News Release

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IHS MARKIT / CIPS UK MANUFACTURING PMI®

Sharp downturn in UK manufacturing continues in May, but pace of contraction eases since April

KEY FINDINGS

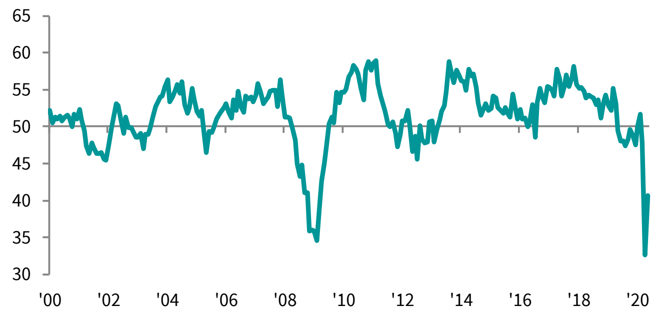
UK Manufacturing PMI at 40.7 in May (Flash: 40.6)

Output, new orders and employment fall sharply

Input price and output charge inflation remain moderate

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

The rapid downturn in the UK manufacturing sector continued during May, as the public lockdowns, company shutdowns and social distancing measures mandated to combat the spread of coronavirus disease 2019 (COVID-19) caused further disruption. Output, new orders and employment contracted at some of the fastest rates during the 28-year survey history, albeit less sharply than the records set in April.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to 40.7 in May, up from a record-low of 32.6 in April. Despite the increased level of the PMI, it still signalled a marked deterioration in overall operating conditions. The headline index is at its seventh-lowest level ever and at depths unseen outside of the current pandemic and the global financial crisis of 2008-09. May 2020 survey data were collected between 12-26 May.

The impacts of the COVID-19 pandemic were felt across the manufacturing sector in May. Rates of contraction in output, new orders and new export business were among the steepest in the survey history across consumer, intermediate and investment goods producers alike. That said, rates of decline eased from the survey records of the prior month.

Pockets of growth were generally linked to healthcare-related or PPE products. Some firms also noted that inflows of new business showed signs of restarting as clients began the process of reopening and the lockdown restrictions implemented both in the UK and overseas are gradually easing.

Manufacturing employment fell for the fourth successive month in May, as the economic consequences of the COVID-19 pandemic led companies to reduce staff headcounts. Although easing since April, the rate of decline was still the second-sharpest on record.

The ongoing pandemic and uncertainty about the path ahead continued to weigh on business sentiment in May. Although rising to a three-month high, confidence remained downbeat by the historical standards of the survey. Companies still expect to see output rise during the next 12 months, however, forecasting that market conditions would recover some lost ground as lockdowns ease and clients reopen.

May data indicated that the constraints in place to restrict the spread of the virus continued to cause disruption to global supply chains. Vendor lead times lengthened to the second-greatest extent in the survey history, following a record increase in April. This was despite a further marked reduction in purchasing activity at manufacturers. Stocks of inputs and finished goods were also both depleted.

Input cost inflation remained mild during May, despite accelerating since April. Companies reported that higher costs resulting from supply-chain disruptions were partly offset by supplier discounts offered in response to weak demand and also lower prices for oil, oil by-products and plastics. Part of the increase in costs was passed on to clients through a rise in selling prices.

COMMENT

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

“Those who typically see the glass half empty will note that the UK manufacturing sector remained mired in its deepest downturn in recent memory. Output, new orders and employment fell sharply again in May as restrictions to combat the spread of COVID-19 caused further widespread disruptions to economic activity, demand and global supply chains.

“However, the glass-half-full perspective is one where the rate of contraction has eased considerably since April, meaning – absent a resurgence of infections – the worst of the production downturn may be behind us. Pressure on manufacturers should ease further as lockdown restrictions are loosened, customers return to work and global activity restarts.

“However, changes to working practices, uncertainty about how long the COVID-19 restrictions may be in place for, weak demand and Brexit worries all suggest the UK is set for a drawn-out economic recovery. This will make the “new normal” one of the toughest recovery environments many manufacturers will ever have to face.”

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

“Though less severe than the wrecking losses of last month, continued supply chain disruptions resulted in another strong contraction in the manufacturing sector as output fell at its fourth-fastest rate in the near 30-year survey history.

“With new orders from home and abroad drying up for the third month in a row, company owners watched helplessly as the result of factory shutdowns, raw material shortages and furloughed staff continued to eat away at their operations. With no new pipeline of work to fulfil, purchasing dropped at one of the fastest rates for three decades as companies focussed their attention on completing any work in hand with current stocks of materials and with what little capacity remained in factories.

“Even with the slight uplift in May’s sentiment as firms began to recover from the initial shock and looked to the future, optimism remained depressed. Worries over safety for returning staff and repairs to broken supply chains will be uppermost in business minds, and are obstacles to be overcome before real recovery can begin. Uncertainty remains the watchword for the months ahead.”

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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.

May 2020 final Manufacturing PMI data were collected 12-26 May 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 May 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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