News Release

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IHS Markit / CIPS Flash UK Composite PMI®

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

UK private sector output growth hits five-year high as reopening gathers momentum in July

Key data

Flash UK Composite Output Index
Jul: 57.1, 61-month high (Jun final: 47.7)

Flash UK Services Business Activity Index
Jul: 56.6, 60-month high (Jun final: 47.1)

Flash UK Manufacturing Output Index
Jul: 59.8, 32-month high (Jun final: 50.7)

Flash UK Manufacturing PMI
Jul: 53.6, 16-month high (Jun final: 50.1)

July 2020 data were collected 13-22 July 2020.

July data indicated a marked improvement in business conditions across the UK private sector economy following the easing of lockdown measures to contain the spread of the coronavirus disease 2019 (COVID-19). The latest survey indicated a return to growth for the service sector and a much faster rise in manufacturing production than seen in June.

At 57.1 in July, up from 47.7 in June, the headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index – which is based on approximately 85% of usual monthly replies – registered above the 50.0 no-change value for the first time since February. Moreover, the index has now risen for three months running after hitting a survey-record low of 13.8 in April. The July expansion was the fastest recorded since June 2015.

Survey respondents commented on a gradual increase in business activity following the lockdown period during the second quarter of 2020, helped by returns to work and a phased reopening of the wider UK economy. There were also some reports that clients had started to take a more long-term view when considering their spending plans.

However, service providers often noted that business capacity remained limited and operating costs had risen due to COVID-19 mitigation efforts, while those in the manufacturing sector also commented on the likelihood of a slow return to output levels seen prior to the pandemic.

UK private sector firms indicated a solid rebound in new order volumes during July, especially from domestic customers. That said, employment numbers continued to fall sharply, with the

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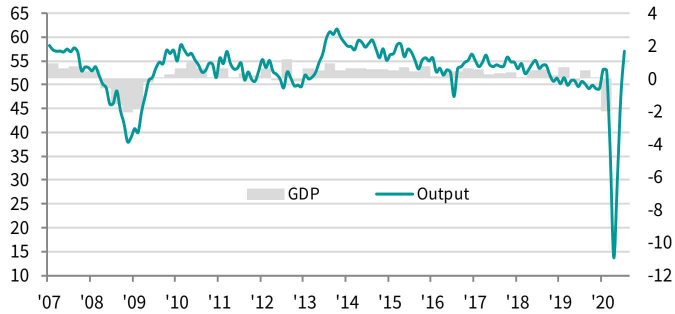
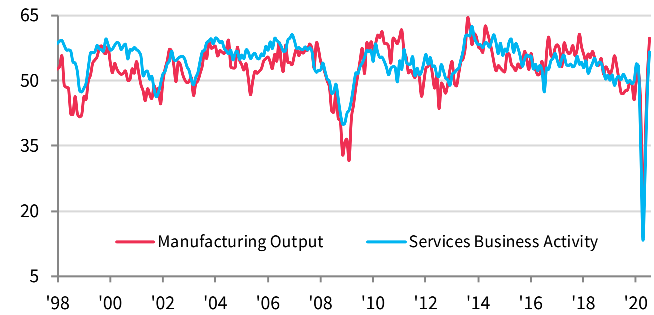
UK Composite Output Index
sa, >50 = growth since previous month

Gross domestic product (GDP)
% qr/qr



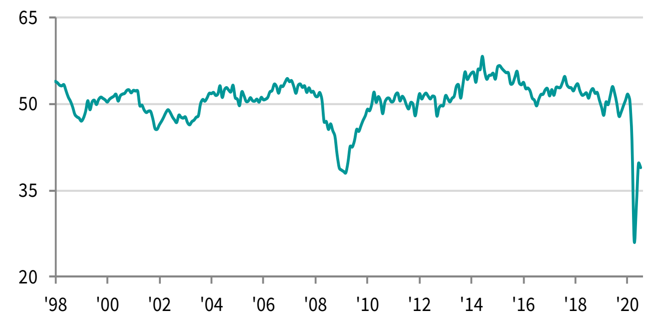
Sources: IHS Markit, CIPS, Office for National Statistics.

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



Sources: IHS Markit, CIPS.

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



Sources: IHS Markit, CIPS.

rate of job shedding accelerating since the previous month. Lower staffing levels were typically linked to redundancies in response to subdued workloads and higher operating costs.

Business sentiment towards the year ahead outlook remained well above the low point seen during March. However, the speed of recovery moderated in July, as signalled by this index rising only slightly since the previous month.

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 53.6 in July, up from 50.1 in June and the highest since March 2019. The latest turnaround in the PMI from April's low point was driven by a stronger rate of output growth and a return to rising new order volumes, while another sharp fall in employment weighed on the headline index.

