News Release

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IHS Markit / CIPS UK Manufacturing PMI®

Output growth slows at start of fourth quarter as supply difficulties provide severe headwind

Key findings

UK Manufacturing PMI at 57.8 in October

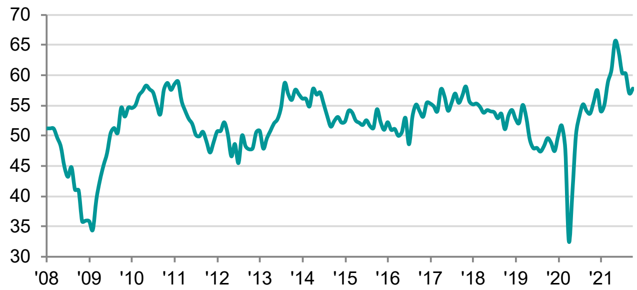
New order growth ticks higher despite drop in new export work

Selling prices rise at record pace

Data were collected 12-26 October 2021.

IHS Markit / CIPS UK Manufacturing PMI

sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

The manufacturing upturn slowed further at the start of the fourth quarter, as output growth was constrained by rising supply chain disruption, staff shortages and declining intakes of new export work.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) posted 57.8 in October, up from 57.1 in September, rising for the first time in five months. Although the PMI was boosted by improved growth of new orders and employment, alongside a steeper rise in stocks of purchases and lengthier vendor lead times, a further slowdown in output growth held back the headline index.

Manufacturing production rose only marginally and at the slowest pace for eight months. Companies reported that supply chain delays alongside shortages of raw materials, staff and certain skills had contributed to slower output growth.

Lower intakes of new export work also had an impact on production volumes. New export business fell, albeit slightly, for the second successive month. Companies reported that some overseas clients were cancelling or postponing orders due to longer lead times caused by port delays and freight capacity issues.

The domestic market held up better in comparison, offsetting some of the weakness in overseas demand. Overall new order intakes rose at a slightly quicker pace, linked to economic growth and clients increasing (or bringing forward) purchases to avoid expected supply chain delays and further price rises in coming months.

UK manufacturers maintained an optimistic outlook during October, with almost 62% expecting their level of output to increase over the coming year. That said, the overall degree of positive sentiment dipped to an eight-month low. Confidence was attributed to stronger global and domestic economic conditions, reduced disruption from Brexit, COVID-19 and supply-chain issues and also planned investment spending (including in automation).

Continued optimism at manufacturers, alongside signs of demand growth stabilising, encouraged stronger job creation during October. Employment rose for the tenth month running, with increases signalled at small, medium and large-sized enterprises.

Companies linked increased workforce numbers to higher output, recruitment campaigns, the replacement of leavers and rising backlogs of work. That said, there were also reports of ongoing staff shortages and difficulties in recruiting for certain skills. Work-in-hand rose at the third-fastest pace on record (beaten only by May and June of this year).

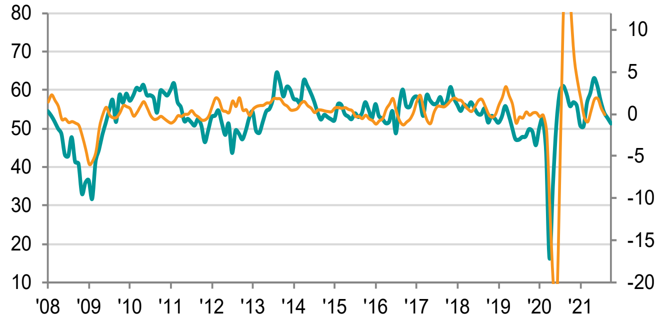
Input price inflation accelerated and remained among the highest seen in the survey history, with companies reporting a vast array of inputs as up in price. This fed through to output charges which rose to the greatest extent on record.

CIPS Chartered Institute of Procurement & Supply

PMI® By IHS Markit

UK Manufacturing PMI Output Index — Manufacturing production

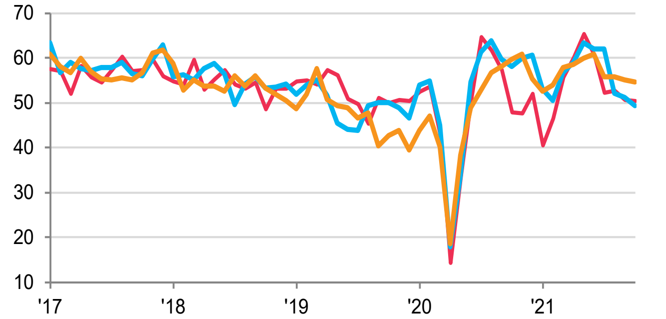
sa, >50 = growth since previous month — % 3m/3m



Sources: IHS Markit, CIPS, ONS.

