News Release

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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing contracts as political and economic uncertainty continues

KEY FINDINGS

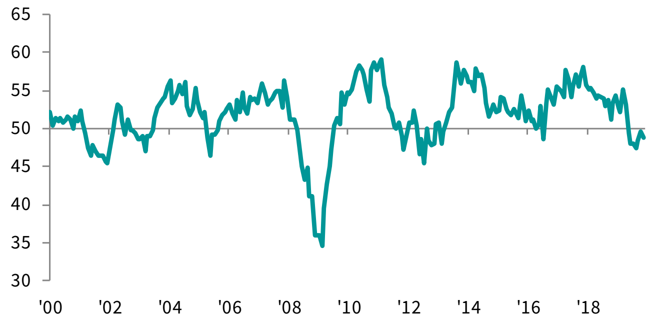
UK Manufacturing PMI at 48.9 in November (Flash: 48.3)

Output, new orders and employment all decline

Stocks depleted and purchasing reduced following Brexit delay

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

The UK manufacturing downturn continued in November, as businesses responded to the delay to Brexit and a fresh injection of uncertainty from the forthcoming general election. Output, new orders and employment all fell, while destocking activity resumed as firms depleted buffers built-up in advance of the postponed exit date.

The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) slipped to 48.9 in November, down 49.6 in October but above the earlier flash estimate of 48.3. The PMI has remained below the neutral mark of 50.0 for seven successive months.

November saw a reduction in manufacturing output, with the rate of decline accelerating slightly over the month. Companies reported scaling back production in response to lower new order intakes. Efforts to reverse high stock holdings also contributed to the contraction, as did settling backlogs of work directly from inventories (further reducing the need to maintain production volumes).

New orders fell for the seventh month in a row during November, reflecting tougher conditions in both domestic and overseas markets. Companies attributed this to destocking at clients following the delay to Brexit and the ongoing uncertainty surrounding the political, economic and global trade situations. The decline in new export orders was among the steepest registered over the past seven years.

November saw manufacturing employment fall for the eighth straight month, with the pace of job losses the steepest since September 2012. Companies linked further cuts to cost reduction efforts, efficiencies, Brexit uncertainty, redundancies, natural wastage and staff restructuring.

Sector data indicated that the downturn at investment goods producers remained severe, with production, new orders, new export business and employment all contracting at steeper rates than the other sub-industries. Output, new business and staffing levels at intermediate goods producers also fell. There were brighter signs from the consumer goods sector, which saw growth of both output and new orders.

The delay to Brexit had a noticeable impact on stock holdings and purchasing activity during November. Finished goods inventories fell at the steepest rate in over two-and-a-half years, while input buying volumes fell to one of the greatest extents since early-2013. These contractions were a marked reversal from the solid increases seen in the lead-up to the October 31st exit date.

November saw average selling prices increase for the forty-third month in a row. However, charge inflation remained relatively mild overall, with the rates over the past three months among the weakest during the current sequence of increase. Input costs decreased – albeit marginally – for the first time since March 2016, linked to lower global commodity prices and exchange rate effects.

COMMENT

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

"November saw UK manufacturers squeezed between a rock and hard place, as the uncertainty created by a further delay to Brexit was accompanied by growing paralysis ahead of the forthcoming general election. Downturns in output and new orders continued amid a renewed contraction in exports. The pace of job losses also hit a seven-year high as firms sought to reduce overheads in the face of falling sales. Destocking at manufacturers and their clients following the latest Brexit delay was a major contributor to the weakness experienced by the sector. Inflationary pressures meanwhile showed signs of moderating further, with input costs falling slightly for the first time since March 2016.

"Signs of a two-speed economy persisted, with intensifying business uncertainty leading to a further steep drop in demand for machinery and equipment as firms cut back on investment, but rising demand for consumer goods suggests that households continue to provide some support to the economy.

"Manufacturers across all sectors will be hoping that the New Year brings clarity on the political, trade and economic fronts, providing a more certain foundation to plan and rebuild as the next decade begins."

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

"A heavy sense of inevitability hung around the sector in November as it continued to suffer the effects of a lethal cocktail of Brexit uncertainty, slowing global growth and an impending General Election. These combined to stifle any chance of manufacturing crawling out of the contraction zone, where the sector was stuck for a seventh month in a row.

"Supply chain managers cited weakened domestic demand and one of the biggest falls in export orders for seven years as companies unravelled their pre-Brexit stocks and resulting in one of steepest reductions in purchasing since 2013. Inevitably, where new orders fall, jobs are sure to follow and manufacturing employment fell at its fastest pace since September 2012. Firms tried to balance their books by reducing overheads and improving efficiencies quickly, and staff numbers were the casualties.

"With this backdrop of pressures, the sector's performance is unlikely to change any time soon, which means a bleak beginning for the industry in 2020."

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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.

November 2019 data were collected 12-26 November 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.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.