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IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK Manufacturing PMI at decade high as growth of output, new orders and employment gather pace

KEY FINDINGS

UK Manufacturing PMI at 58.9 in March (121-month high)

Business optimism at seven-year high

Supply-chain disruption and inflationary pressures build

The upturn in the UK manufacturing sector gained further momentum at the end of the third quarter. March saw the fastest output growth since late-2020, as inflows of new business from both domestic and overseas markets strengthened. The sector remained beset by severe supply-chain and logistic issues, however, leading to delivery delays from suppliers and disruption to production and distribution schedules.

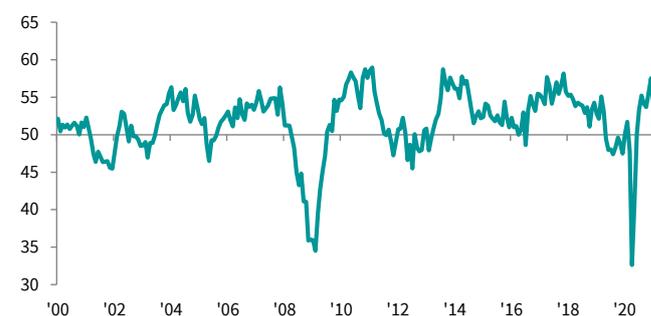
Survey data were collected 12-26 March.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) rose to a decade-high of 58.9 in March, its best outcome since February 2011. The PMI level was supported by improved growth of output, new orders and employment along with increased supplier lead times. A slower decrease in stocks of purchases also had a positive impact on the latest reading compared to one month ago.

Manufacturing output increased for the tenth successive month and at the quickest pace since last November. Solid and accelerated growth was signalled in both the intermediate and investment goods industries. Consumer goods production returned to expansion following back-to-back contractions.

Higher output was linked to improved new order intakes, the vaccine roll-out and preparations for the planned loosening of lockdown restrictions. New business rose at the second-fastest pace for over three years, with growth registered at consumer, intermediate and investment goods producers alike. Companies reported improved demand from

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit / CIPS.

domestic and overseas clients, rising business confidence and customers ordering early to guard against potential price rises and further supply-chain disruption. New export business rose at the quickest pace in the year-so-far, amid reports of improved demand from Europe, Asia and the US.

The ongoing rebound in domestic and global economic conditions underpinned increased optimism and job creation at UK factories. Business sentiment was at its most elevated for seven years, hitting unsurpassed levels at both consumer and investment goods producers. Almost two-thirds of manufacturers expect output to rise over the coming year (only 6% expect a contraction). Jobs growth was also at a seven-year high, supported by the sharpest rise in backlogs of work for 11 years.

Supply-chain issues remained a constraint on UK manufacturers during March, disrupting raw material deliveries, production schedules and the onward distribution of finished goods to clients. Vendor lead times lengthened to the second-greatest extent in survey history due to coronavirus disease 2019 (COVID-19) restrictions, low stocks at suppliers, port disruption, shipping delays, post-Brexit issues and raw material shortages. With demand outstripping supply, input price inflation accelerated to a 50-month high. This also led to upward pressure on output charges, which rose at the quickest pace since January 2017.

COMMENT

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

“Signs of Spring have appeared in the UK manufacturing sector, with the PMI hitting its highest level in a decade. Growth of output, order books and employment all gathered momentum and optimism about the year ahead improved further. The domestic market remained the prime source of new orders, as companies reported that the vaccine roll-out and clients’ preparations for the loosening of lockdown restrictions underpinned the expansion. Many expect this process to be supportive during the year ahead as well, raising business optimism and jobs growth to their highest levels for seven years.

“Weak export sales and supply-chain issues are likely to remain constraints on growth moving forward, however, with shipping issues already leading to severe disruption to production schedules, raw material availability and the onward distribution of finished products to clients, especially abroad. The extent to which supply chains have worsened through much of the past year has been unsurpassed during the near three-decade survey history.

“Demand outstripping supply to such a wide extent is meanwhile driving up prices, with rates of inflation in input costs and selling prices both accelerating to near-record highs. The longer these inflationary and supply-chain worries persist, the greater the potential to curb the strength of the upturn as the economy unlocks in the coming weeks and months.”

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

“The floodgates to new business, rising confidence and more jobs were opened in March with the highest index level since the last recession and green shoots of recovery popped up across the UK as the global marketplace improved.

“Manufacturers picked up the pace to meet new orders rising at the fastest levels for three years with the domestic pipeline of work strengthening and previously deflated export orders bouncing back across the board, including from the EU. In turn suppliers were under the cosh to keep up as the list of shortages in raw materials increased leading to the second-greatest lengthening of delivery times in the history of the survey.

“However, these low points did not divert the sector from its enthusiasm about the coming year and with job creation, both were at a near seven-year highs. All in all, a great end to the first quarter where some businesses recovered losses from last year but the reality of continued supply chain disruption as a result of Covid, Brexit and now the Suez delays could potentially rein back some of the gains in April.”

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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.

March 2021 final Manufacturing PMI data were collected 12-26 March 2021.

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 March 2021 flash was based on 88% 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

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