News Release

Embargoed until 0930 London (0930 UTC) 1 November 2018

IHS MARKIT / CIPS UK MANUFACTURING PMI®

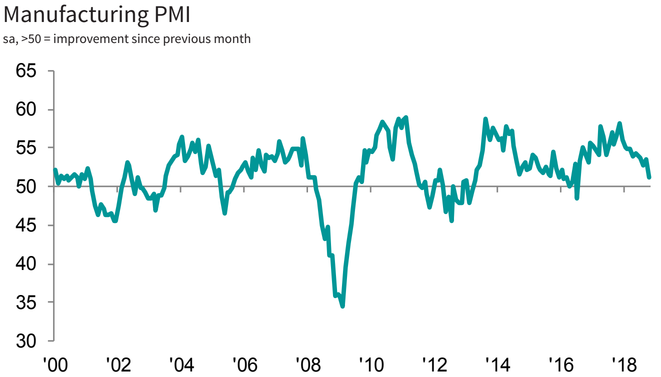
UK manufacturing new orders and employment fall for first time since mid-2016

KEY FINDINGS

UK Manufacturing PMI falls to 51.1 in October

New orders and employment decline for first time in 27 months

Input cost and output price inflation both ease



Conditions in the UK manufacturing sector slowed sharply during October. Output growth weakened, while new order inflows and employment both declined for the first time since July 2016 (the PMI survey directly following the EU referendum). The drop in new business was partly driven by rising global trade tensions and Brexit uncertainties.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a 27-month low of 51.1, down from September's revised reading of 53.6 (originally published as 53.8). Data collection was undertaken between 12-26 October, closing before the Chancellor's Budget announcement on Monday 29th.

Companies linked the decline in manufacturing new orders to lower inflows of new work from overseas and softer growth of domestic demand. The weakness in total new orders was mainly centred on the consumer goods sector, as the intermediate and investment goods categories both posted mild expansions.

Foreign demand decreased for the second time in the past three months during October. Some companies reported that Brexit uncertainties had negatively impacted inflows of new work from within the EU. Others focussed more attention on rising global trade tensions and weaker demand from the world autos sector.

The deterioration in new orders led to a sharp slowdown in the rate of expansion of manufacturing production. Output growth was the weakest since the current sequence of increase began in August 2016. Growth was signalled in the intermediate and investment goods sectors, whereas the consumer goods category saw a mild fall in production.

The lacklustre performance of the sector filtered through to the labour market, with manufacturing employment declining for the first time since July 2016. Staffing levels rose at SMEs, but fell for the third straight month at large-sized companies. Where job losses were reported, this was linked to the decline in new work received, staff reorganisations, redundancies and efforts to control costs.

Cost-control initiatives and efforts to protect cash flow also contributed to a decline in raw material purchasing (the first since July 2016) and lower stock holdings. Inventories of finished goods and purchases both edged lower in October.

Input price inflation remained marked in October, despite easing to a 28-month low. Companies linked the latest increase to the higher costs of aluminium, energy, oil, steel and timber, rising import duties, exchange rate fluctuations, market volatility and Brexit uncertainty. Supply-side constraints also led to higher purchasing costs. Output charges rose at the slowest pace in just over two years.

UK manufacturers maintained a positive outlook in October, with over 48% expecting output to be higher one year from now. Optimism reflected new product launches, new capacity and export opportunities.

COMMENT

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

“October saw a worrying turnaround in the performance of the UK manufacturing sector. At current levels, the survey indicates that factory output could contract in the fourth quarter, dropping by 0.2%. New orders and employment both fell for the first time since the Brexit vote as domestic and overseas demand were hit by a combination of Brexit uncertainties, rising global trade tensions and especially weak demand for autos.

"Alongside the halt in hiring, the increasingly defensive position of UK manufacturers was also reflected in the slight decreases in purchasing activity and inventory holdings, which firms linked to protecting cash flow and cost-cutting. There was some better news on the prices front, however, with input cost inflation dipping to its lowest for over two years as many global commodity prices fell.

"Looking ahead, manufacturers still maintain a positive outlook for production over the coming year, with 48% forecasting expansion. That said, the second half of the year so far has also seen confidence remain low compared to its long-run average, with views on prospects darkening again in October amid rising Brexit-related uncertainties and escalating global trade tensions."

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

“Alarm bells were ringing in the sector this month as the Index slipped closer to edge of the no-change mark with purchasing falling for the first time in over two years. Overall activity was marred by a drop in export orders and continuing weak domestic demand as Brexit took another bite out of client confidence.

"To see inflows of new orders first decline since the middle of 2016 following the referendum, will send shivers down the spine of business. Any hope that the current situation would not continue to impact has surely now evaporated. Employment was also affected with lower levels of hiring, as companies tried to control their costs. Job seekers will find the hiring landscape less friendly during the run-up to departure.

"Suppliers remained under the cosh and delivered little hope for manufacturers with any work in hand that they would have the necessary materials to complete orders. With delays at ports and shortages of certain materials, lead times were longer across all sectors.

"However, optimism remained relatively buoyant for the coming year. It’s the medium-term outlook that looks bleak unless the Brexit negotiations bring some certainty ending this eternal waiting game.”

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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 2018 data were collected 12-26 October 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.

About IHS Markit

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About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. 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 organisation and CIPS offers corporate solutions packages to improve business profitability. www.cips.org.

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