PMI by goods sector — Consumer / Intermediate / Investment

sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

Comment

Commenting on the latest survey results, Rob Dobson, Director at IHS Markit, said:

"Growth of UK manufacturing production slowed further during October, with output volumes rising only slightly and at the weakest pace for eight months. Strained global supply chains are disrupting production schedules, while staff shortages and declining intakes of new export work are also stymieing the upturn. This low growth environment is occurring in tandem with a severe upshot in inflationary pressures, with manufacturers reporting both a near-record increase in input costs and record rise in selling prices.

"There are also positive notes to take from the survey. A slight improvement in new order growth, led by the domestic market, suggests the trend in demand is stabilising following its recent slowdown. Businesses also remain relatively optimistic about the year-ahead outlook, with 62% expecting production to be higher. This alongside rising backlogs of work – a by-product of material and staff shortages – is driving a recovery in jobs growth. However, these positives could potentially be at risk if supply-chain, Brexit or COVID headwinds rise during the coming months, especially if high inflation leads to higher borrowing costs."

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply:

"A slowdown in manufacturing output growth to an eight-month low is a strong indication of how the effects of staff shortages and the delivery of raw materials are continuing to impact the manufacturing sector even though overall productivity was maintained.

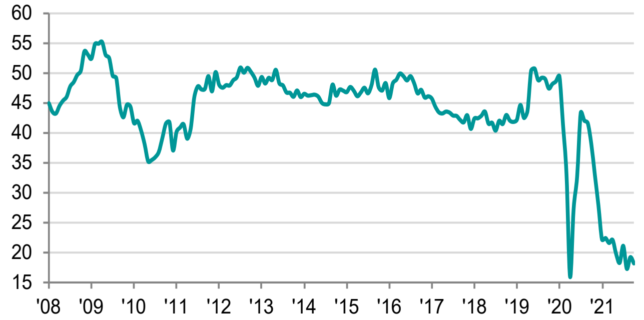
"This modest expansion was buoyed up by domestic demand as new order levels improved. However, pipelines of export work slipped back as customers in the EU and beyond became tired of waiting for their undelivered goods and resorted to cancellations. With Brexit adding to the slowdown, the issue here is not one of supply, as goods and materials are being produced, but that logistics challenges have become a nightmare for some companies.

"Levels of job creation remained strong with another rise for the tenth month in a row to meet this increased demand as the spotlight now shifts to the quality of workforces. If businesses are forced to compromise on skills to get backlogged jobs out of the door, there may be further drags on delivery times and quality as business are spooked into making decisions just to adapt and survive.

"Input price inflation continues to be a headache for manufacturers who are now charging their customers at shockingly high survey record rates. This will fuel inflation growth fears for the rest of us as the central bank's interest rate decision looms and balance is sought in the UK economy."

UK Manufacturing PMI Suppliers' Delivery Times Index

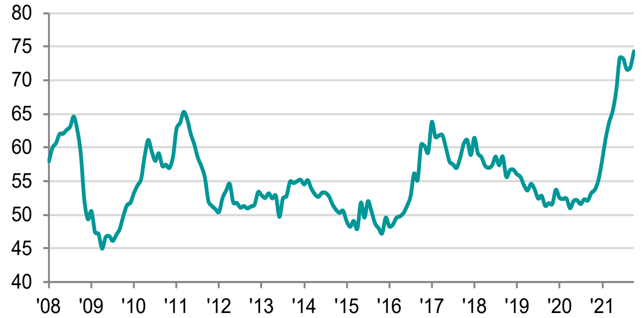
sa, >50 = faster times since previous month



Sources: IHS Markit, CIPS.

UK Manufacturing PMI Input Prices Index

sa, >50 = inflation since previous month



Sources: IHS Markit, CIPS.

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Survey methodology

The IHS Markit / CIPS UK Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 650 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey 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.

The headline figure is the 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.

Underlying 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

Data were collected 12-26 October 2021.

Data were first collected January 1992.

Flash vs. final data

Flash data were calculated from approximately 85% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.4 in absolute terms).

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. 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.
ihsmarkit.com/products/pmi.html.