

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) July 2nd 2018

IHS Markit/CIPS UK Manufacturing PMI[®]

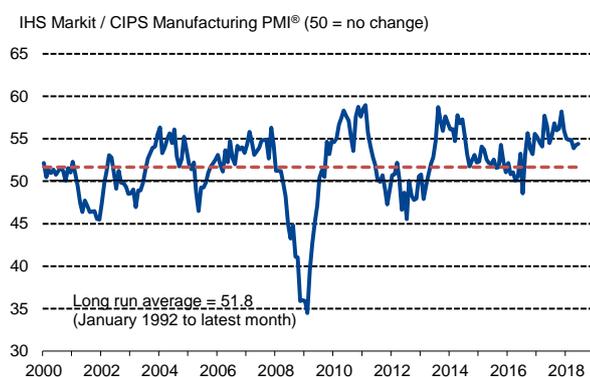
Manufacturing sector remains subdued at end of second quarter

Key findings:

- UK Manufacturing PMI broadly unchanged at 54.4 in June
- Output growth slows from May's five-month high
- Input cost inflation picks up, leading to increased selling prices

Data collected June 12-26

IHS Markit/CIPS UK Manufacturing PMI



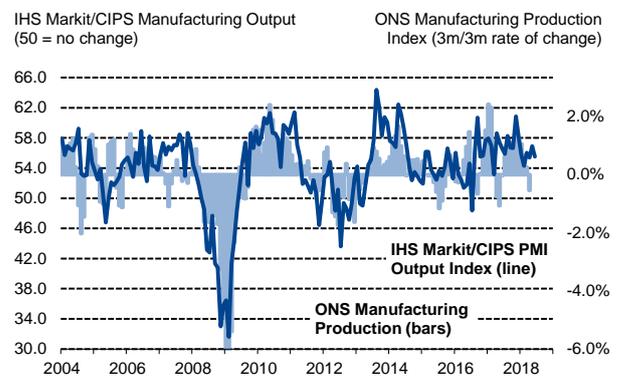
Source: IHS Markit

Summary:

The performance of the UK manufacturing sector remained relatively subdued in June, especially when compared to the marked pace of growth seen before the turn of the year. Output growth moderated, to largely offset a mild acceleration in new order growth and improved job creation. The survey was conducted between 12-26 June.

At 54.4 in June, the seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index[®] (PMI[®]) was a tick above May's downwardly revised reading of 54.3 (originally 54.4) and stands almost four points below the 51-month high reached in November last year. The average reading over

quarter two as a whole (54.2) is the weakest outcome since the final quarter of 2016.



Sources: IHS Markit, UK Office for National Statistics

Sector data indicated that the upturn remained broad-based during June. Output and new orders rose across the consumer, intermediate and investment goods industries. However, the overall rate of expansion in manufacturing output slowed, as growth of new order inflows improved only mildly. Some companies noted that higher output had been partly sustained through inventory-building and clearing backlogs of work.

Although the rate of increase in new business edged up to a three-month high, it remained among the weakest registered over the past year-and-a-half. Rates of growth in new work received were broadly steady in both domestic and overseas markets. Where an increase in new export business was reported, this was partly linked to increased sales to mainland Europe, China, South America and Australia.

June saw a solid improvement in the rate of job creation, with staffing levels rising at the quickest

pace for three months. Employment increased across the consumer, intermediate and investment goods sectors. However, the overall rate of jobs growth remained below those seen through much of 2017.

Input cost inflation accelerated to a four-month high in June, with companies reporting a wide range of inputs as up in price. Some noted that cost increases were being exacerbated by shortages of certain raw materials. Part of the rise in costs was passed on as higher selling prices.

Comments

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

“The UK manufacturing sector ended the second quarter on a subdued footing. The turnaround in performance since the start the year has been remarkable, with impressive growth rates late last year turning into some of the weakest rates of expansion seen over the past two years in recent months.

“The slowdown in new order growth since earlier in the year has also left manufacturers increasingly reliant on backlogs of work and inventory building to maintain higher output. This is a position that cannot be sustained far beyond the immediate horizon. The trend in demand will need to stage a much firmer rebound if a further slowdown in output growth is to be avoided.

“How likely such a revival is remains in some doubt, with the June survey also seeing business optimism drop to a seven-month low amid rising concerns about possible trade tariffs, the exchange rate and Brexit uncertainty. Ongoing supply-chain disruptions, including raw material shortages, and signs of a renewed upswing in input price inflation may also jeopardise stronger manufacturing growth. With industry potentially stuck in the doldrums, the UK economy will need to look to other sectors if GDP growth is to match expectations in the latter half of the year.”

Business optimism remained positive in June. Over 51% of the survey panel forecast output to rise over the coming year, linked to market growth, investment spending, organic expansion, planned promotional activity and higher capacity. However, the degree of positivity dipped to a seven-month low, as some firms expressed concerns about input price increases, possible future trade tariffs, the exchange rate and Brexit uncertainty.

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

“A gentle hush descended over the sector in June as growth of new orders was amongst the lowest in 18 months and the almost imperceptible rise in manufacturing output was more about housekeeping and clearing up backlogs than tackling new business.

“The undercurrent of uncertainty was once again the main culprit as clients hesitated to place orders resulting in the overall index average over the second quarter becoming the weakest since the end of 2016 and optimism falling to a seven-month low in June.

“Material shortages and the highest rise in input price inflation since February also disrupted supply chains so managers tried to beat future price rises by buying up materials already in short supply and in case suppliers continued to fail in their obligations as delivery times worsened again this month.

“This diminishing strength in the sector will be a setback, but with an increase in hiring and continued optimism resulting in new products and markets, the sector may yet beat the Brexit blues.”

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Note to Editors:

Where appropriate, please refer to the survey as the IHS Markit/CIPS UK Manufacturing PMI®.

The IHS Markit/CIPS UK Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group and company workforce size, based on the industry and company size contributions to GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The IHS Markit/CIPS UK Manufacturing PMI® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction. The individual survey indexes have been seasonally adjusted using the US Bureau of the Census X-11 programme. The seasonally adjusted series are then used to calculate the seasonally adjusted PMI. IHS Markit do not revise underlying (unadjusted) survey data after first publication.

The Purchasing Managers' Index® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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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 <https://ihsmarkit.com/products/pmi.html>.

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