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IHS MARKIT / CIPS UK MANUFACTURING PMI®

Output, new orders and employment fall at record rates as COVID-19 emergency continues

KEY FINDINGS

UK Manufacturing PMI at 32.6 in April (Flash: 32.9)

Business sentiment remains close to record low

Series-record lengthening of supplier lead times

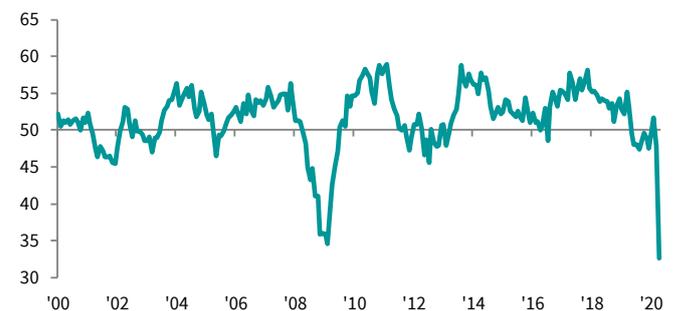
The public health emergency caused by the outbreak of coronavirus disease 2019 (COVID-19) caused substantial disruption across the UK manufacturing sector and its supply chains in April. Manufacturing production, new orders and employment all contracted at the fastest rates in the 28-year survey history, while vendor lead times lengthened to the greatest extent so far. The global pandemic also hit overseas demand, leading to a series-record drop in new export business.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a record low of 32.6 in April, down from 47.8 in March. The fall in the Manufacturing PMI (which is a composite of five indices) was softened by a comparatively modest reduction in stocks of purchases and record lengthening of vendor lead times (which has an inverse contribution to the PMI level). Survey data were collected between 7-27 April. Response levels were similar to those observed before the outbreak.

The survey-record contractions in output, new orders, employment and new export business were felt across the manufacturing sector, with series-record declines in each of these variables seen across the consumer, intermediate and investment goods sub-industries. Companies linked the declines to the consequences of the COVID-19 outbreak, particularly regarding company closures, weak domestic and global demand and labour shortages (following job losses and staff furloughs). In the few cases where companies reported an increase in either output or new orders, this was generally from those producing (or repurposed to produce)

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

medical- or food-related goods.

Business sentiment also remained low by the historical standards of the survey in April. Although companies still forecast (on average) that output would be higher one year from now, the degree of positive sentiment was up only slightly from March's record low. While the hardship caused by the ongoing pandemic continued to depress confidence, some manufacturers indicated that an end to (or at least an easing of) the COVID-19 crisis would hopefully lead to a restart of economic activity both at home and abroad.

Vendor lead times lengthened to the greatest extent in the 28-year survey history, reflecting logistical issues, border difficulties for overseas goods and delays to shipping and air freight. Some manufacturers also experienced constraints due to closures or capacity shortages at suppliers. This was despite a series-record reduction in purchasing activity. Stocks of inputs and finished products both decreased during the latest month.

Price inflationary pressures remained only mild during April. Average input costs rose only slightly and to the least marked extent in the current five-month sequence of increase, as higher prices resulting from shortages and transportation costs were partly offset by lower oil prices and some suppliers lowering their charges in the face of weak demand. Selling price inflation was at a near four-year low.

COMMENT

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

“UK manufacturing suffered its worst month in recent history in April, as output, orders books and employment all fell at rates far surpassing anything seen in the PMI survey's 28-year history. Huge swathes of industry were hit hard by company closures, weak global demand, lockdowns and social distancing measures in response to COVID-19. The only pockets of growth were seen at firms making medical and food products.

“Supply-chains also felt the full force of the outbreak as average supplier delays rose to the greatest extent seen since PMI records began. International goods flows were constrained by delays in air freight, shipping and border control issues, and staff shortages often limited production.

“Inflationary pressures are remaining in check at the moment, linked to weak demand and collapsing global oil prices, but persistent shortages could start to drive some prices higher, notably for food.

“The outstanding question remains how long the current restrictions will need to remain in place, and which sectors can start to safely reopen. The pressure is mounting, as the longer the global economy remains in lockdown the greater the cost to industry will grow, and the greater the likelihood that more jobs will be cut.”

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

“Last month's dismal predictions became a reality in April as the manufacturing sector took an abrupt nosedive into the red with purchasing activity, production and new orders falling at the fastest rates in the near 30-year survey history.

“There was only one reason for such a ruinous result – the COVID 19 coronavirus pandemic which affected supply chains from beginning to end. Domestic customers deferred orders and export customers thrashed around trying to source a dwindling number of raw materials to keep their supply chains operating before finally giving up. Complicated by government edicts terminating normal business activity, UK companies were forced to put factories on lockdown anyway bringing their operations to a complete stop.

“With the expectation of potential price rises to come, some firms resorted to stockpiling measures in an attempt to beat future supply pandemonium which only exacerbated the problem of dysfunctional supply chains. Some sectors such as food and medical supplies were able to continue but obstacles in logistics and transportation as borders closed and social restrictions were implemented meant usual activity was beyond difficult.

“There is no comparable time in history to make predictions against but as production ramps up again in the Far East, the sector remained optimistic that in a year's time the operating environment will resemble some new normality.”

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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.

April 2020 final Manufacturing PMI data were collected 7-27 April 2020.

The final United Kingdom Manufacturing PMI follows on from the flash estimate which is released around a week earlier and is typically based on approximately 85%-90% of total PMI survey responses each month. The April 2020 flash was based on 88% of the replies used in the final data.

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.

ihsmarkit.com/products/pmi.html

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