News Release

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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing output contracts at fastest pace in almost seven-and-a-half years

KEY FINDINGS

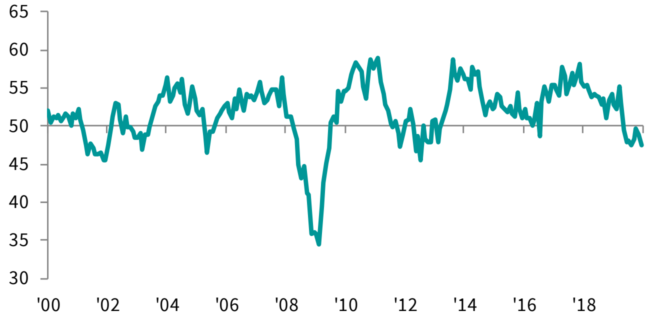
UK Manufacturing PMI at 47.5 in December (Flash: 47.4)

Output, new orders and new export orders fall sharply

Job losses reported for ninth straight month

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

The downturn in the UK manufacturing sector deepened at the end of 2019, as output contracted at the fastest pace since July 2012. Production fell in response to declining intakes of new work from both domestic and overseas clients, while efforts to reduce Brexit safety stocks also stymied output volumes.

The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to 47.5 in December, the second-weakest level for almost seven-and-a-half years (the PMI stood at 47.4 in August 2019). The PMI has posted below the neutral mark of 50.0 in each of the past eight months. Data were collected between the 5-18 December.

Manufacturing production decreased at the sharpest pace in almost seven-and-a-half years. Contractions were signalled in both the intermediate (fastest in five months) and investment goods sectors (quickest in 89 months), whereas a marginal expansion was signalled in the consumer goods category.

The level of new work received declined for the eighth successive month in December. The decline in total new business was among the steepest registered over the past seven-and-a-half years, as inflows weakened from both domestic and overseas clients. Lower new business intakes were linked to ongoing concerns surrounding the economic, global trade and political outlooks. New export business fell for the second month running.

Similar to the trend in output, intermediate and investment goods producers saw steep reductions in both total new work and new export orders. The declines seen in investment goods were especially marked and the sharpest in over a decade. In contrast, consumer goods producers saw improved intakes of new business from domestic and overseas markets.

Business sentiment remained positive in December. Over 43% of companies forecast output would be higher one year from now, compared to only 10% anticipating a contraction. Optimism was linked to reduced uncertainty, new product launches, increased efficiency and improved client confidence. The degree of confidence nonetheless remained subdued by the historical standards of the survey and below that registered in November.

Manufacturing employment was reduced for the ninth successive month in December, albeit at the weakest pace since August. Job losses were registered across the consumer, intermediate and investment goods sectors and also at SMEs and large-sized companies. Lower headcounts reflected weaker demand, productivity gains, cost reduction initiatives, ongoing uncertainties and recruitment freezes.

Input prices rose slightly for the first time in three months during December. Manufacturers responded by raising output charges to the greatest extent for six months. Holdings of both purchased and finished goods inventory decreased, mainly due to firms reducing Brexit safety stocks. The former also reflected a steep cut in input buying volumes.

COMMENT

Rob Dobson, Director at IHS Markit, which compiles the survey:

"The UK manufacturing sector took a turn for the worse at the end of 2019. Output fell at the quickest pace in seven-and-a-half years as new order inflows decreased and Brexit safety stocks were reduced. With demand weak and confidence remaining subdued, input purchasing was pared back sharply and jobs cut for the ninth successive month.

"The downturn is still being hardest felt at companies reliant on investment and business-to-business spending. The steepest reduction in output was at investment goods producers, as continued uncertainty meant new orders and new export business suffered the steepest contractions in over a decade. Intermediate goods producers also experienced marked drops in output and new work received. There was a pocket of growth, however, as consumer goods production edged higher. On this basis, it looks like UK manufacturing and the broader economy may both start the new decade as they began the last, too reliant on consumer spending and still waiting for a sustained improvement in investment levels."

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

"The pace of manufacturing's decline in December will set alarm bells ringing as production levels sank at their fastest levels since July 2012 and with no sign of immediate recovery in sight.

"As the downturn deepened, Brexit uncertainty continued to dominate the business landscape and impact on client confidence. Combined with the effects of a slowing global economy, new orders from domestic and export markets dried up at one of the fastest rates seen in seven-and-a-half years.

"This impact trickled down to job creation strategies, as the pace of job losses intensified and companies were reluctant to commit to additional expense. Businesses continued to be squeezed as input prices rose as a result of shortages and transportation costs.

"In the closing stages of the year the sector has ended on a dreary note. Though the result of the General Election will bring some clarity to businesses, it still feels like a long road ahead for manufacturing to recover its losses from this year and there will still be some obstacles to overcome in 2020."

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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 600 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.

December 2019 data were collected 5-18 December 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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