

News Release

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S&P Global UK Manufacturing PMI®

UK manufacturing contracts as Red Sea crisis hits supply chains and contributes to rising costs

Key findings

Manufacturing PMI rises to 47.0 in January

Output, new orders and employment contract

Input costs and selling prices both rise

The downturn in the UK manufacturing sector continued at the start of 2024. January saw output and new orders decline further, leading to additional job losses and cutbacks in purchasing and stock holdings. Manufacturers also experienced rising supply chain difficulties, as the Red Sea crisis led to the re-routing of input deliveries away from the Suez Canal.

The seasonally adjusted S&P Global UK Manufacturing Purchasing Managers' Index™ (PMI®) posted 47.0 in January, up from 46.2 in December but below the earlier flash estimate of 47.3. The PMI has signalled a deterioration in operating conditions in each of the past 18 months. Four out of the five PMI sub-components – output, new orders, employment and stocks of purchases – were showing trends consistent with overall contraction.

Manufacturing production decreased for the eleventh successive month in January, with the rate of contraction unchanged from December's solid pace. Companies linked lower output to weaker new work inflows, efforts to reduce inventory holdings and disruption caused by supply chain delays. Where an increase was reported, there was mention of work on existing contracts being used as a substitute for new orders to support production volumes.

Contractions in output were signalled across the consumer, intermediate and investment goods industries. All of these sectors also saw intakes of new work fall during January.

Weaker demand in both the UK and overseas markets led to a further drop in total new orders at the start of 2024. Low customer confidence, order cancellations and client destocking also negatively impacted new business. On the export front, UK manufacturers reported weaker intakes of new work from the US, mainland China, the EU, Canada and the Middle East.

Rising geopolitical tensions focussed on the Red Sea route to the Suez Canal led to a marked increase in average vendor lead times during January, as inputs ordered from overseas were re-routed around the lower tip of Africa. Overall supplier performance deteriorated for the first time in a year and to the greatest extent since November 2022. Some firms

UK Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 11-26 January 2024.

Comment

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

"The downturn in UK manufacturing continued at the start of 2024, with output, new orders and employment all reduced in January. The contraction was widespread, with declines in all three variables seen across the consumer, intermediate and investment goods sub-industries. The ongoing weakness is leading to an increasingly cost-cautious approach at manufacturers, compelling cutbacks in purchasing and stock holdings as companies aim to achieve efficiencies, protect cash flow and defend fragile margins.

"Cost and stock management initiatives are being complicated by the Red Sea crisis. Diverting purchased inputs, especially those sourced from the APAC region, around the Cape of Good Hope is raising prices and extending supplier lead times. Some of our panel members estimate that a minimum of 12-18 days could be added to some expected deliveries, disrupting production schedules and raising inflationary pressures at a time when manufacturers are already struggling with weak demand both at home and overseas. One small ray of light from the January data is manufacturers expect some of these issues may be temporary, with an increasing number (over 50%) still forecasting output to be higher 12 months out."

PMI®

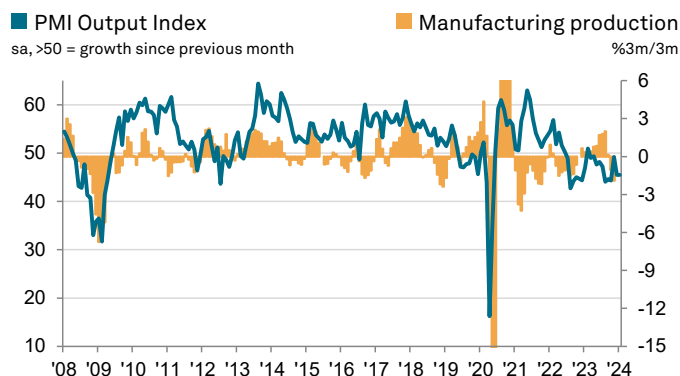
by S&P Global

estimated that a minimum of 12-18 days could be added to vendor lead times for goods ordered from the APAC region.

Disruption to that key global trade route also contributed to higher average input costs in January. There were also reports of supplier price increases and rising costs for chemicals, electronics, energy, food stuffs, metals, packaging and timber. Part of the increase was passed on to clients in the form of higher selling prices, with output charge inflation registered for the fourth time in the past five months.

The start of 2024 saw manufacturing employment lowered for the sixteenth month in a row. Companies linked job losses to the ongoing downturn in the sector, which also contributed to cutbacks in purchasing activity and stock holdings. Input buying volumes fell for the nineteenth successive month. Finished goods inventories fell at the quickest rate in almost two-and-a-half years, while the reduction in input stocks was the joint-steepest since November 2012 (matching that registered in August 2023).

UK manufacturers maintained a positive outlook despite the current downturn and persistent weakness of demand. Business optimism rose to a four-month high, reflecting new product launches, expectations of economic recovery and planned marketing efforts. That said, some firms remained concerned about weak market conditions and the risk of losing clients due to rising costs.



Sources: S&P Global PMI, ONS.

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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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