

News Release

Purchasing Managers' Index® MARKET SENSITIVE INFORMATION

EMBARGOED UNTIL 0930 (London) / 0830 (UTC) September 3rd 2018

IHS Markit/CIPS UK Manufacturing PMI®

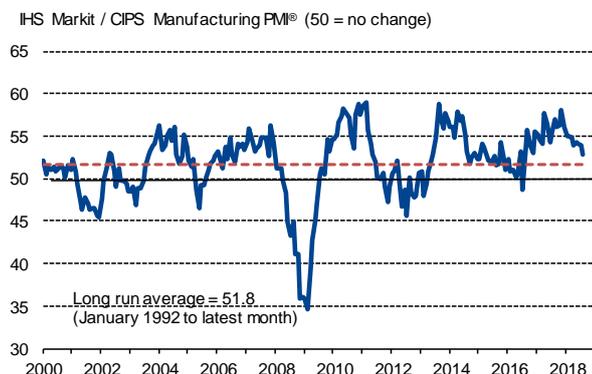
UK manufacturing upturn slows as new export orders contract for first time since April 2016

Key findings:

- UK Manufacturing PMI at 25-month low of 52.8 in August
- Job creation slows to near-stagnation
- Business optimism dips to 22-month low

Data collected August 13-28

IHS Markit/CIPS UK Manufacturing PMI



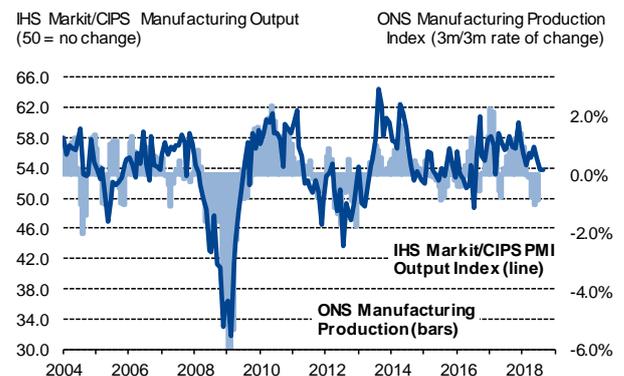
Source: IHS Markit

Summary:

August saw further signs of slowdown in the UK manufacturing sector. Rates of expansion in output and new orders eased following the first contraction in new export business for over two years. The subdued performance of the sector also transmitted itself to the labour market, with the pace of manufacturing job creation slumping to near-stagnation.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) posted 52.8 in August, down from a revised reading of 53.8 in July (originally reported as 54.0). The PMI has posted above the neutral 50.0 mark for 25

successive months, although the latest reading is the lowest registered during that sequence.



Sources: IHS Markit, UK Office for National Statistics

Manufacturing production rose at the slowest pace in 17 months in August, as growth of new order inflows eased to its weakest during its current 25-month sequence of expansion. Although there were some reports of softer growth of new work from the domestic market, the main drag was the trend in new export orders.

Foreign demand decreased for the first time since April 2016, despite the continued relative weakness of the sterling exchange rate. Some firms linked lower inflows of new work from abroad to the recent weaker pace of expansion of the world economy.

The ongoing slowdown of manufacturing output and new orders had an impact on both the labour market and business confidence during August. The pace of job creation eased to near-stagnation, as cuts at large enterprises offset further increases at SMEs.

Although companies maintained a positive outlook, with 47% expecting higher production in one year's time, optimism dipped to a 22-month low in August. Business confidence was attributed to new capacity, expected growth of new export orders, planned investment and new product launches. However, some panellists also noted concerns about the ongoing uncertainty about Brexit and the exchange rate.

Price inflationary pressures remained relatively strong in August, with both output charges and input costs rising at above survey average rates. Companies reported that purchase prices

increased due to higher costs for metals, electronic components, energy and a range of other inputs. This was, in turn, passed on to clients in the form of increased selling prices.

Shortages of raw materials and supply-chain constraints also contributed to an increase in purchasing costs. Average vendor delivery times lengthened markedly in August, albeit to the lowest extent in four months. Some companies noted that transport delays had also had a negative impact on supplier delivery times.

Comments

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

“The performance of the UK manufacturing sector looked increasingly lacklustre in August. The headline PMI fell to its lowest level for over two years, as growth of output and new orders slowed and the pace of job creation slumped to near-stagnation. Based on its historical relationship with official ONS data, the latest PMI report is broadly consistent with zero growth in manufacturing production, meaning the sector will likely fail to provide any support to the wider UK economy in the third quarter.

“Although slower growth of domestic demand contributed to manufacturing’s weak performance, the main constraint was the trend in new export business. Foreign demand declined for the first time since April 2016, despite the weakness of sterling, amid reports of slower global economic growth and the increasingly uncertain trading environment. Inflows of new work from both domestic and overseas sources will need to strengthen if manufacturing is to show renewed vigour in the coming months.

“Looking ahead, manufacturers’ optimism about the outlook for the year ahead has been receding in recent months and is now at a 22-month low. While a hoped-for improvement in new export order growth and new product launches are forecast to stimulate future expansion, manufacturers are also expressing rising concerns about the uncertain backdrop of Brexit.”

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

“Fears for a stalling manufacturing sector took a step closer to becoming a reality this month with the most disappointing performance for two years.

“The lifeline of strong export orders enjoyed since May 2016 dried up, as the attraction of a weaker pound was not enough to sustain the momentum. The domestic market once again failed to make up any shortfall.

“The weaker trends in both output and new orders impacted on job creation as larger corporates scaled back from hiring new staff and business optimism weakened. Purchasing prices continued their steep climb, affected by material shortages and worsening supplier performance making life more difficult.

“With a subdued global economy threatened by escalating trade wars and Brexit uncertainty making its mark, it’s unclear where future opportunities to sustain the health of the sector will come from.”

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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>.

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 procurement and supply management issues. CIPS has a global community of 200,000 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

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