan Brock, Group Director at CIPS, said:

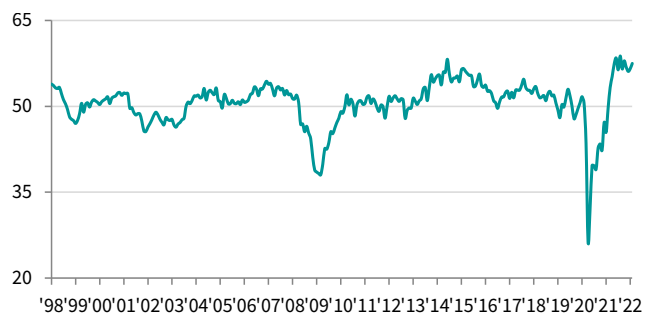
"Recovery in private sector business went up a few notches in February with the fastest uptick in new order levels for eight months and buoyant optimism the highest since May 2021.

"Steering the course to increased business activity for the twelfth month in a row was largely attributed to the number of holidays and hospitality bookings as national lockdowns became a thing of the past and consumer confidence returned. No sign of improvements in price inflation however which remained stubbornly high. With February's rate of cost inflation the second highest on record, wage rises, energy costs and continuing raw materials shortages took a sizeable chunk out of business profits.

"On the other side, manufacturers saw a subdued pipeline of work along with job hires as building capacity remained difficult with the continuing talent shortages and vacancies were unlikely to be filled. Even with the strongest month for supply chain performance since November 2020 some raw materials were still difficult to source and shipping delays remained. As the shadow of the pandemic recedes and Brexit obstacles come into view, respondents reporting ongoing delays and customs difficulties show there are challenges aplenty for the coming months."

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 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 = 0.2 (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.

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Survey dates and history

February data were collected 10-17 February 2022.

Final manufacturing data are published on 1 March 2022, and final services and composite data on 3 March 2022. 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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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.