



The British Constructional Steelwork Association Limited

Unit 4 Hayfield Business Park, Field Lane, Auckley, Doncaster DN9 3FL

Telephone: 020 7839 8566

Email: postroom@steelconstruction.org

Website: www.steelconstruction.org

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7 June 2022

ALL MEMBERS MEMORANDUM No 99 - 22

UK MANUFACTURING PMI – MAY 2022

UK manufacturing growth slows as output, new orders and employment rise at weaker rates

Growth in the UK manufacturing sector eased during May, as rates of expansion in output, new orders and employment all decelerated. The slowdown was driven by weaker growth of domestic demand, lower intakes of new export work and ongoing disruption caused by stretched supply chains, rising cost pressures and the war in Ukraine.

The seasonally adjusted S&P Global / CIPS UK Manufacturing Purchasing Managers' Index® (PMI®) posted 54.6 in May, unchanged from the earlier flash estimate and down from 55.8 in April. The PMI – which is calculated from five subindices – has remained above the neutral 50.0 mark for 24 months.

The full *S&P Global/CIPS UK Manufacturing PMI®* Report is attached.

Lorraine MacKinder
BCSA Membership Manager

News Release

Embargoed until 0930 BST (0830 UTC) 1 June 2022

S&P Global / CIPS UK Manufacturing PMI®

UK manufacturing growth slows as output, new orders and employment rise at weaker rates

Key findings

Output growth at seven-month low

Consumer goods sector hit by weaker consumer demand

Input cost and output price inflation remain elevated

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Manufacturing output increased at the slowest pace since October 2021. The performance of the consumer goods industry was especially weak, with production falling for the first time in 15 months. Growth slowed at intermediate goods producers, but accelerated in the investment goods category.

May saw the weakest increase in new work received during the current 16-month sequence of expansion. Supply chain issues, subdued client confidence, signs of economic slowdown and reduced export order intakes all stymied new order growth.

New orders declined in both the consumer and intermediate goods sectors. The downturn in the former also reflected the impact on consumer demand of the current cost of living crisis. Investment goods producers saw new work intakes rise at a quicker pace.

May saw new export orders decline for the eighth time in the past nine months. Companies attributed lower inflows of new work from overseas to Brexit difficulties, transportation delays, shipping disruptions and the loss of orders due to the war in Ukraine

Weaker growth of new orders led to reduced backlogs of work

UK Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-26 May 2022.

and increased holdings of finished goods inventory. Stock levels rose due to intentional replenishment and delays in the despatch of finished goods to clients.

Stretched global supply chains and the associated scarcity of certain inputs also contributed to input price increases and rising levels of purchasing to build-up safety stocks.

Input cost inflation stayed substantial in May, easing from April's near-survey record high. Chemicals, energy, food, freight, fuels, gas, metals, oil, plastics, polymers, timber, and transportation (air, land and sea) were all reported as being up in price. China lockdowns, exchange rate factors, sanctions on Russia, the war in Ukraine, supply chain disruption and raw material scarcity also drove up purchasing costs.

Part of the increase in input costs was passed on to clients in May. Selling prices rose at a rate close to April's survey-record high. The increase was linked to inflationary pressures, material shortages and rising labour and energy costs.

Input buying activity rose for the sixteenth consecutive month in May, while stocks of purchased goods rose at the quickest pace in three months. Rising demand for materials combined with stretched global supply chains led to longer delivery times from vendors. That said, lead times increased to the weakest extent in over a year-and-a-half, suggesting that the pressure on supply chains was past its peak.

UK manufacturing employment rose for the seventeenth successive month in May, albeit at the slowest pace since last October. The outlook for the sector remained positive, with 55% of manufacturers expecting output to rise over the coming year. However, confidence slipped to a 17-month low, amid fears of a possible global recession, rising cost pressures and stretched world supply chains.

Comment

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

“The rate of expansion in UK manufacturing output eased to a seven-month low in May as companies face a barrage of headwinds. Factories are reporting a slowdown in domestic demand, falling exports, shortages of inputs and staff, rising cost pressures and heightened concern about the outlook given geopolitical uncertainties. The consumer goods sector was especially hard hit, as household demand slumped in response to the ongoing cost of living crisis. With both input costs and selling prices rising at rates close to April’s peaks, the surveys suggest that there is no sign of the inflationary surge abating any time soon. Manufacturers continue to report issues getting the right materials, at the right time for the right price, and energy prices remain a major concern.

“Forward-looking indicators from the survey suggest that a further slowdown may be in the offing. Business optimism dipped to a 17-month low and weaker demand growth led to surplus production, meaning warehouse stock levels are rising. Any reversal of this stock-building trend could reinforce the drag of other headwinds and add to downside risks to the outlook.”

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

“A softening in overall output growth amongst manufacturing companies in May revealed the slowest rate of expansion since October as supply chain managers pointed to war disruptions and unrelenting price hikes as reasons for this unwelcome trend.

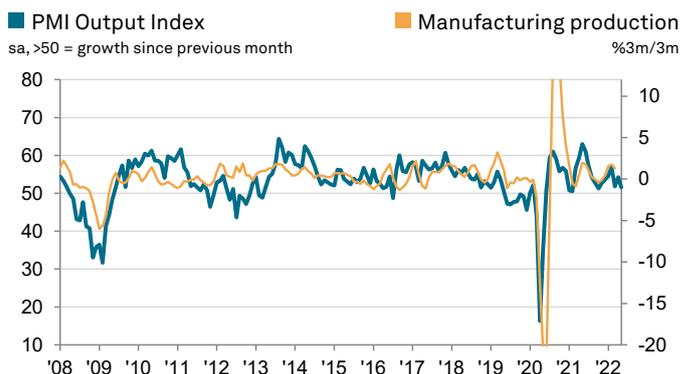
“Though new order levels rose for the sixteenth month they were noticeably softer and driven largely by the domestic market. Export levels fell, hindered by Brexit customs controls and general global disruption. This was especially evident in the consumer goods sector which suffered a sharp fall in overall output as nervous consumers concerned about rising food and energy costs reined back their spending.

“Though the strain on vendor performance eased there is little in this month’s figures to encourage the manufacturing sector and optimism fell to a 17-month low. Suffering a potent cocktail of more disruptions, rising cost pressures and a go-slow UK economy, businesses will be on a knife edge that any business decisions will be the right ones for the coming months.”

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Sources: S&P Global, CIPS, ONS.

Contact

Joanna Vickers
Corporate Communications
S&P Global
T: +44207-260-2234
joanna.vickers@spglobal.com

Trudy Salandiak
Corporate Communications
CIPS
T: +44-1780-761576
trudy.salandiak@cips.org

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Survey methodology

The S&P Global / CIPS 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@hsmarkit.com.

Flash vs. final data

Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.4 in absolute terms).

About S&P Global

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About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world’s largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has over 60,000 members in over 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability. www.cips.org

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. hsmarkit.com/products/pmi.html