July data indicated that manufacturing output expanded at the fastest pace since November 2017, which was primarily attributed to a sustained recovery in production capacity after the stoppages seen during the spring. New business intakes meanwhile expanded for the first time in five months amid reopened supply chains and a recovery in customer demand from the worst phase of the lockdown.

Meanwhile, business optimism across the manufacturing sector reached its highest level since September 2014 and highlighted increased confidence towards near-term prospects. Around two-thirds of the survey panel (66%) forecast a rise in production volumes during the year ahead, while only 12% expect a reduction.

IHS Markit / CIPS Flash UK Services PMI®

UK service providers indicated that business activity was firmly in growth territory during July. At 56.6, up sharply from 47.1 in June, the seasonally adjusted IHS Markit/CIPS Flash UK Services PMI® Business Activity Index signalled the fastest pace of expansion for exactly five years.

Survey respondents mainly linked the rise in business activity to the reopening of their own sites and those of their customers. Despite the restart of more parts of the service economy, especially leisure-related businesses, there were also reports that initial levels of demand had been weaker-than-expected. Concerns about the speed of recovery, as well as a strong upturn in non-staff costs, acted as a brake on employment numbers in July.

Latest data indicated another rapid drop in staffing levels across the service sector and the rate of decline accelerated since June. Around one-in-three survey respondents (34%) reported a fall in employment during July, while only 10% signalled an increase. There were again widespread reports that extremely weak demand had resulted in prolonged use of furlough arrangements and redundancy programmes running in parallel.

Comment

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

"The UK economy started the third quarter on a strong footing as business continued to reopen doors after the COVID-19 lockdown. The surge in business activity in July will fuel expectations that the economy will return to growth in the third quarter after having suffered the sharpest contraction in modern history during the second quarter.

"However, while the recession looks to have been brief, the scars are likely to be deep. Even with the July rebound there's a long way to go before the output lost to the pandemic is regained and, while businesses grew more optimistic about the year ahead, a V-shaped recovery is by no means assured.

"New orders showed only a relatively small rise in July, indicating that demand remains worryingly low at many firms. Hence July saw yet another sharp cut to employment levels as increasing numbers of companies scaled back their operating capacity. Many households are therefore likely to remain cautious with respect to spending with the job market deteriorating.

"Furthermore, not only do many consumer-facing businesses remain especially hard-hit by the pandemic and ongoing social distancing, we remain very concerned about the extent to which the recovery could be smothered by a lack of post-Brexit trade deals.

"July's PMI represents a step in the right direction, but there is a mountain still to climb before a sustainable recovery is in sight."

Duncan Brock, Group Director at CIPS, said:

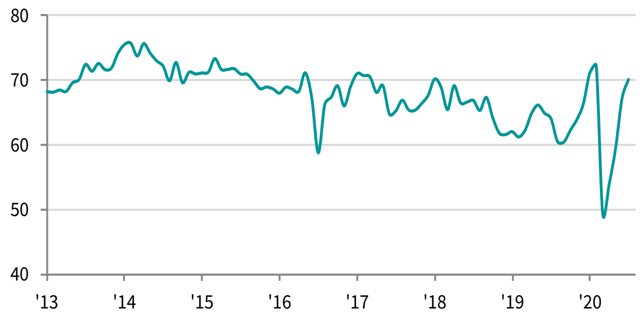
"Following last month's good results, recovery in July across the manufacturing and services sectors gathered pace as the PMI figure made a sudden jump to show the fastest growth since June 2015. This momentum was fuelled by the release of pent up demand as clients and customers returned to spending and businesses were able to open their operations as staff returned.

"Manufacturing lead the way by putting in its best output growth performance since November 2017. With business unfettered by lockdown, optimism rose to its highest levels since September 2014 amongst manufacturers, with an injection of hope that the worst impact from the pandemic was over. The services sector painted a similar picture with the best performance in five years and a sudden improvement from last month.

"Amidst this brightening picture, there were some winners and losers. Some parts of the economy performed better than others, both through luck with being early to reopen and good adaptation in responding to the challenges of the pandemic. The biggest concern is that staffing levels remained disappointingly low across both sectors, as furlough schemes came to an end and redundancies started to appear. As firms look to the future with concerns over the strength of the economy and any second wave hampering progress, Brexit looming on the horizon was also a concern that has begun to feature again for a number of businesses."

UK Composite Future Business Activity Index

sa, above 50 = growth in next 12 months



Sources: IHS Markit, CIPS.

Contact

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

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

Katherine Smith
Corporate Communications
IHS Markit
T: +1-781-301-9311
katherine.smith@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 = 0.0 (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.

Survey dates and history

July flash data were collected 13-22 July 2020. The response rate for June was not affected by shutdowns in place due to the Covid-19 outbreak.

Final manufacturing data are published on 3 August, and final services and composite data on 5 August. 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.