Manufacturing production rises at fastest pace since May 2014 as re-opening of economy continues

KEY FINDINGS

UK Manufacturing PMI at 55.2 in August (Flash: 55.3)
Output and new orders rise at solid and accelerated rates
Input price inflation at 20-month high

August saw UK manufacturing output expand at the fastest rate for over six years, as companies and their clients restarted operations following coronavirus disease 2019 (COVID-19) lockdowns. New order intakes also strengthened, whereas the trend in employment remained weak with job losses recorded for the seventh straight month.

Survey data were collected between 12-25 August.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) rose to a 30-month high of 55.2 in August, up from 53.3 in July but a tick below the earlier flash estimate of 55.3. The PMI has posted above its neutral 50.0 mark for three consecutive months.

Manufacturing production rose at the fastest pace since May 2014, reflecting solid expansions across the consumer, intermediate and investment goods sub-sectors. The steepest growth was registered in the intermediate goods category, whereas investment goods producers saw the lowest pace of growth.

Underpinning the scaling-up of output was the fastest increase in new orders since November 2017. The domestic market remained the prime source of new contract wins, although new export orders rose moderately for the first time in ten months. Manufacturers mentioned improved demand from the EMEA region, North America and Australia.

The main factors driving production and new orders higher have been the re-opening of manufacturers and their clients following lockdowns and a loosening of other restrictions in place to combat COVID-19. This has not supported a similar recovery or stabilisation in demand for staff, however, with job losses recorded for the seventh successive month.

Manufacturing employment declined at one of the steepest rates during the past 11 years, with reductions seen across the consumer, intermediate and investment goods industries. Small, medium and large-sized firms also implemented similarly marked cuts to staff headcounts. Stocks of purchases and finished goods both fell further, as companies looked to control costs and complete business delayed by the lockdown. Input inventories fell despite a modest increase in purchasing activity.

Input price inflation accelerated to a 20-month high in August. Rising costs were linked to reduced availability for certain inputs and supply-chain disruption caused by COVID-19. Exchange rates and increased freight costs were also mentioned. Part of the increase was passed on to clients, with selling prices rising at the fastest pace since March. Supply-chain disruption led to a further lengthening of vendor delivery times.

Business sentiment regarding future output prospects remained positive in August, staying close to July’s 28-month high. Companies linked their expectations of output growth to hopes of a move back to more normal operating conditions over time, the launch of new products and the ongoing re-opening of the domestic and global economies.
Rob Dobson, Director at IHS Markit, which compiles the survey:

“The recovery of the UK manufacturing sector gathered pace in August. Output expanded at the fastest rate in over six years as new work intakes rose to the greatest extent since November 2017, led by an upturn in domestic demand and signs of recovering exports. Business optimism also remained encouragingly robust and close to July's recent peak.

“However, companies report that the current bounce is mainly driven by the restarting of manufacturers’ operations and reopening of clients as COVID-19 restrictions continue to be relaxed. Backlogs of work fell at an increased rate, hinting at spare capacity, and the labour market remains worryingly weak, with job losses registered for the seventh straight month. The downturn in employment may have further to run as the government’s furlough scheme is phased out unless demand rises sharply.

“Given the fragility of demand and uncertain outlook, both in terms of COVID-19 and Brexit, policymakers may struggle to prevent a ‘surge-then-slump' scenario from developing.”

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

“Domestically, customers are playing their part in the recovery of the UK economy, with an upswing in new orders accelerating to the fastest rate since November 2017. A smidgen of good news from overseas too with a small uplift in export orders for the first time in almost a year as optimism across the board was maintained that business could only get better.

“With supply-side capacity constraints still in evidence and shortages of raw materials sneaking in, it remains to be seen if demand holds strong. Manufacturers raised their prices in response to the sharpest increase in cost inflation for almost two years as fuel and transportation became more expensive.

“It seems the sector may be experiencing a ‘V’ shaped recovery with the fastest rate of growth in the manufacturing sector since May 2014. However, amidst this positivity the elephant in the room remains the poor employment figures. The drop in job numbers in August makes this feel more of a rebalancing strategy than real recovery. Companies are looking at how to stay in business for the rest of the year as challenges from the pandemic retreat a little only to be replaced by an imminent Brexit.”
CONTACT

IHS Markit
Katherine Smith
Public Relations
T: +1 781 301 9311
Katherine.Smith@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.
August 2020 final Manufacturing PMI data were collected 12-25 August 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 August 2020 flash was based on 89% 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.
https://ihsmarkit.com/products/pmi.html

Disclaimer
The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing
is not permitted without IHS Markit’s prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“Data”) contained herein, any errors, inaccuracies, omissions or
delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index®
and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

About IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major
industries and markets that drive economies worldwide. The company delivers next-generation
information, analytics and solutions to customers in business, finance and government, improving their
operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS
Markit has more than 50,000 business and government customers, including 80 percent of the Fortune
Global 500 and the world’s leading financial institutions.
IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product
names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com.
To read our privacy policy, click here.

About CIPS
The Chartered Institute of Procurement & Supply (CIPS) is the world’s largest procurement and supply
professionals organization. It is the worldwide centre of excellence on purchasing and supply management
issues. CIPS has a global community of 200,000 in over 150 countries, including senior business people,
high-ranking civil servants and leading academics. The activities of procurement and supply chain
professionals have a major impact on the profitability and efficiency of all types of organization and CIPS
offers corporate solutions packages to improve business profitability.

© 2020 IHS Markit