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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing constrained by ongoing political and economic uncertainties in October

KEY FINDINGS

UK Manufacturing PMI at 49.6 in October (6-month high)

Downturns in output, new orders and employment

Stock-building activity gathers pace

Ongoing uncertainties surrounding Brexit, the economic outlook and the political situation continued to weigh on the UK manufacturing sector during October. Output and new order inflows contracted, leading to further job losses. Firms also ramped up stock-building and purchasing activity in the lead-up to the (postponed) October Brexit departure date.

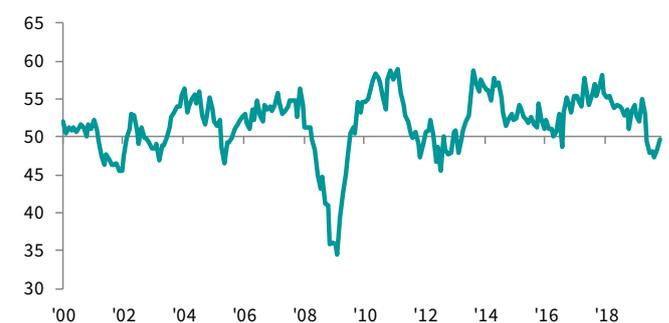
The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to 49.6 in October, up for the second successive month but remaining below the neutral 50.0 mark separating expansion from contraction.

Please note that data for the latest survey were collected from 11-28 October. This was before the confirmation of the latest Brexit extension on the 28th and the passing of the Early Parliamentary General Election Bill by the UK House of Commons on the 29th.

The downturn in manufacturing production continued, although the rate of contraction slowed. Firms reported that weaker inflows of new business, especially from the domestic market, had led to a further scaling back of output. This was partly offset by manufacturers who raised production to build-up stocks in advance of the October Brexit deadline.

The level of incoming new orders decreased for the sixth straight month in October, as ongoing uncertainties surrounding Brexit, the economy and the domestic political situation continued to weigh on demand. It was also despite a mild improvement in overseas sales. New export business rose for the first time in seven months, as clients based in the EU brought forward planned purchases to before the (now

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

delayed) Brexit departure date.

Job losses were seen for the seventh consecutive month in October, with the rate of decline among the steepest over the past decade. Lower employment reflected weak demand, softer client confidence, the non-replacement of leavers and staff redundancies. There were also reports citing Brexit uncertainty, in some cases resulting in hiring freezes.

A number of firms revisited their Brexit preparations during October, leading to higher levels of input purchasing and a build-up of safety stocks. Growth in inventories of finished goods and purchases were at six-month highs, but remained below the survey-record rates reached during the first quarter.

Price pressures remained relatively contained at manufacturers during October. Input prices were unchanged over the month, the first time they have failed to rise in over three-and-a-half years. Output charge inflation was also among the weakest registered over a similar period.

October saw a mild improvement in business confidence to a three-month high, although the degree of optimism remained among the lowest since future expectations data were first collected in July 2012. Ongoing political, economic and Brexit uncertainties continued to weigh on manufacturers' sentiment.

COMMENT

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

“The manufacturing downturn continued at the start of the final quarter as uncertainties surrounding Brexit, the economic outlook and domestic politics all took their toll. However, the underlying picture looks even darker than even these disappointing headline numbers suggest, as output and new orders fell despite short-term boosts from stock-building activity in advance of the October 31st Brexit deadline, which included a rise in exports as clients in the EU sought to mitigate supply risk.

“The high degree of uncertainty is hitting two areas of the manufacturing economy especially hard. The first is the trend in employment, as job losses resulting from disappointing sales are exacerbated by manufacturers implementing hiring freezes until the outlook clears. The second is the investment goods industry, where output and new orders are falling sharply as clients postpone capital spending plans.

“With a further Brexit extension confirmed and the prospect of a December general election, it looks as if the spectre of uncertainty will cast its shadow over manufacturing for the remainder of 2019.”

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

“A minor uplift in overall purchasing activity did little to ease the agony for manufacturing companies in October as the sector remained submerged in contraction terrain and heading for recession. Business was still restrained by the Brexit leash, as firms were subjected to the struggle against client indecision and also the downpull of a slowing global economy.

“This affected new order intakes which fell for a sixth sequential month as the second Brexit deadline loomed into view. Domestic clients packed up and went home without placing orders, leaving the sector to survive on a handful of stockpiling purchases from clients in the EU.

“Naturally this had a heavy impact on job creation as manufacturing firms cut jobs for the seventh month in a row and at one of the fastest rates for a decade. Companies have lost faith in their ability to weather the ongoing storms, reining back spending where they can. As the manufacturing sector remains in the twilight zone, wondering whether to stock or de-stock, hire new staff, look for new business or batten the hatches once again, it looks like a scary end to the year.”

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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.

October 2019 data were collected 11-28 October 2019.

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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