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# IHS Markit / CIPS Flash UK Composite PMI®

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

## UK recovery loses momentum in September and business outlook drops to its weakest since May

### Key data

Flash UK Composite Output Index  
Sep: 55.7, 3-month low (Aug final: 59.1)

Flash UK Services Business Activity Index  
Sep: 55.1, 3-month low (Aug final: 58.8)

Flash UK Manufacturing Output Index  
Sep: 59.3, 2-month low (Aug final: 61.0)

Flash UK Manufacturing PMI  
Sep: 54.3, 2-month low (Aug final: 55.2)

September 2020 data were collected 11-21 September 2020.

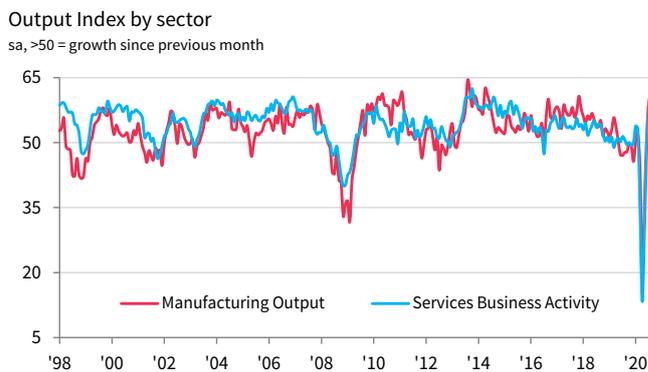
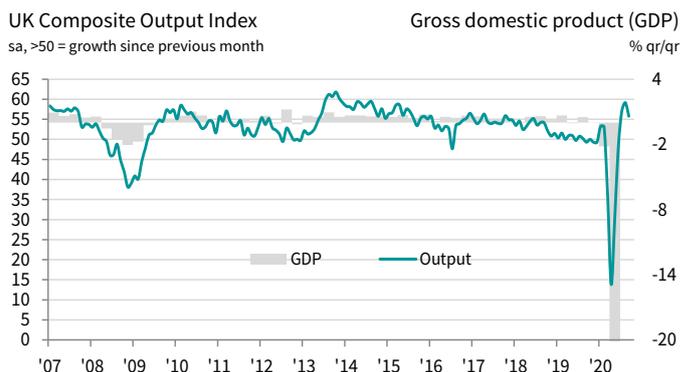
September data pointed to a setback for the recovery in UK private sector output, with the rate of expansion easing from August's 72-month high. The slowdown reflected weaker rises in both manufacturing production and service sector activity. UK private sector companies also pointed to another drop in business expectations for the year ahead, with the degree of optimism falling to its lowest since May.

At 55.7 in September, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – remained above the 50.0 no-change mark for the third consecutive month, to signal a sustained increase in private sector output. However, the latest reading was down from 59.1 in August and the lowest since June.

Where business activity growth was reported, survey respondents often commented on successfully adapting to the constraints imposed by the COVID-19 pandemic and a general boost from the reopening of the UK economy. A number of manufacturers noted that pent up customer demand had encouraged them to expand production capacity. That said, there were widespread reports that a lack of consumer confidence and persistent disruptions to business operations due to the pandemic had held back the recovery in September.

New business volumes across the private sector economy also increased at the weakest pace for three months in September. Reports from survey respondents highlighted concerns that the speed of recovery in customer demand had already peaked, with subdued economic conditions at home and abroad acting as a

*continued...*



brake on new project starts.

Employment numbers continued to decrease at a sharp pace in September, although the latest reduction was the least marked since March. Anecdotal evidence suggested that the forthcoming closure of the government's furlough scheme had accelerated decision-making on staffing levels, with firms typically commenting on redundancy measures alongside the recall of some employees. Job cuts remained much steeper in the service economy than the manufacturing sector.

While a slump in demand was by far the main factor weighing on staffing numbers, survey respondents also commented on the need to combat rising operating costs. Higher input prices have been recorded in each of the past four months, but the latest survey indicated a renewed fall in average prices charged by UK private sector firms. Exchange rate depreciation was often cited as a reason for higher input costs in September.

