Markit/CIPS UK Manufacturing PMI®

UK manufacturing records further solid growth of output and new orders in February

Key findings:
- UK Manufacturing PMI at 54.6 in February (55.7 in January)
- Output and new orders rise solidly, albeit at slower rates
- Price inflationary pressures remain elevated

Data collected February 10-23

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Summary:
The UK manufacturing sector experienced further solid growth of production and new orders during February. Although rates of expansion slowed, they remained well above the respective long-run averages. Increased new business inflows were underpinned by improved domestic and overseas demand, the latter aided by the continued weakness of the sterling exchange rate.

The seasonally adjusted Markit/CIPS Purchasing Managers’ Index® (PMI®) posted 54.6 in February, a three-month low and down further from December’s two-and-a-half year high. However, the PMI was firmly above its long-run average of 51.6 and nonetheless signalled expansion for the seventh successive month.

February data pointed to a further marked increase in UK manufacturing production. Growth remained solid across the three product categories – consumer, intermediate and investment goods – with the steepest increase seen in the latter.

Underpinning the latest increase in output was a further solid expansion of new order volumes. Companies indicated that growth of new business from the domestic market slowed, but noted that this was partly offset by a sharp acceleration in the rate of increase in new export business.

New export orders rose for the ninth successive month in February. Where an increase was reported, companies attributed this to improved sales to clients in mainland Europe, the USA, Asia, Australia, Canada and Ireland.

The ongoing upturn meant manufacturers maintained a positive outlook. Almost 50% expect...
output to be higher in one year’s time, compared to only 6% anticipating a decline. Optimism was linked to forecasts of improved demand, increased capital investment, company expansion plans and new product releases.

Business confidence underpinned further increases in employment and purchasing activity during February. Job creation was registered for the seventh consecutive month, with headcounts rising at SMEs and large-scale manufacturers. Purchasing activity increased at an identical rate to December’s two-and-a-half year high.

Rising demand for raw materials led to shortages for some inputs and greater pressure on supplier capacity. Vendor lead times lengthened to the second-greatest extent since mid-2011.

Supply-chain disruption alongside the cost impact of the weak sterling exchange rate led to a further sharp rise in purchase prices. Input cost inflation eased from January’s record high, but remained among the fastest seen during the survey history. This fed through to the factory gate, with output charges also rising at a rate close to January’s near series-record.

**Source**: IHS Markit, UK Office for National Statistics

**Comments**

**Rob Dobson, Senior Economist at IHS Markit, which compiles the survey:**

“The latest PMI signals that the UK manufacturing sector continued its solid start to the year. Although rates of expansion in output and new business lost impetus in February, growth remained comfortably above the long-run averages. The survey is signalling quarterly manufacturing output growth close to the 1.5% mark so far in the opening quarter which, if achieved, would be one of the best performances over the past seven years.

“The big question remains as to whether robust growth can be sustained or whether it will continue to wane in the coming months. The slowdown in new order growth and a drop in backlogs of work suggest output growth may slow further. However, elevated business optimism, continued job creation, a recovery in export orders and rising levels of purchasing all suggest that any easing will be only mild. Indeed, almost 50% of companies expect production to be higher in one year’s time.

“On the price front, input costs and output charges are still rising at near survey record rates. However, the recent easing in both suggests that the impact of the weak sterling exchange rate on prices is starting to subside, providing welcome respite with regards to pipeline inflationary pressures.”

**Duncan Brock, Director of Customer Relationships at the Chartered Institute of Procurement & Supply:**

“Buoyant economic conditions gave the sector a spring in its step. Levels of new business and overall activity grew for the seventh consecutive month, underpinned mainly by a strong rise in new export orders. The investment goods sector was the biggest winner with the fastest growth in production.

“As a result, manufacturers had the confidence to maintain good levels of job creation reflecting a positive mood around continuing market expansion.

“Any lingering wintry chills however, were attributed to the continuing rise in input prices. This month, the impact of the weak pound combined with a shortage of some raw materials meant cost inflation remained at one of its highest levels since records began. Consequently, suppliers were squeezed and delivery times were lengthened, the latter to the second-greatest extent since May 2011.”

– End –
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**Note to Editors:**

Where appropriate, please refer to the survey as the Markit/CIPS UK Manufacturing PMI®. The Markit/CIPS UK Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group and company workforce size, based on the industry and company size contributions to GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the ‘Report’ shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the ‘diffusion’ index. This index is the sum of the positive responses plus a half of those responding ‘the same’.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Markit/CIPS UK Manufacturing PMI® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers’ Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction. The individual survey indexes have been seasonally adjusted using the US Bureau of the Census X-11 programme. The seasonally adjusted series are then used to calculate the seasonally adjusted PMI. Markit do not revise underlying (unadjusted) survey data after first publication.

The Purchasing Managers’ Index® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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Purchasing Managers’ Index® (PMI®) surveys are now available for over 30 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 [www.markit.com/product/pmi](http://www.markit.com/product/pmi).

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