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IHS Markit / CIPS UK Manufacturing PMI®

Rising supply chain constraints lead to slower production growth and rising input prices in August

Key findings

UK Manufacturing PMI at 60.3 in August

Output growth slowdown exacerbated by input supply issues

Input cost and selling price inflation remain close to survey records

Data were collected 12-25 August 2021.

UK manufacturers continued to face rising constraints caused by supply chain issues during August. Shortages of inputs and delivery delays disrupted production schedules, leading to slower output growth, and also resulted in marked increases in input prices. Companies nonetheless still achieved solid gains in output, new orders and employment.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a five-month low of 60.3, a tick below July's 60.4 but above the long-run average of 51.9. The PMI has signalled an improvement in operating performance in each of the past 15 months.

Manufacturing output rose again in August, albeit to the weakest extent since February. Growth eased particularly sharply at intermediate goods producers. Companies linked higher output to new order gains and the ongoing process of re-opening global economies.

Incoming new business rose in August, reflecting increased inflows from both domestic and overseas markets. On the export front, manufacturers reported increased orders from clients in Europe, China, the US, Asia and South America.

The outlook for the UK manufacturing sector also remained bright in August. Almost 66% of companies indicated that they expect output to rise over the coming year, compared to only 4% forecasting a decline. Confidence rose to a three-month high, reflecting expectations of continued economic revival, stronger global demand, investment plans and hopes that current supply issues would either lessen or even

IHS Markit / CIPS UK Manufacturing PMI
sa, >50 = improvement since previous month



Sources: IHS Markit, CIPS.

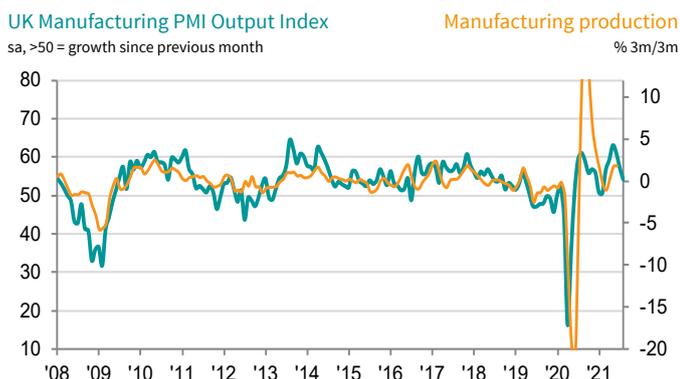
be fully resolved.

Robust confidence among manufacturers supported further job creation during August. Employment rose for the eighth month in a row and to one of the greatest extents in the survey history (albeit also the slowest since April). Staffing levels were raised to increase capacity, meet rising demand requirements and start addressing backlogs of incomplete work. However, there were also reports from some manufacturers of both labour and skills shortages.

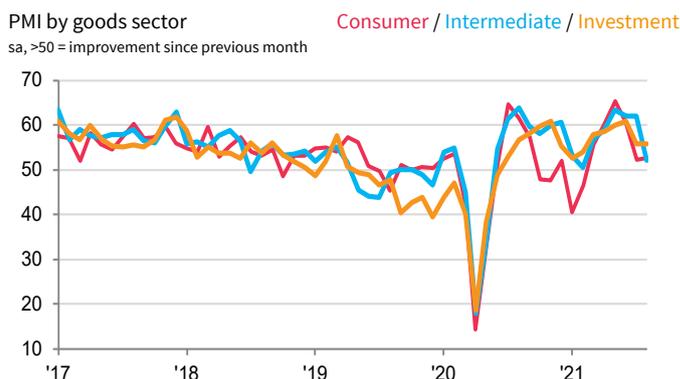
Price inflationary pressures continued to build in the UK manufacturing sector in August. Average purchase prices rose at the fourth-fastest rate in the survey history, beaten only by the cost increases seen during May, June and July. A wide range of items were reported as up in price, as shortages and delivery issues left rising demand chasing reduced supply.

Average supplier lead times lengthened to the second-greatest extent in the survey history during August. The only time when delivery delays have been more pronounced was in April 2020 during the first COVID-19 lockdown. Input shortages, shipping delays, a lack of port capacity, transportation issues, Brexit and shortages of logistic industry staff all contributed to delivery delays.

Manufacturers were able to pass on a part of the increase in costs to clients during August. Average selling prices also rose at one of the quickest rates on record.



Sources: IHS Markit, CIPS, ONS.



Sources: IHS Markit, CIPS.

Comment

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

“Severe disruptions to supply chains and raw material shortages eroded the growth momentum of UK manufacturing in August.

“Although solid gains in output and new orders were achieved, companies reported that production, delivery and distribution schedules were experiencing substantial delays.

“A wide range of factors contributed to the disruption, including port capacity issues, international shipping delays, the re-imposition of COVID restrictions at some key points in global supply networks and ongoing issues post-Brexit. With all of these factors likely to persist for the foreseeable future, manufacturing could well see a further growth slowdown in the coming months.

“The impact of supply issues is also feeding through to rapid price inflation. Rates of increase in both input costs and selling prices remained close to record highs in August, as rising demand chased constrained supply and companies moved to pass on price increases to clients and consumers alike. This is affecting most markets, but especially autos, metals, food stuffs and electronics.

“Business confidence remained elevated despite the widespread shortages as firms focused on the longer-term outlook and brought back furloughed workers. However, the solid jobs growth seen in August could soon wane if supply disruptions and shortages of both labour and required skills continue to worsen.”

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

“August’s results were almost a carbon copy of the previous month where recovery for manufacturers continued, but there were signs of stagnation and the rise in overall activity slipped back to the weakest for half a year. Businesses were thwarted by brittle supply chains struggling with shortages, port and transportation difficulties as delivery times stretched not to days or weeks, but months for some goods.

“New orders continued to flow in for the seventh month in a row, but a mismatch between supply and demand is affecting the UK economy. There is a question mark over whether supply chain managers have ordered early enough to fulfil customer needs, as the continuing deterioration in supplier performance, close to last year’s pandemic lows could result in meagre offerings on shelves in the shops in the coming months.

“The sector is still optimistic about business opportunities in the next twelve months but there are significant difficulties ahead as a lack of labour and skills, coupled with escalating price inflation on even basic materials dampens prospects for manufacturing for the rest of the year.”

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 12-25 August 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).

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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.