News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) August 1st 2016

Markit/CIPS UK Manufacturing PMI®

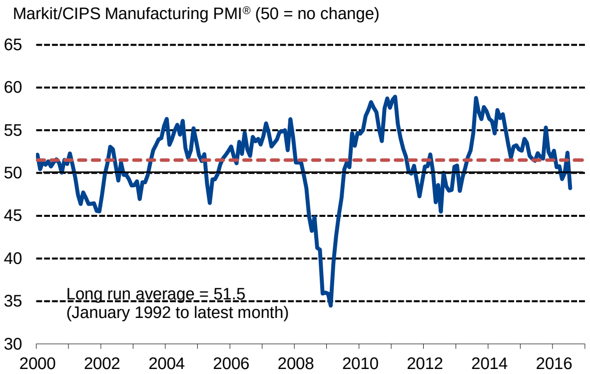
UK PMI falls to lowest level since early 2013 at start of third quarter

Key findings:

- UK Manufacturing PMI posts 48.2 in July, down from earlier flash estimate of 49.1
- Domestic market hit by pre- and post-referendum uncertainty
- Weaker sterling exchange rates aids new export order growth

Data collected July 12-26

Historical Overview:

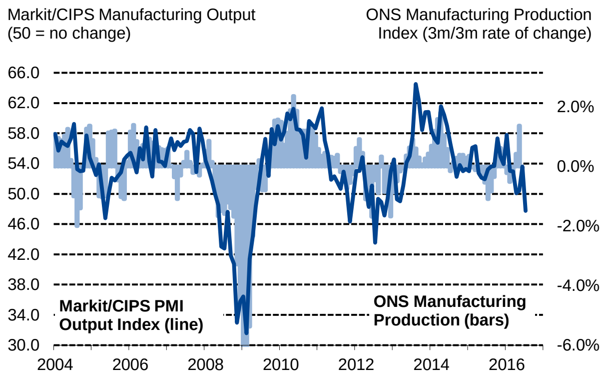


Summary:

The UK manufacturing sector started the third quarter on a weaker footing. Levels of production and incoming new orders both contracted, as the impact of increased business uncertainty on the domestic market offset an exchange rate supported increase in new export business.

At 48.2 in July, down from 52.4 in June, the seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) fell to its lowest level since February 2013. The reading was also below the earlier flash estimate of 49.1. This is only the second time since early-2013 that the PMI has fell to a sub-50.0 level.

The decline in production was the steepest since October 2012, with contractions across the consumer, intermediate and investment goods sectors. The intermediate goods sector saw the sharpest drops in both output and new orders.



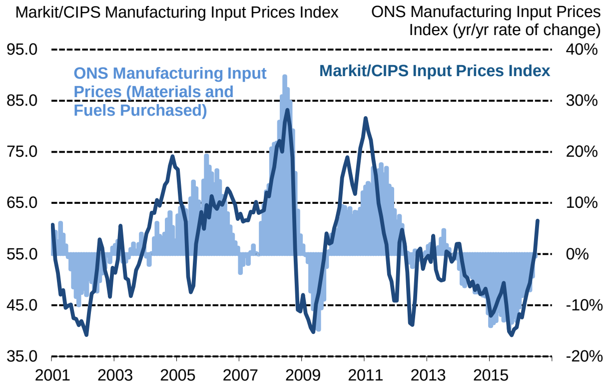
Investment goods manufacturers also saw a moderate decrease in new work received during July, although this partly reflected some payback from June's marked increase. There was, a modest increase in new orders to consumer goods producers, albeit at a substantially reduced pace of growth than in the prior survey month.

The level of incoming new export orders in the UK manufacturing sector rose for the second successive month in July. The latest expansion was aided by both the recent depreciation of the sterling exchange rate and efforts by companies to secure new contracts. Export business rose moderately at intermediate and investment goods producers, but fell for the second time in three months in the consumer goods sector.

UK manufacturing employment decreased for the seventh straight month in July. Moreover, the rate of job loss was the second-sharpest for almost three-and-a-half years. Companies linked lower staffing levels to the contractions in output and new orders. There was also mention of natural wastage, restructuring, redundancies and outsourcing leading to job cuts.

Weaker inflows of new work and declining volumes of outstanding business also suggest that employment may fall further in coming months.

Purchase price inflation surged to a five-year high in July, reflecting a sterling-induced rise in import costs and higher metal and commodity prices. Part of the increase in costs was passed through to clients, however, as selling prices rose at the quickest pace in almost two years.



Comments

Rob Dobson, Senior Economist at Markit, which compiles the survey:

"The final PMI came in at 48.2, down from the earlier flash print of 49.1. The pace of contraction was the fastest since early-2013 amid increasingly widespread reports that business activity has been adversely affected by the EU referendum. The drops in output, new orders and employment were all steeper than flash estimates.

"The downturn was felt across industry, with output scaled back across firms of all sizes and across the consumer, intermediate and investment goods sectors, although exporters did report a boost from the weaker pound. However, the improvement in exports was less marked than previously estimated, blamed in part on sluggish overseas demand. The downside of the currency was an upsurge in input price inflation to a five-year high on the back of rising import costs.

"The weakening order book trend and upswing in cost inflation point to further near-term pain for manufacturers. On that score, the weak numbers provide powerful arguments for swift policy action to avert the downturn becoming more embedded and help to hopefully play a part in restoring confidence and driving a swift recovery."

David Noble, Group Chief Executive Officer at the Chartered Institute of Procurement & Supply:

"Purchasing activity took a backwards leap with the sharpest drop since March 2013, as falls in both output and new orders battered the sector.

"Though these falls were not as marked as those seen during the Great Recession in 2007-2008, the drop was harsher than expected. The overall index was at its lowest since February 2013 and lower than reported by the recent flash PMI, which measured the effect of continuing uncertainty and the immediate impact of the EU referendum on the UK economy.

"Purchasing prices rose at levels not seen for half a decade, with SMEs bearing the brunt of rising input prices while larger corporates were more able to cope. And though export orders rose for the second month in response to the weaker pound, this was not enough to sustain the sector or make up any shortfall from the sluggish domestic market.

"After seven months of modest drops, employment figures showed an entrenchment in uncertainty with a sudden deterioration - the second sharpest drop in almost three-and-a-half years, as businesses chose redundancy and restructuring to secure themselves against more possible bad news ahead. Without new orders coming through, this downward trajectory is likely to get worse, at least in the short term."

The August 2016 *Report on Manufacturing* will be published on:
Thursday September 1st 2016 at 08:30 (UTC)
-Ends-

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Note to Editors:

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

The 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 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. 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 30 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 www.markit.com/product/pmi.

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