Manufacturing confidence falls amid 'gloomy' October Budget messaging

Activity in the UK's manufacturing sector grew at a slower pace last month amid a drop in business optimism, according to new data.

The closely watched S&P Global UK manufacturing PMI survey recorded a reading of 51.5 for September, down from 52.5 in the previous month.

The lower reading, which was partly attributed to firms taking a wait-and-see approach ahead of the October Budget, was in line with analysts' expectations.

Any reading above 50 means a sector is in growth while a score below this means it is contracting.

While factory output rose for the fifth successive month, the survey showed confidence falling to a nine-month low, with optimism around future production trends faltering.

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Rob Dobson, S&P Global Market Intelligence

Cuts to employment, purchasing activity and stocks at manufacturers also pointed to rising cost caution.

Rob Dobson, director at S&P Global Market Intelligence, said: “The UK manufacturing sector is still expanding at a solid, albeit slightly slower, pace.

“Output rose for the fifth successive month in September, underpinned by a resilient domestic market.

“However, manufacturers have become more nervous about the outlook, suggesting that the current spell of impressive growth is fading, with business optimism about the year-ahead slumping to a nine-month low.

“The extent of the drop in confidence was striking, beaten only by that seen in March 2020 prior to Covid lockdowns.

“Uncertainty about the direction of government policy ahead of the coming Autumn Budget was a clear cause of the loss of confidence, especially given recent gloomy messaging, though firms are also worried about wider global geopolitical issues and economic growth risks.”

Input cost inflation also accelerated, hitting a 20-month high, leading manufacturers to push selling prices up.

Manufacturing accounts for about 9% of the wider economy, compared to the services sector which makes up about 80%.

Nonetheless, signs of sector-wide inflationary pressures will come as a warning to Bank of England policymakers, who have indicated they will take a slow-and-steady approach to cutting the base interest rate so as not to allow prices to rise too fast.

Mr Dobson continued: “Price pressures are also becoming a more prominent feature of the survey and a reminder that the inflation genie is not yet back in the bottle.

“Freight cost rises are a big factor underlying the resurgence in the price measures, as supply chains continue to feel the strain of the Red Sea crisis and global conflicts.”

Tom Pugh, economist at RSM UK, said: “The dip in the manufacturing PMI in September is probably at least partly due to concerns about the Budget creeping in.”

He added: “If the Budget bark turns out to be worse than its bite then we are likely to see a rebound in the next few months.

“That said, the jumps in the input and output price balances will concern the MPC (the Bank’s Monetary Policy Committee).

“Some of this is due to shipping disruptions, but some will be due to higher wage costs.

“The good news is that as oil prices have fallen back sharply recently, these balances should also drop back.

“We still think the MPC will cut interest rates in November, but whether they go in December or not may depend on what signals they are getting on inflation in the pipeline from surveys like the PMIs.”