News Release

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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK Manufacturing PMI at seven-year low as uncertainty stifles domestic and export markets

KEY FINDINGS

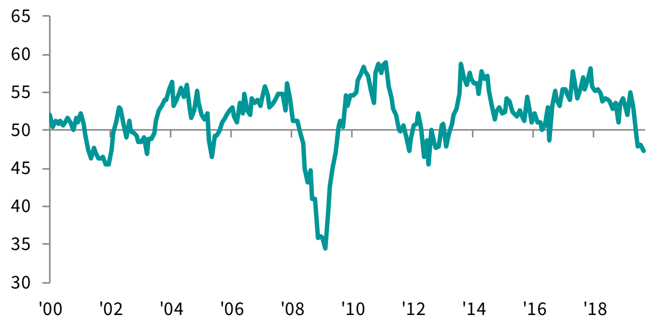
UK Manufacturing PMI at 47.4 in August (85-month low)

New orders contract at fastest pace in over seven years

Business confidence falls to series-record low

Manufacturing PMI

sa, >50 = improvement since previous month



The high levels of economic and political uncertainty pervasive across domestic and global markets continued to weigh heavily on the performance of UK manufacturing during August. Output volumes fell as intakes of new work contracted at the fastest pace for over seven years, while business optimism dropped to a series-record low.

At 47.4 in August, down from 48.0 in July, the headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to its lowest level since July 2012. The downward movement in the headline index was centred on an accelerated contraction in new work, which decreased to the greatest extent in 85 months. Survey data were collected between 12-27 August.

Steep reductions in new orders were registered across the consumer, intermediate and investment goods industries, contributing to the ongoing downturns in output in all three product categories. Where a decrease in new orders was reported, this was linked to weaker domestic and global economic conditions, low market confidence, Brexit concerns, business uncertainty and a slowdown in client spending.

The level of new export business contracted at the fastest rate in over seven years in August. Ongoing global trade tensions, slower world economic growth and Brexit uncertainty were all mentioned by manufacturers as factors contributing to reduced overseas demand. There were reports that some EU-based clients were routing supply chains away from the UK due to Brexit. Inflows of new work from the USA and Asia also weakened.

Business optimism slumped to its lowest level since a question tracking expectations for future output was added to the survey in July 2012. Lower levels of optimism were linked to weakening market conditions, signs of a global economic slowdown, Brexit uncertainty and subdued client confidence. That said, manufacturers still expect to see some output growth over the coming year, as highlighted by 40% of companies forecasting expansion compared to only 13% anticipating a decline.

Manufacturing employment fell at one of the fastest rates over the past six-and-a-half years in August. Job cuts were driven by cost saving initiatives (including reorganisations and redundancies), slower economic growth and the continued impact of Brexit uncertainty. Stocks of finished goods moved mildly higher, while input inventories edged lower. These trends reflected an interplay between companies reducing safety stocks built around the original Brexit date and those gearing up for a departure at the end of October.

Input price inflation remained solid in August. Of the companies providing a reason for increased purchase prices, over 80% made at least some reference to the exchange rate. Manufacturers passed part of the increase in costs on to clients, leading to a further rise in average selling prices. The strongest rates of increase signalled by both price measures were seen in the intermediate goods sector.

COMMENT

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

"High levels of economic and political uncertainty alongside ongoing global trade tensions stifled the performance of UK manufacturers in August. Business conditions deteriorated to the greatest extent in seven years, as companies scaled back production in response to the steepest drop in new order intakes since mid-2012. Based on its historical relationship against official ONS data, the latest PMI Output Index is consistent with a quarterly pace of contraction close to 2%. The outlook also weakened as the multiple headwinds buffeting the sector saw business optimism slump to a series-record low.

"Demand from domestic and export markets both weakened in August, with new export business suffering the sharpest fall in seven years. The global economic slowdown was the main factor weighing on new work received from Europe, the USA and Asia. There was also a further impact from some EU-based clients routing supply chains away from the UK due to Brexit.

"The further downturn in export orders occurred despite a weakening in the sterling exchange at the start of the month. This was felt on the costs front though, with 80% of companies providing a reason for higher purchase prices making at least some reference to the exchange rate. The current high degree of market uncertainty, both at home and abroad, and currency volatility will need to reduce significantly if UK manufacturing is to make any positive strides towards recovery in the coming months."

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

"The sector's illness took a turn for the worse in August with the sharpest decline in domestic and export orders for seven years. Investment continued to peter out and heightened concerns about the UK's political situation and the strength of the global economy acted as a drag on activity.

"As some clients from the Eurozone continued to move their supply chains away from the UK, declining orders from the US and Asia dashed any hopes of redemption, resulting in the sharpest fall in business optimism since at least 2012.

"Soured by the continuing intensely difficult conditions, the sector resorted to some job shedding and increased their own prices as a last-ditch effort against renewed pressure from a weakening pound.

"As Brexit planning intensifies, some firms were resorting to more inventory building whilst others were unravelling their stocks. With some supplies impacted by port delays and poor supplier performance, a creeping dread is descending on the sector that there will be more of these obstacles to come."

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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.

August 2019 data were collected 12-27 August 2019.

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.

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