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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturing sector remains subdued as new export order inflows fall further

KEY FINDINGS

UK Manufacturing PMI at 53.1 in November (two-month high)

Trends in output and new orders strengthen slightly

New export orders decrease for second month running

November saw a slight acceleration in the rate of improvement of UK manufacturing business conditions. The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to 53.1, up from October's 27-month low of 51.1. However, the performance of the sector remained comparatively lacklustre, with the latest PMI reading still among the weakest registered over the past two-and-a-half years.

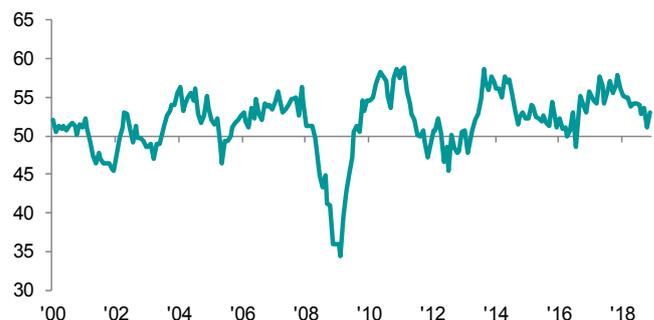
The trend in output strengthened slightly during November, as new order intakes rose following October's decline. The domestic market remained the prime source of new contract wins. Where an increase was reported, this was linked to new product launches and client stock-building. Output and new orders rose across the consumer, intermediate and investment goods sub-industries.

The level of new export business dropped for the second straight month in November, the first back-to-back contractions since early-2016. Companies focussed on reduced client interest from overseas and ongoing Brexit uncertainties as the main factors underlying the latest decline in foreign demand. Only the consumer goods sector saw an increase in new export business.

The latest survey provided a mixed picture regarding the outlook for the UK manufacturing sector. Companies remained confident on balance, with 46% forecasting output would be higher in one year's time and less than one-in-ten expecting a contraction.

A hoped for recovery in market demand, planned marketing

Manufacturing PMI
sa, >50 = improvement since previous month



strategies, new product launches, investment in new machinery and planned business expansions were all cited as reasons for optimism by manufacturers. However, the overall degree of optimism dipped to a 27-month low, as Brexit uncertainty, exchange rate concerns and a slowing economy weighed on confidence.

November saw a mild rebound in the level of UK manufacturing employment, with staffing levels rising following a decline in October. Jobs growth reflected increased activity, new product launches and preparations for expected future demand. Staff headcounts rose in the intermediate and investment goods sectors, but fell at consumer goods producers.

Inflation of input costs and selling prices accelerated in November, remaining above their respective survey averages in both cases. That said, price increases were comparatively mild compared to rates prevailing over the past two-and-a-half years. Manufacturers linked higher output charges to rising input costs, which in turn reflected higher commodity prices, ongoing exchange rate effects and shortages for certain raw materials.

Average vendor performance continued to deteriorate in November, as already strained capacity at suppliers was further tested by an increase in purchasing activity. Manufacturers reported that input buying and stocks of purchases were being raised to guard against ongoing Brexit and supply-chain uncertainties.

COMMENT

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

"The November PMI provided a lacklustre picture of the UK manufacturing sector, as ongoing global trade tensions and Brexit uncertainty weighed on current business conditions and dampened the outlook for the year ahead.

"Although November saw the headline PMI regain some lost ground and trends in output, new orders and employment picked up slightly from a weak October, growth is still among the weakest seen over the past two-and-a-half years. Based on its relationship against official ONS data, the survey indicators suggest manufacturing output is on course to make no contribution to GDP growth in the final quarter, with a clear risk of output contracting unless December proves a stronger month.

"While demand from the domestic market was a positive spur, in some cases as clients built up stocks in response to Brexit and other supply-chain uncertainties, manufacturers also reported a further decrease in new export business as slower global economic growth and Brexit worries took a bite out of foreign demand. Brexit worries also increasingly dominated the outlook for the sector. Although still forecasting growth for the year ahead, manufacturers' confidence fell to its lowest ebb since August 2016."

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

"The sector offered a crumb of positive news this month with a small uplift in overall activity and greater purchasing volumes suggesting that the sector is strengthening at last. However the challenges lurking round the corner reveal that this marginal growth may not be enough to keep the sector on an even keel in the last quarter.

"The leading light that was new export orders weakened for a second consecutive month as domestic clients contributed to the pipeline of new work. Also fears over possible raw material shortages in the coming months meant some firms were hoarding stocks to weather any supply chain disruptions. Suppliers remained in control, and this further frustrated business already tussling the longer lead times and stock unavailability."

"Optimism took a knock as the sector reported a 27-month low, and businesses looked to new product launches and greater efficiencies along with reduced finished goods inventories to increase cashflow. It appears these are currently the only weapons in the sector's armoury as uncertainty lingers and the battle for an agreed Brexit continues."

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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.

November 2018 data were collected 12-27 November 2018.

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](https://www.ihsmarkit.com/products/pmi.html).

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