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IHS MARKIT / CIPS UK MANUFACTURING PMI®

'Brexit-buying' and port issues lead to stockpiling and supply-chain disruption at UK manufacturers

KEY FINDINGS

UK Manufacturing PMI at 57.5 in December (37-month high)

Near-record increases in input stocks and purchasing activity

Strong demand and transport issues stretch supply chains

The UK manufacturing sector had a mixed end to 2020. Clients bringing forward orders to beat the end of the Brexit transition period and the ongoing bounce from the re-opening of the global economy boosted inflows of new orders and pushed output higher. However, port delays and other logistical disruptions meant that supply-chain delays lengthened to one of the greatest extents in the survey's history.

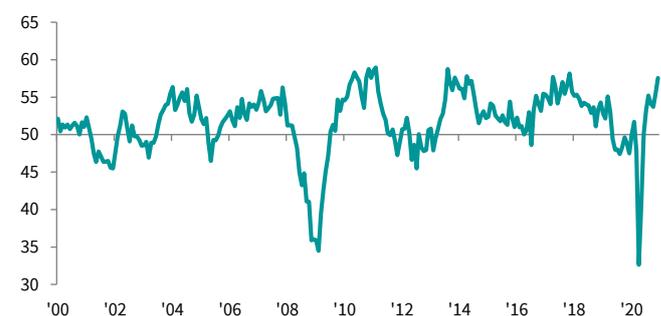
Survey data were collected 4-18 December.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to a three-year high of 57.5 in December, up from 55.6 in November. The level of the PMI was mainly boosted by a marked lengthening of suppliers' delivery times and substantial increase in stocks of purchases as part of preparations before the end of the transition period (which also boosted new order intakes).

Manufacturing output rose for the seventh month running in December, albeit to a lesser extent than one month ago. Growth was registered across the consumer, intermediate and investment goods sectors. The steepest expansion was at intermediate goods producers, while consumer goods output returned to growth following back-to-back contractions. Job cuts were made for the eleventh consecutive month.

December saw new orders rise at the quickest pace since August, as intakes improved from domestic and overseas sources. A large part of the latest expansion reflected clients bringing forward orders to guard against potential disruption caused by the end of the Brexit transition period (including

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

delays at ports).

Quantities of purchases rose at the third-fastest rate in the 29-year survey history, as companies built-up stocks in advance of the end of the Brexit transition period. Inventories of purchases subsequently increased to the second-greatest extent in the survey history (only March 2019 saw a stronger increase).

Substantial disruption to supply chains was experienced by manufacturers in December. Vendor performance deteriorated to the third-greatest extent in the survey history, 'beaten' only by the increases in lead times seen during the first wave of the pandemic. Raw material shortages, port delays, freight capacity issues (air, sea and land) and Brexit concerns all contributed to supply-chain disruption.

Average input costs rose at the quickest rate in two-and-a-half years in December, reflecting input shortages, vendor price rises, increased transportation costs, Brexit uncertainty and exchange rate factors. Manufacturers responded by increasing output charges.

Business optimism eased in December, with 56% of manufacturers forecasting output to rise over the next 12 months (compared to 61% in November). Positive sentiment was linked to ongoing economic recoveries, hopes of a lesser impact from COVID-19, reduced uncertainty following the completion of Brexit and planned strategic investments.

COMMENT

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

“The Manufacturing PMI rose to its highest level in over three years in December, mainly reflecting a boost from last-minute preparations before the end of the Brexit transition period. Customers, especially those based in the EU, brought forward purchases, boosting sales temporarily. It seems likely that this boost will reverse in the opening months of 2021, making for a weak start to the year. Note also that the December PMI data were collected prior to the border closures, which will have led to further logistics and production disruptions for many companies.

“Worryingly, the manufacturing sector was already beset by near-record supply-chain delays even prior to the closure of Dover-Calais shipping. Manufacturers reported freight delays – especially at ports – plus shortages of certain raw materials and a lack of supplier capacity. Vendor lead times, a bellwether of supply-chain pressures, lengthened in December to a similar extent to during the first wave of the pandemic.

“UK manufacturers also built-up input stocks to one of the greatest extents in the 29-year survey history in expectation of heightened logistics issues continuing during the first part of 2021. If this is the case, as expected, the disruption to deliveries and production schedules, alongside the unwinding of Brexit inventories, may place the manufacturing recovery under greater threat in the coming months.”

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

“New orders rose at one of the fastest rates since January 2018 in the last quarter of the year as both UK and European firms stockpiled goods and materials at a fair lick in an attempt to sideline further disruption this winter.

“This rush to secure supplies meant already stressed supply chains paid the price with some of the longest delays in the near 30-year survey history. Bunged up ports caused backlogs to rise to levels not seen for a decade and optimism for the year ahead dropped to a six-month low as the challenges for manufacturers just kept coming.

“After a severely turbulent year, UK makers still have a great deal to worry about. Job numbers continue to fall, and material shortages have resulted in the highest cost inflation since 2018. The sector is holding its breath until the terms of the new deal are fully understood and whether new business can be sustained in the same way in a post-Brexit marketplace.”

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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.

December 2020 final Manufacturing PMI data were collected 4-18 December 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 December 2020 flash was based on 86% 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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