

News Release

Purchasing Managers' Index® MARKET SENSITIVE INFORMATION

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IHS Markit/CIPS UK Manufacturing PMI®

UK manufacturing makes positive start to final quarter despite rising price pressures

Key findings:

- UK Manufacturing PMI at 56.3 in October (September: 56.0)
- Output and new order growth remain robust
- Input cost and output price inflation accelerate

Data collected October 12-26

IHS Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

Summary:

The UK manufacturing sector started the final quarter of the year on a solid footing. Production and new order volumes continued to rise at robust rates, as companies benefited from strong domestic market conditions and rising inflows of new export business. Price pressures remained elevated, however, with rates of inflation in input costs and output charges both accelerating and staying well above historical series averages.

The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index® (PMI®) registered 56.3 in October, up from 56.0 in September (revised from the original reading of 55.9). The

headline PMI has now signalled expansion for 15 consecutive months. Responses from the latest survey were collected between 12-26 October.

UK manufacturing production rose at an identically solid pace to that registered in the prior survey month during October. The expansion was broad-based by sub-sector, with consumer, intermediate and investment goods producers all registering output growth.



Sources: IHS Markit, UK Office for National Statistics

The latter two sectors both saw rising production volumes backed up by strong and accelerated intakes of new business. Conditions seemed less firm in the consumer goods category, however, as growth of new orders eased to a seven-month low and business optimism to its weakest level in the year-to-date.

Total new order intakes rose at a substantial rate during October, recovering part of the growth momentum ceded in the prior survey month. The domestic market was the prime source of new contract wins, although new export business also

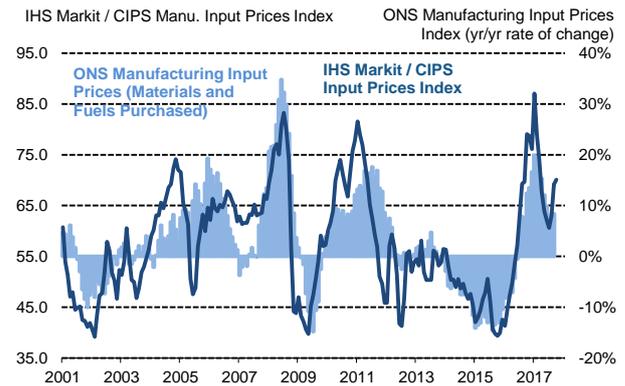
continued to rise (albeit at the weakest pace in four months). Companies mentioned improved intakes of new work from clients in the USA, mainland Europe, South America and Australia, in some cases aided by the sterling exchange rate.

The solid performance of the manufacturing sector was again reflected in the labour market. Job creation was registered for the fifteenth successive month, with the pace of growth improving to a 40-month high.

Staffing levels were raised to cope with increased production requirements, company expansion plans and to meet expected future demand growth. Over 50% of manufacturers forecast output will be higher in one year's time, compared to only 8% who anticipate a decline.

Capacity pressures were still present in supply chains during October, leading to a further marked

lengthening of vendor lead times. Robust demand for raw materials combined with sellers' markets developing for certain inputs led to higher purchase prices. Input costs increased to the greatest extent in seven months, contributing to the steepest rise in selling prices since April.



Sources: IHS Markit, UK Office for National Statistics

Comments

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

“UK manufacturing made an impressive start to the final quarter of 2017 as increased inflows of new work encouraged firms to ramp up production once again. The sector looks to be achieving a quarterly rate of expansion close to 1%, therefore sustaining the solid pace of growth signalled by the official ONS estimate for the third quarter. The domestic market remained strong, whereas new export orders increased at a slightly slower pace, the latter showing signs of being hit by the recent strengthening of sterling.

“Price pressures continued to build, however. Input costs rose at the fastest pace in seven months, leading to the steepest rate of selling price inflation since April. Higher demand for raw materials, combined with increased supply-chain constraints, mean annual input price inflation is moving back into double-digit rates, which may feed through to higher pressure on consumer prices in coming months.

“The continued robust health of manufacturing and rising price pressures will help cement expectations of the Bank of England hiking interest rates for the first time in a decade as Thursday’s announcement approaches.”

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

“It’s good to see the manufacturing sector holding strong and steady in October, buoyed up by an increase in new orders from the domestic market and improving on last month’s results.

While trade from export markets slowed slightly, orders from overseas continued to rise for the 18th month supported by a robust global economy. The pound’s fluctuating performance may have had some bearing on the softening in export orders, but there were continuing good levels of demand from Europe and the USA so no cause for concern.

“However, one note of caution surrounds the endless onslaught of inflationary pressures. Input prices increased to their highest level for 7 months as commodity prices rose and intense competition for raw materials also had a cost impact. The rush to buy from depleting supplier stocks and significant delays in delivery times reported by almost a fifth of respondents showed that supply chains have started to creak under the strain.

“As previously delayed projects were given the green light, there was a rise in positivity in the sector paired with a strong optimistic upsurge in employment levels not seen for over three years.

“But this laid-back start to the first quarter should not lull anyone into a false sense of security as the Brexit negotiations are still causing some jitters amongst clients. But the sign of the times point to

measured and muted growth as we approach the year’s end.”

– End –

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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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