

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit/CIPS UK Manufacturing PMI®

Manufacturing PMI ticks higher in July

Data collected 13-28 July 2015

Key points:

- UK Manufacturing PMI at 51.9
- Solid domestic market offset ongoing weakness in export orders
- Selling prices rise at fastest pace since August 2014

Historical Overview:



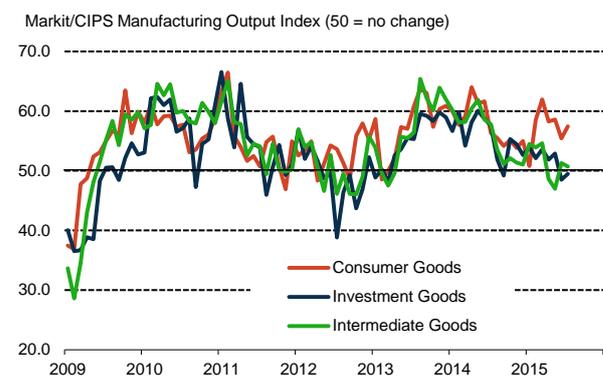
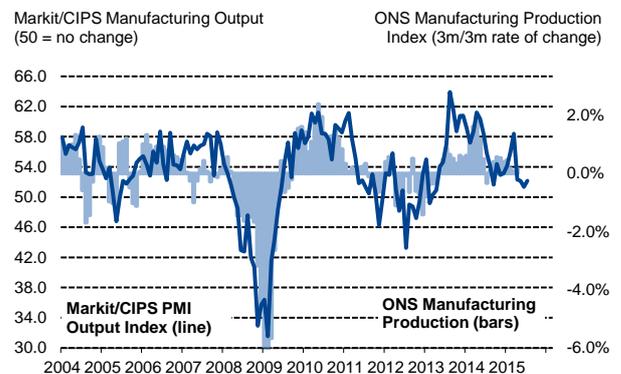
Summary:

The start of the third quarter saw conditions in the UK manufacturing sector remain relatively subdued. Although the headline seasonally adjusted Markit/CIPS Purchasing Manager's Index® (PMI®) edged higher to 51.9 in July, from a 26-month low of 51.4 in June, it remained below the average for the current sequence of growth that began in April 2013 (54.3).

The expansion of production remained highly dependent on the strong performance of the consumer goods sector, which offset lacklustre growth at intermediate goods producers and a contraction in the investment goods sector.

Where an increase in output was recorded, this generally reflected improved inflows of new business. However, the rate of growth in new

orders slowed to a ten-month low, as solid demand from the domestic market contrasted with a further decrease in new export business.



New export orders declined for the fourth straight month in July, mainly as a result of the sterling-euro exchange rate hitting competitiveness in eurozone markets. Levels of new work from overseas were lower in the intermediate and investment goods sectors, but rose solidly at consumer goods producers.

Manufacturing employment rose for the twenty-seventh successive month in July. Although the rate of jobs growth ticked higher, it remained below the average for the current sequence of rising

headcounts. Where an increase in employment was reported, this reflected the ongoing upturn in new orders and efforts to clear backlogs of work.

Outstanding business declined for the seventeenth successive month in July. Along with rising employee numbers, companies indicated that slower new order growth and greater use of finished goods stocks to settle existing contracts helped reduce backlogs of work.

After rising for the first time in ten months during previous survey, July saw a decline in average input costs. Companies reported a range of raw materials as down in price, including chemicals, metals, plastics, textiles and food products. Some firms also linked the decline to the effect of the sterling exchange rate on imported raw materials.

Comment:

Rob Dobson, Senior Economist at survey compilers Markit:

“Although an uptick in the headline PMI breaks the decelerating trend in UK manufacturing, growth remains near-stagnant and suggests that the sector is continuing to act as a drag on the economy. With the sterling-euro exchange rate still sapping export demand and constraining growth of total order inflows, it seems that we will again look to the service sector to sustain any semblance of reasonable economic growth in the third quarter.

“Scratching beneath the surface of the headline manufacturing numbers shows that the sector is still reliant on the domestic market to drive overall demand, and on the consumer sector in particular. The continued weakness of investment goods demand suggests that ‘rebalancing’ remains firmly in the rhetoric as opposed to reality column.

“The struggling manufacturing sector, and the impact of the strong pound on export performance, will be a worry for the Bank of England. However, with the goods-producing sector accounting for only one-tenth of the economy, these woes may take second place to the health of the far larger services sector in determining the timing of the first interest rate hike, suggesting firms will have to adjust to the pound trading at its current highs.”

July saw average selling prices rise for the second time in the past three months. Moreover, the rate of inflation was the sharpest registered since August 2014. However, SMEs generally reported lower output charges, in contrast to the solid increase implemented by large companies.



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

“Slowly does it this month, as the sector stays in positive mode, but at a softer rate of growth than hoped for given the trend since April 2013.

“Domestic demand and consumer goods continued to drive growth as other sub-sectors carried on stagnating or falling behind. New orders from export markets stayed lifeless as the impact of the sterling exchange rate against the euro dampened any possible hot spots of new orders from the eurozone.

“Raw material shortages continued at the forefront of the sector’s list of cause for concern as the number of different types of material shortages also increased. But as stocks in the consumer sub-sector continued to rise, this indicates that the sector remained hopeful about continuing future growth.

“The capacity of suppliers remained under pressure, and a handful of respondents cited the Calais crisis as having an impact on lead times. But, this did not have a significant impact on supplies generally.

“Employment continued to rise which enabled backlogs and current contracts to make significant headway. However, the sector must be wondering how the absence of a significant numbers of new orders will affect manufacturing performance in the coming months.”

**The August 2015 Report on Manufacturing will be published on:
Tuesday September 1st 2015 at 09:30**

-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 geographically and by Standard Industrial Classification (SIC) group, based on the regional, and industry contribution 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 110,000 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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