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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing stabilises in June following severe COVID-19 downturn

KEY FINDINGS

UK Manufacturing PMI at 50.1 in June (Flash: 50.1)

Output edges higher and business optimism rises

Employment falls for fifth successive month

The UK manufacturing sector showed signs of stabilising in June, following the recent steep downturn caused by the coronavirus disease 2019 (COVID-19) pandemic. Output edged back into growth territory as factories restarted, lockdown restrictions were loosened and staff returned to work.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to 50.1 in June, up from 40.7 in May and unchanged from the flash estimate. Although the 9.4 point month-on-month rise in the PMI beat May's record (8.1), the reading was only slightly above the neutral 50.0 mark, indicating a stabilisation (not marked improvement) in operating conditions.

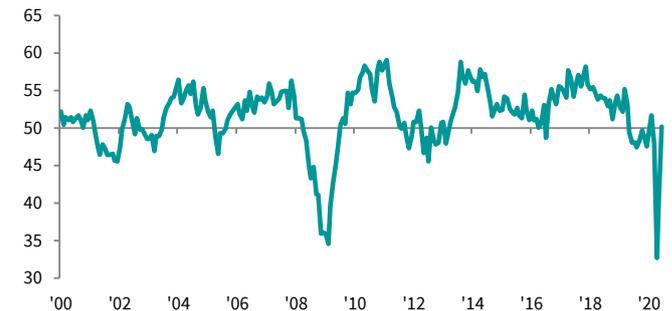
Survey data were collected between 12-25 June.

Manufacturing production rose slightly for the first time in four months during June, as factories restarted, clients reopened and lockdown restrictions were eased. The intermediate goods sector saw the steepest growth, while consumer goods producers saw only a mild expansion. In contrast, investment goods output fell again, albeit at a vastly reduced pace.

Business sentiment rose to a 21-month high in June. Over 63% of manufacturers forecast that output would rise over the coming year. Positive sentiment was linked to clients reopening, an expected further loosening of COVID-19 restrictions and hopes that markets would revive at home and overseas to help recover growth lost during the pandemic.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

The trend in incoming new business showed signs of stabilising during June. Although new order intakes fell for the fourth month running, the rate of decline slowed further from April's survey-record. The easing was in response to a firming of domestic market conditions as lockdown restrictions were loosened and clients returned to work.

In contrast, new export business fell for the eighth straight month, reflecting low market confidence and the ongoing impact of COVID-19. There were reports of increased overseas sales of PPE, healthcare and cleaning products.

Employment fell for the fifth consecutive month in June. Although the rate of decline eased further from April's record it remained among the steepest registered in the 28-year survey history. There were reports of redundancies, cost control efforts, workforce restructuring and the non-replacement of leavers.

The current weak economic backdrop led to lower levels of raw material purchasing and further depletion of stocks of purchases and finished goods. The COVID-19 pandemic also continued to cause substantial disruption to supply chains, leading to material shortages, vendor shutdowns and transportation issues.

June saw cost inflationary pressure remain subdued. Although input prices rose at the fastest rate in a year, the pace was mild compared to the survey average. Output charges also rose during the latest month.

COMMENT

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

“June completed a marked turnaround in momentum in UK manufacturing, as the sector switched from April’s record contraction back to stabilisation in the space of two months. Output edged higher and domestic demand firmed as lockdown restrictions loosened, factories restarted and staff returned to work. Business optimism also recovered to a 21-month high.

“The planned loosening in COVID-19 restrictions on the 4th July should aid further gains in coming months. Although the trend in new export business remains weak, that should also strengthen as global lockdowns and transport constraints ease further.

“The main focus is now shifting towards the labour market. Concerns are rising about the potential for marked job losses, especially once the phase out of government support schemes begins. The news on that footing is less positive, with June seeing a further reduction in staffing levels and, although easing sharply since April’s record, the rate of job loss remains among the steepest in the 29-year survey history. Economic conditions will need to improve markedly across the UK, or some support retained, if the labour market downturn is to avoid becoming more entrenched through the remainder of the year.”

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

“June’s data shows the sector has dragged itself up from a survey-record low just two months ago into a position of no-change, as optimism rises to its highest levels for almost two years amongst manufacturers.

“However, output remains at low levels and the sector’s weak position compared to pre-covid levels means there is a significant amount of catching up to do before manufacturing can relax into a period of growth. Purchasing continues to be hampered by battered and bruised supply chains, logistics difficulties and longer delivery times for the twelfth month in a row as suppliers adjust to the new normal.

“The sector may be springing back into action after lockdown easing, but worse results may be on their way for companies as government support falls away and businesses are left with decisions to make on whether they can weather any continuing storms. Employment levels fell for the fifth month in a row and are still plummeting across all three sub-sectors. As companies nervously look for signs of real growth, shedding costs wherever they can in the meantime, these actions may cause damage that will take some time to fix.”

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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 2020 final Manufacturing PMI data were collected 12-25 June 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 June 2020 flash was based on 81% 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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