News Release

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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing recovery continues in September as output and new orders rise again

KEY FINDINGS

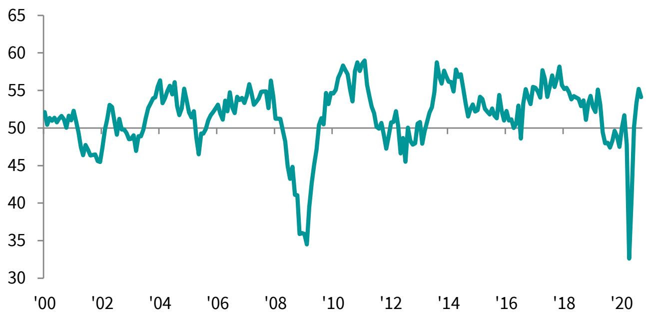
UK Manufacturing PMI at 54.1 in September

Output rises for fourth successive month

Further job losses reported

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

The UK manufacturing sector continued its recovery from the coronavirus disease 2019 (COVID-19) induced downturn earlier in the year. Output and new orders increased as new work intakes improved from both domestic and overseas markets.

Survey data were collected 11-25 September.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell slightly to 54.1 in September, down from August's two-and-a-half year high of 55.2. The PMI has remained above its no-change mark of 50.0 for four successive months, its longest sequence in expansion territory since early-2019.

Output increased for the fourth consecutive month in September, despite the rate of growth easing slightly. Higher production was linked to improved inflows of new work, companies reopening and staff returning to work. Solid expansions were seen in the consumer, intermediate and investment goods sectors, with the steepest increase in intermediate goods. Large manufacturers saw the fastest growth and small-sized firms the slowest.

Underpinning the ongoing recovery in output volumes was a further increase in new order intakes. New business rose for the third successive month, reflecting a combination of improving customer demand, rising export orders, signs of recovery in the retail sector and the reopening of schools. That said, the rate of increase was slightly less marked than August's near three-year high.

The ongoing reopening of many economies around the world from lockdowns and changes to COVID-19 restrictions boosted the export performance of the UK manufacturing sector in September. New export business rose for the second successive month, with the rate of expansion accelerating to a 21-month high. The increase was linked to stronger demand from Europe, Asia and North America.

Job losses were registered for the eighth consecutive month in September, although the rate of reduction eased to its lowest since February. Some firms implemented redundancy programs in response to the ongoing economic impact of the COVID-19 pandemic. A decline in work-in-hand signalled that sufficient capacity remained to cope with the needs of new and existing contracts.

Input cost inflation accelerated to a 21-month high in September, leading manufacturers to raise selling prices again. Input price increases were the result of higher raw material costs, rising competition and demand for inputs and the resulting supply shortages. This also led to a lengthening of vendor lead times.

Hopes of continued recovery meant that manufacturers maintained a positive outlook for the year ahead, with 60% expecting output to be higher 12 months from now. The overall degree of confidence remained close to July's 28-month high. However, there were also increased numbers of firms noting uncertainty about the path ahead, particularly regarding COVID-19 and Brexit.

COMMENT

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

"September saw UK manufacturing continue its recovery from the steep COVID-19 induced downturn. Although rates of expansion in output and new orders lost some of the bounce experienced in August, they remained solid and above the survey's long-run averages. Export demand is also picking up, as economies across the world restart operations and adjust to COVID-19 restrictions. Business sentiment remained positive as a result, with three-fifths of UK manufacturers forecasting a rise in output over the coming year.

"While the sector is still making positive strides, keep in mind that there remain considerable challenges ahead. This is especially true for the labour market, which saw further job losses and redundancies in September. The full economic cost incurred by 2020 will likely rise further as governments look to re-introduce some restrictions, job support schemes are tapered and rising numbers of firms start focussing on Brexit as a further cause of uncertainty and disruption during the remainder of the year."

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

"Manufacturing made solid progress towards recovery in September, with just a minor step back from August's two-and-a-half-year index high. New pipelines of work increased for the third month in a row and export orders the strongest for almost two years.

"The impetus behind this resurgence, lies in the release of delayed projects and more people returning to work but the employment picture overall darkened significantly. Some firms continued to make use of the furlough scheme to retain their workforce, but larger numbers of redundancies this month means we have a wretched end to the third quarter as job numbers fell for the eighth month in a row.

"This in turn placed a strain on production capacity further down the supply chain. Longer delivery times and increased competition for raw materials, caused the highest rate of input price inflation since December 2018. The increase in prices to customers followed closely behind and is set to continue for the remainder of the year

"In spite of these difficulties, the sector's glass remained half full, and optimism for the year ahead was sustained. Some businesses were using forward buying strategies to build stocks for Christmas and Brexit, which may boost employment levels, but it is anyone's guess whether more lockdown disruptions derail this hope."

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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.

September 2020 final Manufacturing PMI data were collected 11-25 September 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 September 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.

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.