

News Release

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S&P Global UK Manufacturing PMI®

UK manufacturing downturn continues as weak demand and Red Sea crisis disrupt production

Key findings

Manufacturing PMI at 47.5 (10-month high)

Production declines as new order intakes fall

Red Sea crisis leads to supply disruption

Conditions in the UK manufacturing sector remained challenging during February, as the ongoing crisis in the Red Sea caused disruptions to both production and vendor delivery schedules. In several cases manufacturers mentioned that these disruptions were driving up costs as they attempted to locate alternative suppliers from more expensive markets closer to home. Demand also remained weak, with new order intakes falling at the fastest rate since last October.

The seasonally adjusted S&P Global UK Manufacturing Purchasing Managers' Index™ (PMI®) posted 47.5 in February, up from 47.0 in January and above the earlier flash estimate of 47.1. Although the PMI has signalled contractions in each of the past 19 months, the latest reading was the best since April 2023.

The contractions registered for four out of the five PMI subcomponents (new orders, output, employment and stocks of purchases) were all consistent with a deterioration in overall operating conditions during February. The only sub-index to have a positive effect on the PMI level was suppliers' delivery times, which lengthened to the greatest extent since July 2022. That said, as the increase in lead times was driven by supply disruptions as opposed to rising input demand, the trend in that index is more a symptom of the challenging situation than a positive in itself.

Manufacturing production fell for the twelfth consecutive month in February, with contractions registered in the consumer and intermediate goods sub-industries. That said, the overall rate of decline eased to a three-month low. Companies reported weaker demand from both domestic and overseas clients, lower sales volumes, market negativity and disruption to production schedules due to the Red Sea crisis.

The total volume of new business placed with manufacturers decreased for the eleventh month in a row during February. There were reports of client destocking, subdued market confidence and financial pressures all leading to lower new work intakes from both UK and overseas based customers. New export business fell for the twenty-fifth consecutive

UK Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-26 February 2024.

Comment

Commenting on the latest survey results, Rob Dobson, Director at S&P Global Market Intelligence, said:

“UK manufacturers faced challenging circumstances in February, as the ongoing impact of the Red Sea crisis delayed raw material deliveries, inflated purchase prices and impacted production capabilities. There were also knock-on effects for demand, as new export orders were hit by both supply disruptions and higher shipping costs. Production volumes subsequently contracted for the twelfth successive month while total new orders fell at the sharpest rate since October.

“The impacts were felt particularly hard on the price and supply fronts. Input cost inflation hit an 11-month high, leading to a further increase in selling prices. Average supplier lead times meanwhile lengthened to the greatest extent since mid-2022. Several manufacturers noted that they faced the difficult choice between accepting delays from re-routed shipping or facing the prospect of paying higher prices to source from closer to home. This comes at a time of already heightened cost caution at manufacturers in response to weak demand, as highlighted by further cuts to employment, purchasing and inventories in February.

“Although the supply impact and effect of prices is muted by standards seen at the height of the pandemic, any upward pressure on inflation will be a concern to policymakers and may add to calls that it is too early to be confident on the timing of interest rate cuts.”

PMI®

by S&P Global

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month and at the quickest pace since October 2023. Export demand was also impacted by disruptions, delays and higher costs associated with re-routing shipping away from the Red Sea and Suez Canal.

Weak demand contributed to the depletion of work-in-hand (but not yet completed) at UK factories. Manufacturers reported that work on existing contracts had been used as a substitute for new orders to support production volumes. Efforts were also ongoing to trim excess capacity, with staffing levels reduced for the seventeenth successive month. Lower employment reflected restructuring, redundancies and cost management programmes.

Average vendor lead times lengthened to the greatest extent in over one-and-a-half years (since July 2022). By far the biggest impact on supplier performance was the effects of the Red Sea crisis. This also contributed to a further increase in average purchase prices, which rose for the second month in a row. There were also reports of supplier price rises and higher transportation costs. Part of the increase in costs was passed on to clients, as average output charges rose for the fourth month running.

Cost considerations and stock normalisation programmes led to leaner inventories of both finished products and inputs and also lower levels of purchasing activity during February. All three variables were lowered across each of the sub-sectors (consumer, intermediate and investment goods) covered by the survey.

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Survey methodology

The S&P Global UK Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in January 1992.

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.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Flash vs. final data

Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.1 (0.4 in absolute terms).

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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.

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