

News Release

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

Markit/CIPS UK Manufacturing PMI®

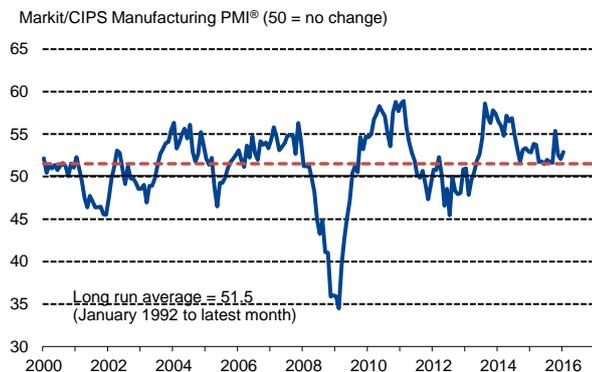
UK manufacturing growth accelerates at start of 2016

Data collected 12-26 January 2016

Key points:

- UK Manufacturing PMI at three-month high of 52.9 in January
- Improved domestic demand supports expansion of output
- Input cost deflationary pressure remains strong

Historical Overview:



Summary:

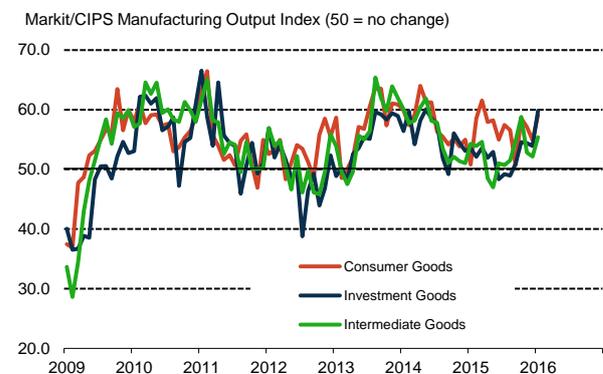
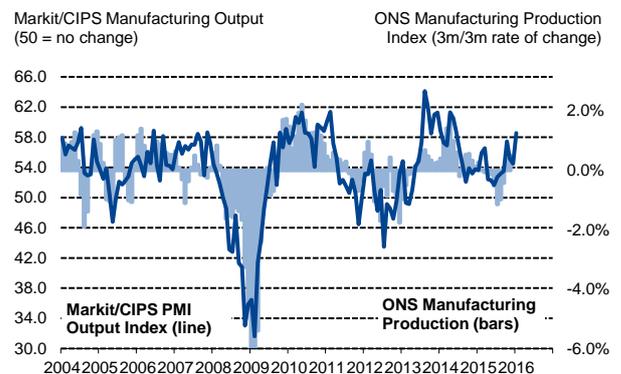
The start of 2016 saw a modest improvement in the rate of growth in the UK manufacturing sector. This was highlighted by the seasonally adjusted **Markit/CIPS** Purchasing Manager's Index® (PMI®) rising to a three-month high of 52.9, up slightly from 52.1 in December. The PMI has remained above the neutral 50.0 mark for 34 successive months.

Manufacturing production increased again during January, reflecting improved inflows of new work from the domestic market. Moreover, the rate of expansion in output accelerated to a 19-month high. The trend in new export orders, however, fell back into decline.

Companies linked lower overseas sales to stronger competition and tough market conditions. Some firms also noted that, despite recent easing, the

sterling-euro exchange rate remained an issue impacting on trade flows with the eurozone.

Looking beneath the surface of the headline numbers showed that the prime drivers of the output growth acceleration were the consumer and investment goods sectors. A solid rate of expansion was also signalled by intermediate goods producers. The performance of large-sized manufacturers was especially positive, whereas growth was comparatively mild at SMEs.



Part of the increase in production volumes was achieved through a further substantial reduction in backlogs of work. January saw the level of work-in-hand (but not yet completed) depleted at the fastest pace for four months.

With the trend in outstanding business signalling spare capacity at a number of firms, manufacturing employment was reduced for the fourth time in the past six months. Although the rate of decline in staff headcounts was only moderate, it was nonetheless the fastest for almost three years. Companies linked job cuts to redundancies, retirements, restructuring initiatives, efficiency improvements and efforts to control costs.

The ongoing weakness in global commodity prices led to a further substantial reduction in manufacturers' average purchasing costs during January. Average input prices fell at the fastest rate for four months and to one of the greatest extents during the 24-year survey history. There were reports of lower prices for chemicals, metals, oil and plastics.

Comment:

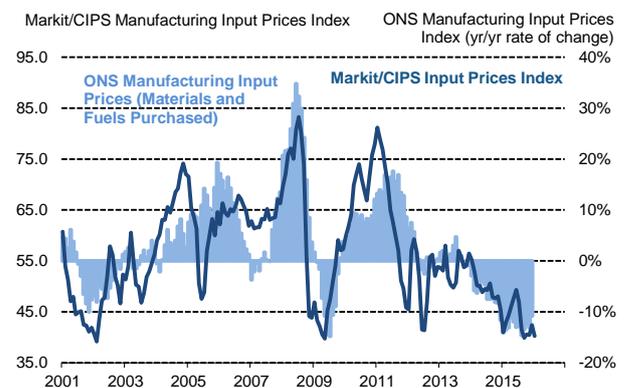
Rob Dobson, Senior Economist at survey compilers Markit:

"The UK manufacturing sector registered an uptick in its rate of expansion at the start of 2016, shrugging off a number of potential headwinds, ranging from global financial market volatility to localised flooding in the North of the country.

"The domestic market remains the key growth driver. In contrast, the trend in new export orders continues to disappoint, falling back into reverse gear in January. Even after recent easing in the exchange rate, a number of manufacturers are still finding that the strength of the pound against the euro is impacting order inflows. Reports from companies also highlight how the general operating environment has become increasingly competitive both at home and abroad as firms scramble to win new customers.

"Strong competition on the sales side combined with the ongoing weakness of global commodity prices meant that manufacturers saw selling prices and input costs fall further in January. Subdued growth, rising global headwinds and a lack of inflationary pressure provide further cause for the Bank of England to push its first rate increase into the back and beyond of 2016."

Part of the reduction in raw material costs was passed on to clients in the form of decreased factory gate prices, the fifth reduction in as many months. The rate of output charge deflation remained mild.



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

"The domestic market continued to buoy up manufacturing growth as the year starts in a positive, if slightly reserved fashion.

"Though the PMI survey has generally signalled growth of production and new orders through much of the past three years, January also saw respondents cite increased competition, challenging exchange rates and a more difficult marketplace as factors making it increasingly difficult to win new contracts and protect margins hard won in recent months.

"Purchasers were reducing stock levels and moving towards leaner purchasing practices to increase cashflow. Staffing levels fell, albeit slightly to try and control costs – all designed to gear up for the year ahead. The increase in demand for inputs also exerted greater pressure on supply chains, leading to longer vendor delivery times and rising reports of raw material shortages."

The February 2016 Report on Manufacturing will be published on:

Tuesday March 1st 2016 at 09:30 (UTC)

-Ends-

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Notes 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.

About Markit

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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/economics.

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 purchasing and supply management issues. CIPS has a global community of 118,000 in 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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