

News Release

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

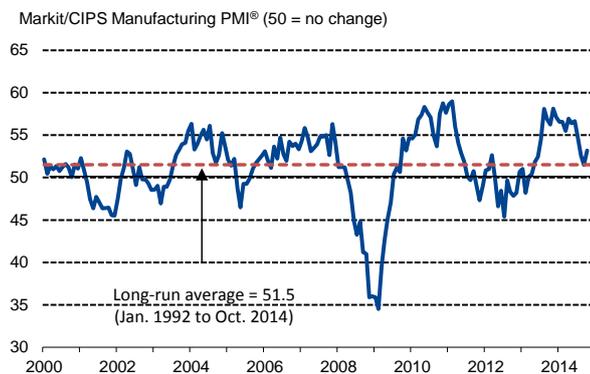
Manufacturing growth accelerates at start of Q4

Data collected 13-28 October 2014

Key points:

- Manufacturing PMI at three-month high of 53.2
- Growth acceleration led by domestic demand, as new export order decline
- Price pressures remain relatively subdued

Historical Overview:



Summary:

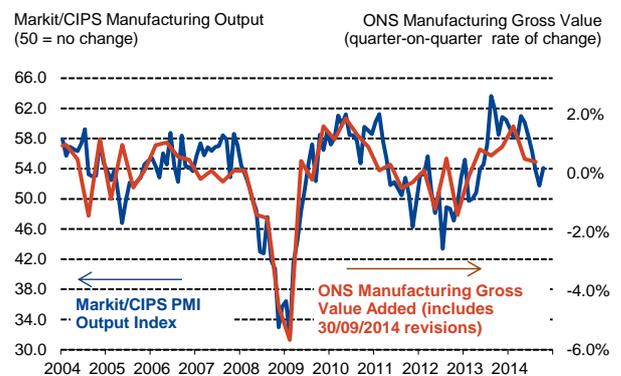
The UK manufacturing sector made a bright start to the final quarter of 2014, with rates of expansion in production and new business accelerating sharply from their September lows. The pick up in growth mainly reflected the resilience of the domestic market, as overseas demand was impacted by the ongoing economic weakness of the eurozone and the euro-sterling exchange rate.

At 53.2 in October, recovering from September's 17-month low of 51.5, the seasonally adjusted Markit/CIPS *Purchasing Manager's Index*® (PMI®) remained above the neutral 50.0 mark for the twentieth month in a row. The latest reading is slightly above the third quarter average of 53.0.

Manufacturing production rose for the nineteenth successive month in October. Although the rate of

expansion remained below the average for the year-so-far, it nonetheless recovered from September's low to reach a three-month high. The latest scaling up of output was underpinned by improved inflows of new work and efforts to clear outstanding business.

Strong increases in production were signalled for the consumer and intermediate goods sectors, while capital goods manufacturers also saw a solid gain in output volumes.



Growth of incoming new business also accelerated to a three-month high in October, led by solid gains in new work from domestic-based clients. In

contrast, new export orders fell for the second straight month.

The latest decline in foreign demand for UK manufactures was centred on the eurozone, reflecting the subdued economic performance of that region and further stymied by the exchange rate. Slower growth in other key markets, such as the US and China, were also mentioned by some companies.

Manufacturing employment rose further during October. The continuation of the current spell of job creation is a positive in itself, but it is worth noting that the rate of increase slipped to its second-

slowest since last June. Staffing numbers rose sharply at SMEs, but were held steady at larger-scale producers.

Price pressures remained relatively subdued during the latest survey month. Input costs fell for the second month running, mainly reflecting reductions in commodity and oil prices. Meanwhile, average output charges rose at the slowest pace during the current 16-month sequence of increase. Companies mentioned lower purchase prices and competitive pressures as reasons behind lower output charges.

Comment:

Rob Dobson, Senior Economist at survey compilers Markit:

“The latest report is a positive marker for the start of the final quarter, as the growth rate of the UK manufacturing sector staged a mini-recovery in October. The headline PMI hit a three-month high, improving on September’s low.

“Although the pace of expansion remains below that seen at the start of the year, suggesting the sector will remain only a modest contributor to broader economic growth, it is positive to see the sector break its recent sequence of slower growth. Continued growth of employment, especially at SMEs, suggests that the recovery in the labour market is holding sway.

“Another positive is the continued resilience of the domestic market, which was the main source of new contract wins. However, this was partly offset by a further drop in new business from overseas, as exporters were hit by a near-stagnant eurozone economy and a relatively strong euro-sterling exchange rate. Reports from companies mentioning slower inflows of new business from markets such as the US and China also paint a less than rosy picture for exports moving forward.”

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

“The manufacturing PMI this month received a domestic-fuelled boost as the index reported growth at a three-month high. With new export business declining, it was the UK picking up the new business tab, as the Eurozone continued to experience weakened economic growth with the added punch of unfavourable exchange rates.

“Supply chain managers reported production levels rising for the nineteenth month buoyed up by falling input costs. A drop in commodity and oil prices especially has given the sector an advantage in tackling any outstanding orders and improving the pace and delivery of any new work. This in turn contributed to lower output price inflation, which was further influenced by competitive pressures.

“The sector also experienced a rise in employment levels, especially in SMEs. As demand increased, so SMEs reacted to the changing landscape with a more agile response to developing employment capacity, whereas larger companies kept their staffing levels steady. Supplier delivery times continued to extend for the seventeenth month in a row as purchasing managers reported lower stock levels, transportation and more competition for raw materials as the reasons for a slower response.”

The November 2014 Report on Manufacturing will be published on:

Monday 1st December 2014 at 09:30

-Ends-

Contact Information:

For economics comments, data and technical queries, please call:

Markit Press Office

Joanna Vickers, Corporate Communications

Telephone +44 207 260 2234

Email: joanna.vickers@markit.com

For industry comments, please call:

CIPS

Trudy Salandiak

Tel: +44 1780 761576

Email: trudy.salandiak@cips.org

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 32 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 100,000 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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