Downturn in UK manufacturing continues as rate of job losses accelerates

The downturn in the UK manufacturing sector continued in September. Although the contraction was shallower than the prior survey month, levels of output, new orders, new export business and employment nonetheless fell further. Stocks of purchases and input buying volumes also rose for the first time in recent months, as some companies restarted their Brexit preparations.

Manufacturing production continued to contract in September, as companies cut back output in response to a further reduction in new order intakes. The investment goods sector was by far the weakest performer, seeing the steepest drops in both output and new business. This reflected, at least in part, a reluctance among clients to commit to capital expenditure due to ongoing market uncertainties (economic, political and Brexit related).

The consumer goods sector was the only category to see output rise in September, as production in the intermediate goods industry stagnated. The outlook for both sectors remained lacklustre however, as intakes of new work decreased in both during September.

Companies reported lower inflows of new work from the domestic and overseas markets, with the trend in the former especially weak. Although the rate of decline in new export business was much slower than in August, reports that Brexit uncertainty and clients routing supply chains away from the UK still impacted on foreign demand.

The ongoing weakness exhibited by manufacturing filtered through to the labour market, with staffing levels reduced at the fastest pace since February 2013. Companies reported that capacity had been reduced due to lower demand, efforts to control costs, redundancies and natural wastage. Job losses were widespread across the sector, with declines seen across the consumer, intermediate and investment goods industries and at SMEs and large-sized producers.

September saw increased levels of input buying among manufacturers. A number of firms reported that purchasing had been raised as part of restarting Brexit preparations. This was also reflected in the trend in pre-production stocks, which rose for the first time in five months. Inflationary pressures remained relatively contained, as rates of increase in input costs and selling prices both eased.

Business optimism remained at a subdued level in September, despite improving from the series-record low registered in the prior survey month. Companies reported that ongoing uncertainties made forecasting future trends increasingly difficult.
Rob Dobson, Director at IHS Markit, which compiles the survey:
“The UK manufacturing downturn continued in September, adding to signs that the sector may be sliding into recession. Output, new orders and employment all fell further as rising political, trade and economic uncertainties exacerbated concerns about Brexit.

“Some manufacturers noted increased inventory building activity in preparation for the forthcoming exit date, but the impact of such Brexit-related stock building was dwarfed by weakening demand for other customers, due in part to clients routing supply chains away from the UK.

“The rate of job losses accelerated to a six-and-a-half-year high, highlighting how manufacturers are increasingly seeking to cut costs. Similarly, the investment goods sector was especially hard hit in September, seeing the sharpest drops in production and new business, as clients reined in capital spending while conditions remained volatile.

“The shroud of uncertainty also weighed on manufacturers’ confidence, which remained at one of its lowest ebbs in the survey history. These headwinds all ensure that manufacturing will likely remain a drag on UK economic growth during the months ahead.”

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply:
“Businesses were less hopeful about the strength of the marketplace in generating manufacturing growth in the coming months as new orders continued to fall away, and business optimism remained at lower than average levels in all three sub-sectors. Export orders dwindled for the sixth successive month, and domestically, clients avoided spending and investing in this current landscape of prolonged uncertainty and political indecision.

“As the Brexit October deadline came into view, the sector offered two opposing strategies to prepare for the UK’s departure. Where some companies were burning through their levels of materials, others began building stocks up again, fearful of an imminent and abrupt rupture in their supply chains. European clients became more resigned and made concrete plans to move away from UK suppliers and business closer to home seemed more reliable.

“This exhausting set of conditions meant companies shed jobs at a rate not seen since 2013 as redundancy packages were prepared and new staffing plans abandoned. Brexit combined with a slowdown in the global economy, rising trade tensions and potential oil supply difficulties in the Middle East, means we’re likely to see a chilling end to the last quarter as Halloween approaches.”
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 2019 data were collected 12-25 September 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.

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