

Embargoed until 0930 London (0930 UTC) 1 March 2019

IHS MARKIT / CIPS UK MANUFACTURING PMI®

UK manufacturers report further survey-record stockpiling of inputs in February

KEY FINDINGS

UK Manufacturing PMI at 52.0 in February (four-month low)

Stocks of inputs and finished goods rise sharply

Rate of job losses at six-year high as optimism hits series low

February saw manufacturers continue to implement plans to mitigate potential Brexit-related disruptions. Purchasing activity was scaled-up to stockpile raw materials, leading to a survey-record expansion in input inventories. The uncertain outlook also impacted on business optimism and employment, with confidence at a series-record low and the rate of job losses hitting a six-year high.

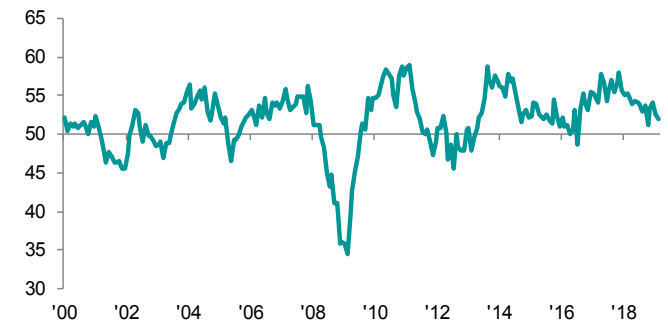
The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) fell to a four-month low of 52.0 in February, down from a revised reading of 52.6 in January (originally reported as 52.8). The PMI is currently at its second-lowest level since July 2016 – the month following the EU referendum.

Although the trend in manufacturing output improved slightly in February, this mainly reflected efforts to reduce backlogs of work and build stocks of finished products in advance of Brexit. Growth of new order inflows eased to near-stagnation, amid signs of a slowing domestic market and a further drop in new export orders. Companies linked lower overseas demand to weaker global economic growth, especially in Europe.

Manufacturers' optimism regarding future output fell to its lowest level in the series history in February. Positive sentiment was either at, or near to, record lows across the consumer, intermediate and investment goods sectors. Some companies forecast that expected gains in market share and reduced levels of uncertainty may lead to higher output one year from now. However, many also remained

Manufacturing PMI

sa, >50 = improvement since previous month



concerned about the impact of Brexit, exchange rate volatility and slower global economic growth.

Preparations to mitigate Brexit uncertainty were most visible in the trend in stocks of purchases. Pre-production inventories rose to the greatest extent in the series history, after also hitting a record high in January. Almost 70% of the companies offering a reason behind the build-up of stocks attributed it to Brexit.

Efforts to stockpile inputs were aided by a solid expansion of purchasing activity at UK manufacturers. This was also felt at suppliers, where the increased demand for raw materials led to a further marked lengthening in average lead times (albeit the least marked since January 2017).

The combination of the recent lacklustre performance of the sector alongside the uncertain outlook filtered through to the labour market in February. Manufacturers cut back on employment for the second consecutive month, with the rate of job losses the steepest since February 2013. Employee numbers were reduced across the consumer, intermediate and investment goods sectors, and at small-, medium- and large-scale enterprises.

Input cost inflationary pressures continued to ease in February, with the rate of increase the lowest since April 2016. Manufacturers were still able to pass on part of the rise to clients, leading to a further increase in selling prices.

COMMENT

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

"With Brexit day looming, UK manufacturers continued to implement plans to mitigate potential disruptions. Stockpiling of both inputs and finished products remained the order of the day, with growth in the former hitting a fresh record high.

"The current elevated degree of uncertainty is also having knock-on effects for business confidence and employment, with optimism at its lowest ebb in the survey's history and the rate of job losses accelerating to a six-year high.

"Official data confirm that manufacturing is already in recession, and the February PMI offers little evidence that any short-lived boost to output from stock-building is sufficient to claw the sector back into growth territory.

"Apart from the uncertain outlook, manufacturers also face a darkening backdrop of a domestic market slowdown and weakening inflows of new export business, as global growth decelerates and trade tensions bite. Manufacturing and the broader UK economy therefore face a difficult 2019, with the slowdown being exacerbated later in the year as inventory positions are unwound and Brexit-related headwinds likely to linger."

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

"The UK manufacturing sector continues to suffer the slings and arrows of outrageous fortune as the harsh realities of Brexit uncertainty, challenges in the global economy and a weak pound affected confidence, jobs and overall activity.

"Though the Index number remained steady above the 50 mark, the underlying reasons for its steadfastness were less encouraging. Firms said they were stockpiling raw materials and finished goods to keep their businesses viable in the coming months. Stocks of purchases also rose at the fastest rate since the survey started in 1992 as the fear of customs delays, tariffs and a 'no-deal' scenario felt real for many.

"The sector's sickness was also visible in employment levels with the steepest job losses in six years and with business optimism at its lowest levels since 2012, firms are unlikely to start hiring any time soon. The small gram of positivity around the reduction in inflationary pressures on input prices offered little consolation.

"In summary, the march of the makers has turned into a painful crawl where only certainty about the Brexit way forward can ease the sector's pain."

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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.

February 2019 data were collected 12-25 February 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](https://www.ihsmarkit.com/products/pmi.html).

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