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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing output and new orders fall at quickest rates since mid-2012

KEY FINDINGS

UK Manufacturing PMI at 47.8 in March (Flash: 48.0)

Business optimism slumps to series-record low

Supply chain disruption intensifies

The outbreak of coronavirus disease 2019 (COVID-19) and subsequent mitigation efforts across the world led to a substantial contraction of UK manufacturing production during March. Output fell to the greatest extent since July 2012 following a similarly severe reduction in intakes of new business. The impact was also felt in the labour market and through supply chains. Transport delays and shortages of raw materials led to the steepest increase in vendor lead times in the 28-year survey history, further disrupting production.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a three-month low of 47.8 in March, down from 51.7 in February and the flash estimate of 48.0.

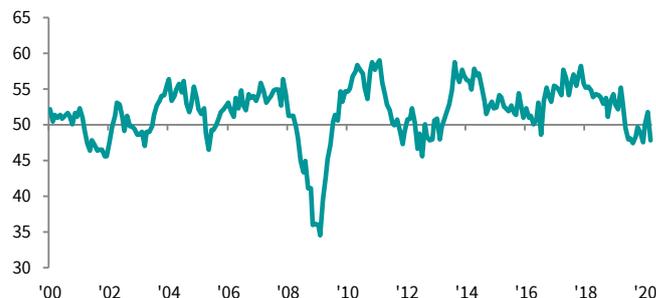
The downturns in output and new orders were widespread, with contractions seen across the consumer, intermediate and investment goods sub-industries. Manufacturers reported that disruption resulting from the COVID-19 outbreak, lower market confidence and company shutdowns had all contributed to the drops in production and new business. Business sentiment was also affected, falling to a series-record low.

The latest decrease in total new order intakes reflected reduced demand from both domestic and overseas markets. New export business declined to the greatest extent since July 2012, as the outbreak of COVID-19 led to lower demand from across the global economy. There were also reports of project delays, cancellations and transportation issues.

Employment fell for the eleventh time in the past 12

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

months in March, and at the fastest rate since July 2009. Where job losses were reported, these were linked to lower levels of production and new orders, in many cases due to the outbreak of COVID-19. Redundancies, workforce restructuring, natural wastage and only replacing essential positions all contributed to lower staff headcounts.

Restrictions in place around the world in response to the COVID-19 pandemic had a noticeable impact on supply chains during March. Vendor delivery times lengthened to the greatest extent in the 28-year survey history amid reports of input shortages, transport disruption and delays in receiving goods from overseas. International shipping and border delays were also mentioned.

Purchasing activity was reduced during March. Manufacturers linked lower levels of input buying to the COVID-19 outbreak, falling output requirements, reduced demand and efforts to protect cash flow. Holdings of pre- and post-production inventory also both decreased during the latest survey month. This mainly reflected production delays and longer times taken to receive input purchases. Conversely, there were some firms that reported attempts to build up stocks in response to the uncertainty caused by COVID-19.

Price inflationary pressures remained relatively contained, with input costs and output charges only rising at mild rates. Purchase price inflation slowed slightly.

COMMENT

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

“The latest survey numbers underscore how the global outbreak of COVID-19 is causing huge disruptions to production, demand and supply chains at UK manufacturers. Output and new orders fell at the fastest rates since mid- 2012, while supplier delivery times lengthened to the greatest extent in the 28-year survey history as shortages grew more widespread. The resulting job losses took the rate of decline in employment to its highest since July 2009.

“The effects were felt across most of manufacturing, with output falling sharply in all major sectors except food production and pharmaceuticals. The transport sector, which includes already-beleaguered car-makers, suffered the steepest downturn.

“With restrictions aimed at slowing the spread of the virus expected to stay in place for some time, expectations of further economic disruption and uncertainty meant business optimism slumped to a series-record low. However, on a slightly more positive note, manufacturers still expect to see output higher in one year’s time.”

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

“The manufacturing sector was knocked sideways by the impact of COVID-19 and into contraction territory, experiencing some of the most challenging trading conditions since PMI records began.

“Closed borders, significant shipping delays and a reluctance from clients to authorise new instructions resulted in the sharpest contraction in orders from domestic and overseas markets since 2012. Business optimism dropped to historical lows as manufacturers struggled to get essential raw materials, whilst some fortunate few were able to stockpile to a limited extent before the opportunities vanished.

“With supplier delivery times at their worst for 28 years these fast-moving challenges affected every link in manufacturing supply chains and on an unprecedented scale. Inevitably, job creation suffered as a result as employment was reduced at the fastest pace since 2009.

“With supply chains crumbling around the world, we can only expect a worsening outlook next month as increasingly necessary lockdown measures squeeze manufacturing production. Only creative and agile thinking, new products and approaches will see the sector through the turbulence ahead.”

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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.

March 2020 final Manufacturing PMI data were collected 12-26 March 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 March 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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