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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing growth improves at end of third quarter

KEY FINDINGS

UK Manufacturing PMI rises to 53.8 in September

Output and new order growth both accelerate

Input cost and output charge inflation strengthen

The end of the third quarter saw a mild improvement in the performance of the UK manufacturing sector. Rates of expansion in output and new orders gained traction, while the trend in new export business saw a modest recovery following August's solid contraction. On the price front, rates of input cost and output charge inflation both strengthened.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) posted 53.8 in September, following an upwardly revised figure of 53.0 in August (originally published as 52.8). The PMI has remained above the neutral 50.0 mark for 26 months.

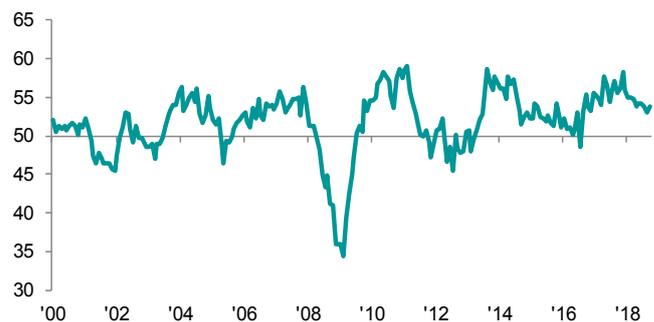
September data signalled a broad-based improvement in business conditions. PMI readings for the consumer, intermediate and investment goods sectors all remained in expansion territory, with stronger rates of increase signalled in the latter two industries.

UK manufacturing production rose for the twenty-sixth successive month in September, with the rate of increase rising to a four-month high. Companies linked output growth to inflows of new business, rebuilding inventories and efforts to clear backlogs of work.

September saw a solid increase in new orders, reflecting improved inflows from the domestic and export markets. Foreign demand posted a mild recovery following the solid contraction registered in August, with companies linking growth to higher sales to the USA, Europe, Canada, Scandinavia and Russia.

UK manufacturing employment also increased at the end of

Manufacturing PMI
sa, >50 = improvement since previous month



the third quarter, as jobs growth at SMEs offset further cuts at large-scale producers. The latest rise in staffing levels reflected efforts to meet the dual needs of work on new and existing contracts. Backlogs of work fell for the ninth successive month.

September data signalled a strengthening of both input cost and output price inflationary pressures. Purchasing costs rose at the quickest pace since June, as prices rose for electronic components, energy, food products, metals, paper, plastics, resins and timber. Some firms noted that the exchange rate, supply shortages and global inflationary pressures had also led to cost increases.

Shortages of certain raw materials also contributed to a further lengthening of average vendor lead times. Supplier delivery times increased for the twenty-ninth successive month, with the extent of the lengthening remaining steeper than that generally seen (on average) during the survey history.

Business optimism rose in September, with over 53% of companies expecting production to increase over the next 12 months. Firms' optimistic outlook was attributed to new capacity, organic growth, improved sales, investment in new equipment and planned new product launches. However, some manufacturers also noted that Brexit and exchange rate movements were making forecasts less certain.

COMMENT

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

“September saw a mild improvement in the performance of the UK manufacturing sector. Domestic market demand strengthened, while increased orders from North America and Europe helped new export business stage a modest recovery from August’s contraction. Business confidence also rose to a three-month high.

“Despite these causes for short-term optimism, conditions in manufacturing are still relatively lacklustre overall. Based on its historical relationship with official ONS data, the latest survey is consistent with output expanding at only a moderate pace. Although total exports rose, exports of goods used as inputs by other manufacturers fell for the third straight month, ending the worst quarter for over three years for such exporters, suggesting that foreign companies may be sourcing less from UK-based component suppliers.

“Many UK manufacturers also noted that the backdrop of Brexit and a volatile exchange rate were making any forecasting activity increasingly difficult, with uncertainty adding to reluctance to hire. Headcounts fell at larger companies for a second successive month.

“On the price front, both output charges and input costs rose at faster rates in September, which may exert further upward pressure on consumer prices in future.”

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

“Manufacturing remained calm and carried on this month with a barely perceptible rise in overall production, but feeling more positive than in the last three months.

“With the highest output for four months and in spite of growth in purchasing activity easing to an 18-month low, this small rise in new orders and productivity contributed to the sector holding steady. Domestic demand improved from August’s disappointing figures and export orders also showed a marginal improvement.

“Suppliers were the biggest disruptors however, as delivery times lengthened again to over two years of stretched capacity, and respondents cited transport delays and a shortage of materials as root causes this month. This added to cost pressures with manufacturers suffering the fastest inflationary rises for essential materials since June and forcing their hand to pass on more costs to customers.

“On the jobs front, corporates and SMEs demonstrated differing views about the near-term. Larger companies shed jobs but smaller businesses took on staff to improve their operating capacity. Similarly as some companies were improving their stock levels to ensure supply was assured during the Brexit countdown and to beat future price increases, others were reducing stock levels in anticipation of a decrease in opportunity in spring 2019.

“This all highlights once again there are still weaknesses in the sector and that doubt remains deep-seated until a robust Brexit deal is signed on the dotted line.”

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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.

September 2018 data were collected 12-25 September 2018.

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](https://www.ihsmarkit.com/products/pmi.html).

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