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## IHS MARKIT / CIPS UK MANUFACTURING PMI®

### Manufacturing upturn constrained by COVID-19 restrictions and supply-chain disruptions

#### KEY FINDINGS

UK Manufacturing PMI at 54.1 in January (3-month low)

Supply-chains stretched by Brexit and COVID restrictions

Input cost and selling price inflation both accelerate

The upturn in the UK manufacturing sector slowed sharply at the start of 2021. Output growth eased and new orders fell slightly as producers faced weaker inflows of new export work and temporary supply-chain disruptions caused by COVID-19 restrictions and transport delays (especially at ports) following the end of the Brexit transition period.

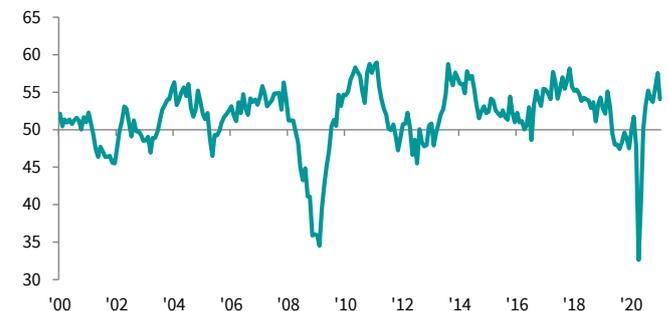
Survey data were collected 12-26 January.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a three-month low of 54.1 in January, down from December's three-year high of 57.5. Declining new order intakes and a steep reduction in input stocks both weighed on the PMI level.

The main positive influence on the PMI was a marked lengthening of supplier lead times, which (apart from April 2020) was the greatest registered in the near 30-year survey history. Although this is usually a signal of stronger demand resulting from economic growth, the recent trend in vendor performance has mainly reflected supply-chain disruptions caused by COVID-19 restrictions and the end of the Brexit transition period.

Manufacturing output increased for the eighth successive month in January. However, the rate of expansion slowed to its joint-weakest during that sequence, as total new order intakes fell slightly due to lower intakes of new export business. Companies reported that the national lockdown, end of the Brexit transition period, client closures and renewed uncertainty at the start of the year all contributed to the decrease in new orders. There were also reports of

Manufacturing PMI  
sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

EU-based clients having already brought forward purchasing to avoid expected disruption.

Sector data indicated that consumer goods was the weakest performing sub-industry in January, seeing steep drops in both output and new orders. In contrast, the intermediate and investment categories saw continued expansions. Small manufacturers meanwhile saw output and new orders fall, in contrast to upturns at medium- and large-scale producers.

Manufacturing employment rose for the first time in a year during January, in part reflecting efforts to combat rising levels of work-in-hand at several companies. However, the rate of job creation was only marginal. Input buying activity fell slightly for the first time in seven months, a marked reversal from the near-record increase at the end of 2020.

Input price inflation rose to a four-year high in January, reflecting raw material shortages, transport delays and market forces. Increased costs were passed on to clients, leading to the steepest inflation of selling prices for 28 months.

Stock holdings were reduced in January. Input inventories fell as some manufacturers struggled to replenish where needed due to raw material shortages and delivery delays from suppliers (especially for imports). Stocks of finished goods also fell at a solid clip.

## COMMENT

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

*“Whereas many countries are seeing manufacturers provide a much-needed support to economic growth as the service sector is hit by COVID-19, the UK’s manufacturing sector has come close to stalling. A mixture of harsher COVID-19 restrictions and Brexit led to near-record supply-chain disruptions, lower exports and increased costs. The impact was felt most at consumer goods producers, who reported steep falls in output and new orders. There were also early signs that smaller companies were being hit harder by the tougher operating environment than medium- and larger-scale producers.*

*“The hope is that the current constraints will start to ease once COVID-19 restrictions are lifted, vaccines are rolled out and ports, suppliers and manufacturers adapt to the new trading environment post-Brexit. If so, supply, demand and production bottlenecks should slowly work through the system and growth will not be knocked too far off course through 2021. However, there is no swift end in sight to these headwinds, and the longer the current circumstances remain the greater the potential damage to the sector and its suppliers.”*

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

*“The start of the year was a damp squib as the index dropped back to last October’s levels, and new order levels eased, in sharp contrast to the sustained momentum in the sector’s recovery at the end of the pandemic year.*

*“Primarily, it was SMEs who bore the brunt of the downturn, as they struggled to cope with increased demands in paperwork, border controls and the effects of port disruption where corporates with larger resources were able to tap into current stocks and find workarounds to these obstacles.*

*“As the delivery of important goods was nearly totally immobilised in some sectors, this resulted in overall manufacturing cost inflation rising to a four-year high and customers subsequently saw charges rise at rates not seen for 28 months. The price of transportation difficulties and competitive pressures could not be absorbed by hard-hit businesses any longer.*

*“A marginal rise in job creation was a small ray of sunshine, but starting at a low base, we can only hope that this will build up in the coming months driven by the impetus from vaccine programmes. The sector appeared to agree, with optimism amongst manufacturers improving from last month’s six-month low.”*

## CONTACT

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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.

January 2021 final Manufacturing PMI data were collected 12-26 January 2021.

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 January 2021 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](mailto: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](https://ihsmarkit.com/products/pmi.html)

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