

Embargoed until 0930 BST (0830 UTC) 3 August 2020

IHS MARKIT / CIPS UK MANUFACTURING PMI®

Output growth at 32-month high as reopening of manufacturers and clients gathers pace

KEY FINDINGS

UK Manufacturing PMI at 53.3 in July (Flash: 53.6)

Domestic new orders rise, but new export business falls

Business sentiment rises to 28-month high

July saw a solid improvement in the operating conditions faced by UK manufacturers, as output growth hit a 32-month high supported by the sharpest rise in new order volumes since the end of 2018. Business sentiment also recovered to its highest level in 28 months.

Survey data were collected between 13-28 July.

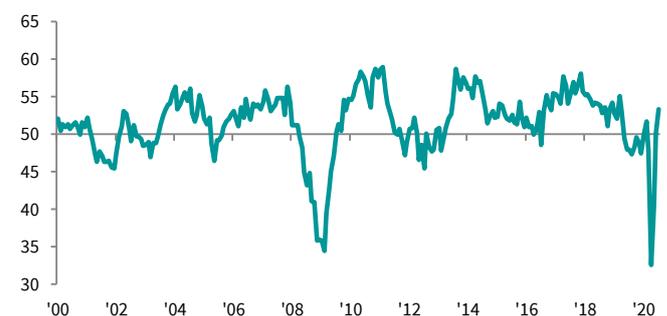
The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to a 16-month high of 53.3 in July, up from 50.1 in June and below the earlier flash estimate of 53.6. The headline PMI – calculated as a weighted-average of five sub-indices – has posted above the neutral 50.0 mark separating improvement from deterioration in each of the past two months.

Manufacturers linked the expansion to a further loosening of the lockdown conditions in place due to the coronavirus disease 2019 (COVID-19). This allowed manufacturers to restart, or raise, production in response to clients reopening. It should be noted that, while a positive start to the recovery, it will take several months of growth to fully recoup the output lost since the start of the pandemic.

Manufacturing production was raised for the second successive month and to the greatest extent since November 2017. Growth was especially marked in the consumer and intermediate goods industries. Investment goods production also rose for the first time in 15 months. In all three sub-sectors higher production was underpinned by improved inflows of new work received.

New orders expanded for the first time since February, mainly

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

reflecting a strengthening of domestic demand. In contrast, new export business fell for the ninth straight month, albeit to the weakest extent since February. Although restrictions in place to combat the COVID-19 pandemic constrained overseas demand, there were also reports of new order inflows starting to pick-up in several markets, including parts of Europe, the US and Asia.

Signs of economic recovery and expectations of client confidence strengthening led to improved sentiment among manufacturers during July. Confidence rose to its highest since March 2018, with 62% of companies expecting production to be higher one year from now. Only 12% of firms forecast a contraction. Sentiment strengthened across the consumer, intermediate and investment goods industries.

Manufacturing employment fell for the sixth month running in July, albeit to the least marked extent since March. Where job cuts were registered, it was linked to redundancies, natural wastage and aligning capacity with current output needs. Purchasing activity was raised for the first time since last October, but stocks of inputs and finished products both fell further. Supply-chain disruption continued.

Average input prices rose for the eighth month running in July, and at the fastest pace in over a year. The pass-through of higher costs resulted in a further rise in output charges.

COMMENT

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

“The UK manufacturing sector started the third quarter on a much firmer footing, with output growth hitting a near three-year high and new orders rising for the first time in five months. The recovery strengthened as a loosening of lockdown restrictions allowed manufacturers to restart or raise production. July also saw signs of furloughed employees returning to work and customers resuming spending. Business optimism also rose to its highest for over two years as companies grew more hopeful that the future has brightened.

“Despite the solid start to the recovery, the road left to travel remains long and precarious. An extended period of growth is still needed to fully recoup the ground lost in recent months. This is also the case for the labour market, where job losses are continuing despite businesses reopening. There is a significant risk of further redundancies and of furloughed workers not returning unless demand and confidence stage more substantial and long-lasting rebounds in the months ahead.”

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

“The makers were on the march again in July as production started to flow more easily and businesses saw new orders rise at the fastest pace since the end of 2018.

“Driven largely by demand from the domestic market, clients looked towards building more localised supplier bases as opportunities for trade were unblocked with the end of the UK’s lockdown. However, overseas customers failed to deliver any positive news. Export orders fell for the ninth month in a row, exposing the ongoing fragility of the broken global marketplace due to the pandemic.

“The employment situation also remained bleak, as job shedding continued and businesses re-modelled their strategies to the shrinking opportunities. With a ravaged economic landscape it will be a slow train to recovery, managing the ebbs of flow of potential disruptions to come.”

CONTACT

IHS Markit

Katherine Smith
Public Relations
T: +1 781 301 9311
Katherine.Smith@ihsmarkit.com

CIPS

Trudy Salandiak
Corporate Communications
T: +44-1780-761576
trudy.salandiak@cips.org

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.

July 2020 final Manufacturing PMI data were collected 13-28 July 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 July 2020 flash was based on 89% 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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