UK Manufacturing PMI signals contraction as new orders fall and stockpiling activity pauses

The UK manufacturing sector showed increased signs of renewed contraction in May. At 49.4, down sharply from 53.1 in April, the headline seasonally adjusted IHS Markit/CIPS Purchasing Managers’ Index® (PMI®) fell below the neutral 50.0 benchmark for the first time since July 2016.

Manufacturers reported increased difficulties in convincing clients to commit to new contracts during May. This mainly reflected the already high level of inventories following recent stockpiling activity in advance of the original Brexit date. The total volume of new business placed fell for the first time in seven months. The rate of contraction was the greatest since July 2016 and one of the fastest seen over the past six-and-a-half years.

New order inflows deteriorated from both domestic and overseas sources. New export business fell for the second month running and at the quickest pace in over four-and-a-half years. Manufacturers reported lower demand from Asia and Europe. There was also mention of Brexit uncertainty, including clients diverting supply chains away from the UK, leading to lower demand from within the EU.

The renewed downturn in new orders weighed on both output and employment during May. The trend in production was the weakest during the past 34 months, as an increase at large companies was mostly offset by contractions at small and medium sized firms. Manufacturing employment fell for the second straight month. There was mention of workforce restructuring, difficulties recruiting appropriate staff, natural attrition and improved efficiency as further factors underlying job losses.

Sub-sector data indicated that much of the weakness was confined to the intermediate and investment goods industries. These both saw output, new orders and employment move lower during the latest survey month. In contrast, consumer goods producers fared better, seeing output, new business and staffing levels all continue to rise.

May saw the trends in inventory holdings and purchasing activity all impacted by the delay to Brexit. The latest survey saw a sharp easing in the rate of increase in finished goods stocks and pre-production inventories drop for the first time in ten months. The latter was driven by a sharp pull-back in input buying volumes, which fell at the sharpest rate since July 2016.

Output charges inflation rose to a three-month high in May, largely reflecting a marked acceleration for consumer goods. Purchase price inflation edged lower.

Manufacturers remained optimistic in May. Almost 49% expect output to be higher in 12 months’ time, compared to 7% forecasting contraction. Optimism was attributed to reduced uncertainty following Brexit, growth plans, recoveries in domestic and overseas demand, new product launches and using new technologies. However, global trade tensions and Brexit continued to weigh on some firms’ outlooks.
Rob Dobson, Director at IHS Markit, which compiles the survey:

“The UK manufacturing sector was buffeted by ongoing Brexit uncertainty again in May. The headline PMI posted 49.4, moving back into contraction territory for the first time since July 2016, the month directly following the EU referendum result. The trend in output weakened and, based on its relationship with official ONS data, is pointing to a renewed downturn of production

“New order inflows declined from both domestic and overseas markets, as already high stock levels at manufacturers and their clients led to difficulties in sustaining output levels and getting agreement on new contracts. Demand was also impacted by ongoing global trade tensions, as well as by companies starting to unwind inventories built up in advance of the original Brexit date. Some EU-based clients were also reported to have shifted supply chains away from the UK.

“Although the consumer goods sector remained a positive growth spot, the intermediate and investment goods industries are still comparatively weak, in part reflecting the reverberation of the recent sharp slowdown the autos sector. With these demand, purchasing and inventory trends likely to stay in play for the foreseeable future, the current manufacturing downturn may have further to run and will have negative ramifications for growth in the broader economy in the months ahead.”

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

“Concern for manufacturers has deepened this month as the sector’s performance shrank in May and tumbled into contraction. With one of the fastest shrinking rates seen in six and a half years and the biggest drop since July 2016, straight after the referendum result, based on this result, there is the likelihood of more bad news to come.

“Supply chain managers voiced their deep anxieties over Brexit’s continuing impacts as some supply chains were re-directed away from the UK resulting in a drop in total new orders for the first time since October. Clients from Europe and Asia were particularly reluctant to commit to new business across all sectors but the intermediate sector suffered the worst fall in seven years as the pipeline of work dried up. It has now become obvious that the stockpiling activities of the last few months were propping up the sector’s performance.

“As business uncertainty continued unabated, manufacturers focussed on efficiency and cost reduction drives as job creation fell for the second consecutive month and workforces shrank in response. If there are any silver linings amongst these darkening clouds then the softening in input price inflation provides a scrap of relief along with an improvement in delivery times not seen for three and a half years.

“A slowdown in the global economy, and trade wars hotting up could tip the scales even further next month and increase the likelihood that the UK manufacturing sector will remain in contraction territory.”
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.

May 2019 data were collected 13-28 May 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 (Nasdaq: 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. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, click here.

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.

About IHS
© 2019 IHS Markit