

News Release

Purchasing Managers' Index® MARKET SENSITIVE INFORMATION

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Markit/CIPS UK Manufacturing PMI®

UK Manufacturing PMI climbs to ten-month high in August

Key findings:

- UK Manufacturing PMI posts 53.3 in August
- Trends in production and new orders post solid rebounds
- Weaker sterling currency drives up export orders and input costs

Data collected August 12-25

Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

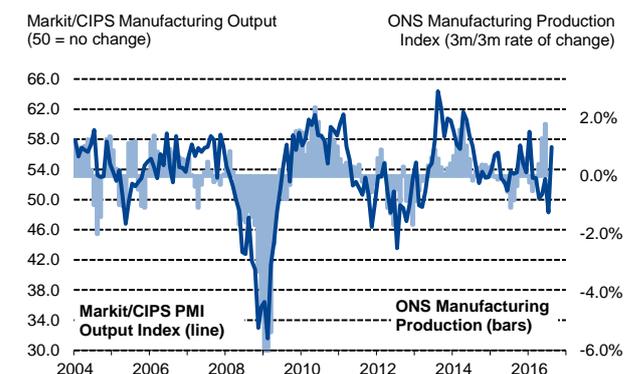
Summary:

August saw solid rebounds in the trends in UK manufacturing output and incoming new orders. Companies reported solid inflows of new work from both domestic and export sources, the latter aided by the sterling exchange rate. Employment rose for the first time in the year-to-date.

At 53.3 in August, the seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) recovered sharply from the 41-month low of 48.3 posted in July following the EU referendum.

The month-on-month increase in the level of the headline PMI (5.0 points) was the joint-greatest in the near 25-year survey history. The gains in the indices tracking output and new orders were similarly among the steepest on record.

Manufacturing production increased at the fastest pace in seven months during August, an improvement on the contraction registered in the prior month. All three of the market groups covered by the survey returned to growth, with the strongest expansion registered in the consumer goods sector.



Sources: IHS Markit, UK Office for National Statistics

Underpinning the scaling up of production volumes was a marked increase in the level of new work received. New business rose at one of the quickest rates in the year-so-far, as companies benefited from improved inflows of new work from both domestic and overseas clients. There were also reports of stronger demand, product launches and clients committing to new and previously postponed contracts.

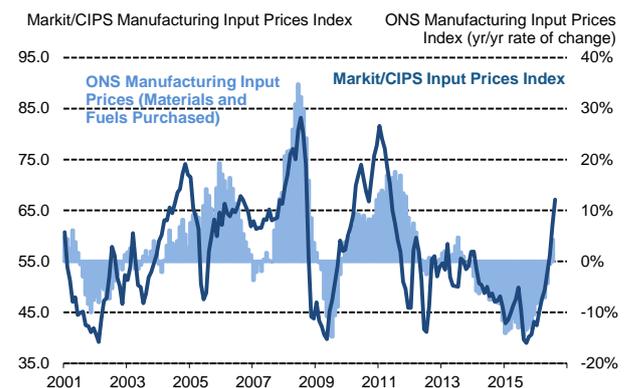
Improved sales volumes to markets such as the USA, Europe, China, South-East Asia, the Middle-East and Norway led to a further increase in new export business during August. Moreover, the rate of growth accelerated to a 26-month high. The depreciation of the sterling currency was by far the main factor manufacturers cited as supporting the upswing in new export work.

The negative consequences of currency movements were felt in the form of rising input costs during August. Input price inflation surged to a five-year record, with almost 44% of firms reporting an increase in purchasing costs. However, it should also be noted that the pace of input price inflation has yet to scale the peaks reached during previous bouts of high cost inflation (such as those registered during 1994-1995, 2004, 2008 and 2010-2011).

Output prices also rose at the fastest pace for five years in August. Moreover, the month-on-month

increase in the index tracking charges was among the steepest in the series history.

Employment rose for the first time during the year-to-date, albeit only moderately. Job creation was seen at SMEs, whereas cuts were made at large-scale producers. Higher staffing levels aided efforts to reduce backlogs of work.



Sources: IHS Markit, UK Office for National Statistics

Comments

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

“The August PMI data indicate a solid rebound in the performance of the UK manufacturing sector from the steep downturn that followed the EU referendum. Companies reported that work that had been postponed during July had now been restarted, as manufacturers and their clients started to regain a sense of returning to business as usual. The domestic market showed a marked recovery, especially for consumer products, while the recent depreciation of sterling drove higher inflows of new business from the USA, Europe, Scandinavia, Middle East and Asia.

“Inflation is raising its ugly head, however. Rates of increase in input prices and output charges both hit five-year highs, which manufacturers placed squarely at the door of the cost impact of sterling on import prices. It is too early to say whether the rebounds in growth and inflation will be sustained, but the upturn in August suggests that the weaker exchange rate and recent policy action have helped to avert a downturn.”

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

“The Brexit brakes are off, as the sector surged ahead with the PMI hitting a 10-month high reflecting rapid expansions in both activity and new orders.

“Fuelled by a combination of export and domestic orders, the increase in the level of the headline PMI equalled its best during the survey’s quarter of a century history.

“With exchange rates supporting more orders overseas, the counter effect of a lower pound meant that purchasing costs were higher, which was reported by 44% of procurement managers. Staffing levels rose at a modest pace, after falling throughout the year-to-date. SMEs fared better with more hires, whereas larger companies reported shedding some jobs.

“An increase in stock building could signal more positive hope for the coming months, but it remains to be seen whether this expansion of activity is merely filling the post-Brexit void or whether this strong performance will continue.”

**The September 2016 Report on Manufacturing will be published on:
Monday October 3rd 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.

About CIPS

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