Manufacturing downturn deepens as UK PMI falls to lowest level since February 2013

The UK manufacturing sector continued to feel the reverberations of the unwinding of earlier pre-Brexit stockpiling activity during June. The already high stock levels at both manufacturers and their clients led to a scaling back of output and new order intakes, with demand from both domestic and export markets weakening.

At 48.0 in June, down from 49.4 in May, the headline seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) fell for the third consecutive month to its lowest level since February 2013. The PMI has posted below the no-change mark for two months in a row, the first back-to-back declines since early-2013.

Manufacturing production contracted at the fastest pace since October 2012. Output was lowered in response to reduced intakes of new business, which fell to the greatest extent for almost seven years. There were reports that high stock levels, ongoing Brexit uncertainty, the economic slowdown and rising competition all contributed to the decreases in new orders and production.

Demand from domestic and foreign markets weakened during June. New export orders declined for the third straight month and at a rate close to May’s four-and-a-half year high. Softer global economic growth and continued Brexit uncertainty were the main factors underlying the latest decrease. There was specific mention of reduced intakes of new work from the US, mainland Europe and Australia.

The intermediate goods sector was the worst affected by the downturn, seeing the steepest drops in output and new orders of the industries covered by the survey. Investment goods also saw contractions, with the rate of decline in new orders especially marked. Although the consumer goods sector eked out further growth, rates of expansion in output and new work suffered sharp slowdowns.

Business optimism dipped to its third-lowest level in the series history during June. That said, a number of companies still maintain a positive outlook. Almost 44% forecast that output will be higher in one year’s time, compared to only 14% expecting a contraction. Hopes of a recovery in the autos sector, new product launches, planned growth and higher exports were all mentioned as factors underlying confidence. Brexit uncertainty and softer global and domestic economic growth weighed on some firms’ outlooks.

Employment fell for the third straight month in June, with job losses seen in the intermediate and investment goods sectors. Reduced staffing reflected lower workloads, economic slowdown, Brexit uncertainty and hiring freezes. Backlogs of work fell at one of the fastest rates for six-and-a-half years.

June saw a further increase in stocks of finished goods, although the rate of growth was down sharply from earlier in the year. Inventories of inputs meanwhile fell for the second month running, reflecting the depletion of Brexit stockpiles and reduced purchasing activity.
Rob Dobson, Director at IHS Markit, which compiles the survey:

“The downturn in UK manufacturing deepened during June, as the impact of firms unwinding stockpiles built before the original Brexit date continued to reverberate through the sector and exacerbate weak demand. This led to solid decreases in both production and new orders, which sank the headline PMI to its lowest in almost six-and-a-half years.

“Demand from the domestic market weakened, while the additional constraint of slower global economic growth meant new export business fell at one of the fastest rates since late-2014.

“Although the consumer goods sector was able to eke out further output growth, the rate of expansion slowed sharply. Solid contractions at intermediate and investment goods producers also suggested that businesses were cutting back on both day-to-day and capital spending in increasing numbers.

“The stranglehold of sustained Brexit-related uncertainty and disruption also weighed heavily on business confidence and employment, as optimism ebbed to one of its lowest levels in the survey history and staff headcounts were reduced for the third straight month.

“There will need to be a substantial improvement in economic conditions at home and overseas, alongside reductions in both Brexit and domestic political uncertainties, if manufacturing is to see a sustained revival in the coming quarters.”

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

“The manufacturing downturn is deepening, with a second month in contraction and production shrinking at the steepest rate for seven years. The triple whammy of the Brexit-delay fallout, weaker domestic and export demand impacted on new orders, optimism and job creation, and the sector was left gasping for breath.

“With clients starting to unwind pre-March Brexit stockpiles new orders from domestic and export markets failed to materialise as the global economy also slowed down. Companies resorted to job losses to reduce the slack in production capacity, as employment fell for the third month in a row.

“A small silver lining for the sector, arrived in the form of a weaker rate of average input price inflation compared to the last couple of years and businesses tried to claw back some of the margins lost in previous months by increasing their own prices.

“The sector’s strength is slowly slipping away, deprived of the oxygen of a reduction in Brexit uncertainty and an associated return of confidence to the marketplace. All the signs from the manufacturing sector point to another decline next month unless someone pulls a rabbit out of the Brexit hat.”
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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.

June 2019 data were collected 12-25 June 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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