Looking ahead, the proportion of UK private sector firms expecting a rise in business activity during the next 12 months continued to exceed those forecasting a contraction. However, the degree of optimism eased for the second month running and was the lowest since May. Worries related to the COVID-19 pandemic were commonly cited in September, alongside Brexit-related concerns and subdued forecasts for the global economy.

### 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 54.3 in September, down from 55.2 in August but above the neutral 50.0 threshold for the fourth consecutive month.

Output and new business growth both eased from August's recent peaks, which was partly linked to a slowing of the catch-up effect while plant capacity was brought back on line through the summer. Export sales were a brighter spot in September, partly helped by rising demand from clients in Asia. Latest data signalled the fastest expansion of total new work from abroad since February 2018.

In contrast to the downward trend in business optimism reported across the private sector as a whole, manufacturing companies indicated that confidence held steady in September. Around 60% expect a rise in output during the year ahead, while only 11% forecast a reduction.

### IHS Markit / CIPS Flash UK Services PMI®

At 55.1 in September, down from 58.8 in August, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled the weakest performance for the sector in three months. Moreover, the fall in the headline index since August pointed to the first setback for the recovery since the turnaround began in May.

Some service providers reported a continued rebound in business activity during September, helped by stronger housing market conditions, rising demand for digital services and greater domestic tourism. However, large parts of the service economy continued to cite a severely negative impact on business activity from the pandemic, especially those operating in transport services, international travel, hospitality and consumer-facing areas.

Worries about renewed restrictions due to COVID-19 were a factor holding back business optimism in September, with confidence across the service sector as a whole easing to a four-month low.

## Comment

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

*"The UK economy lost some of its bounce in September, as the initial rebound from Covid-19 lockdowns showed signs of fading.*

*"It was not surprising to see that the slowdown was especially acute in services, where the restaurant sector in particular saw demand fall sharply as the Eat Out to Help Out scheme was withdrawn. Demand for other consumer-facing services also stalled as companies struggled amid new measures introduced to fight rising infection rates and consumers often remained reluctant to spend.*

*"Encouragingly, robust growth in manufacturing, business services and financial services has offset weakness in consumer-facing sectors, meaning the overall rate of expansion remained comfortably above the survey's long-run average, which adds to expectations that the third quarter will see a solid rebound in GDP from the collapse seen in the second quarter.*

*"However, jobs continued to be cut at a fierce rate in September as firms sought to bring costs down amid weak demand, meaning unemployment is likely to soon start rising sharply from the current rate of 4.1%. The indication from the survey that growth momentum is quickly lost when policy support is withdrawn underscores our concern over the path of the labour market once the furlough scheme ends next month, and raises fears that growth could fade further as we head into the winter months, especially as lockdown measures are tightened further."*

Duncan Brock, Group Director at CIPS, said:

*"The effects of covid restrictions continued to suffocate the UK economy this month as some of the recent gains in the manufacturing and services sectors were lost, and supply chains continued to suffer bouts of instability with stock shortages and longer delivery times.*

*"Manufacturing companies fared better as operations ramped up with the return of staff and with the strongest level of new export orders growth since February 2018. Primarily propped up by orders from East Asia and an awakening amongst European clients, the sector will be concerned about timely supplies to fulfil these new orders and the pressure of higher material costs.*

*"The services sector was less lucky and saw another fall in overseas demand. Businesses remained gloomy about future plans and turned instead towards shedding jobs at a distressing rate especially amongst those reliant on consumer footfall. With the announcement of more curbs on movement, it's impossible to guess how these firms can continue for the rest of the year and the knock-on effects of job losses will be brutal.*

*"With the weakest overall optimism since May when the recovery started, the fragility of the economic recovery has been revealed."*

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](mailto:economics@ihsmarkit.com).

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Survey dates and history

September flash data were collected 11-21 September 2020.

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