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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturers report near-survey record increases in stock holdings during December

KEY FINDINGS

UK Manufacturing PMI at 54.2 in December (six-month high)

New order and new export order inflows strengthen

Stocks of purchases and finished goods rise sharply

The end of 2018 saw a further modest improvement in business conditions in the UK manufacturing sector. At 54.2 in December, the seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to a six-month high, up from 53.6 in November.

The average PMI reading during quarter four of 2018 was the weakest since Q3 2016 (the quarter containing the first survey conducted after the EU referendum). The average posting during 2018 (53.9) was also below 2017 (55.9).

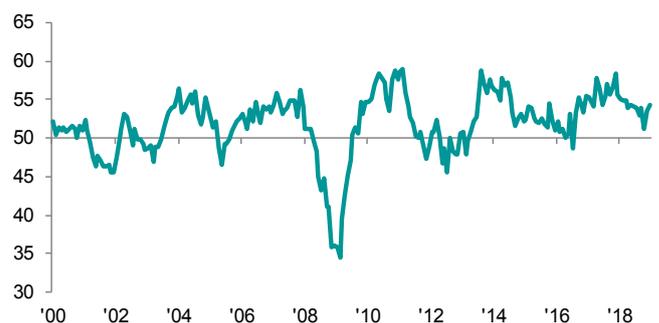
The rise in the PMI level during December was mainly driven by stronger inflows of new business and a solid increase in stocks of purchases. Movements in both mainly reflected Brexit preparations by manufacturers and their clients. Output also increased, but at a slower pace than during November.

Growth of new orders accelerated to a ten-month high in December. Inflows of new work strengthened from both domestic and export markets, with the latter benefiting from improved demand from the USA, Europe, China, India, Brazil and Africa.

Manufacturers linked increases in both domestic and overseas demand to clients purchasing to build up safety stocks to mitigate potential Brexit disruption. There were some reports that new product launches and successful promotional activity had contributed to sales growth. New export order wins were also supported by the ongoing weakness of the sterling exchange rate.

Uncertainty regarding the potential impact of Brexit

Manufacturing PMI
sa, >50 = improvement since previous month



influenced manufacturers' purchasing activity, stock levels and business confidence in December. Input buying volumes increased as companies implemented plans to reduce potential supply-chain disruption. Input inventories subsequently rose at the fourth-fastest rate in the 27-year survey history.

A similar Brexit-related rationale was cited by manufacturers for a sharp rise in stocks of finished goods in December. The rate of increase was the second-strongest since the survey began in 1992, bettered only by that registered in May 2018.

Although manufacturers maintained a positive outlook for output in 12 months' time, the degree of confidence was only slightly above November's 27-month low. Companies forecasting growth linked this to expected success resulting from new product launches, entering new markets, investment in equipment and planned expansions of salesforces. However, many firms also cited Brexit and exchange rate uncertainties as weighing on their outlook for the year ahead.

On the price front, input cost inflation eased to a two-and-a-half year low in December. Where an increase was reported, this was linked to the weak sterling exchange rate, Brexit uncertainty being priced into goods and general commodity price rises. In contrast, output charge inflation hit a three-month high, mainly reflecting the pass-through of higher input costs to clients.

COMMENT

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

“December saw the UK PMI rise to a six-month high, following short-term boosts to inventory holdings and inflows of new business as companies stepped up their preparations for a potentially disruptive Brexit.

“Stocks of purchases and finished goods both rose at near survey-record rates, while stock-piling by customers at home and abroad took new orders growth to a ten-month high. Any positive impact on the PMI is likely to be short-lived, however, as any gains in the near-term are reversed later in 2019 when safety stocks are eroded or become obsolete.

“The trend in production volumes remained lacklustre despite the safety stock-building, with the latest survey consistent with a mild decrease in the official measure of manufacturing output over the final quarter.

Uncertainties regarding Brexit disruption on supply chains and the exchange rate are also weighing on business confidence. Although manufacturers forecast growth over the coming year, confidence remains at a low ebb. Manufacturing will therefore be entering 2019 on a less than ideal footing with Brexit uncertainty having intensified considerably.”

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

“Preparation and mitigation were the key activities in the manufacturing sector this month resulting in a small improvement in overall activity. Businesses stockpiled raw materials and finished goods at near survey-record rates in readiness for possible Brexit-related supply chain disruptions.

“In an edgy mood, not even the sharpest rise in new orders since February 2018 was enough to significantly improve the sector’s optimism rising just above November’s 27-month low. Businesses remained concerned about the impact of the weak pound, and supplier performance which remained weak. To beat rising costs, disruptions in supply and continuing raw material shortages, purchasers took to forward buying to safeguard the delivery of customer orders.

“Though the overall index figure was higher than last month, this should be viewed with some scepticism. Whilst the road to Brexit remains mired in the mud of indecision and disagreement, there is likely to be some correction in the sector this year as Brexit buffer stocks are depleted and overall output could fall.”

CONTACT

IHS Markit

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

CIPS

Trudy Salandiak
Corporate Communications
T: +44-1780-761576
trudy.salandiak@cips.org

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.

December 2018 data were collected 5-18 December 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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