

News Release

Purchasing Managers' Index[®] MARKET SENSITIVE INFORMATION

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IHS Markit/CIPS UK Manufacturing PMI[®]

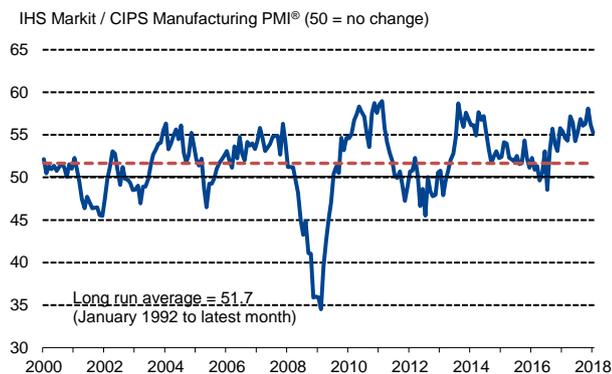
UK manufacturing growth slows at start of 2018 as price pressures intensify

Key findings:

- UK Manufacturing PMI at 55.3 (December: 56.2)
- Growth of output and new orders slow further
- Input cost and selling price inflation accelerate

Data collected January 12-26

IHS Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

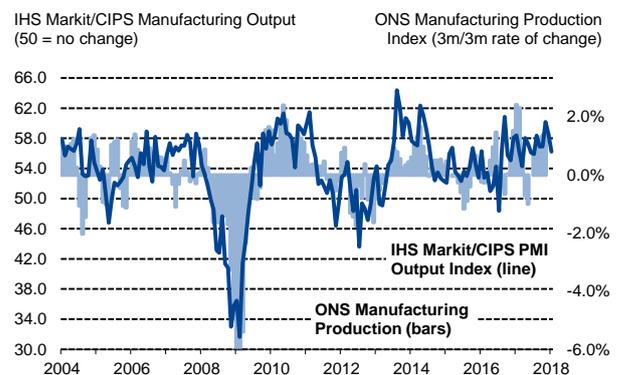
Summary:

The start of 2018 saw a further easing in the rate of expansion of the UK manufacturing sector. At 55.3 in January, the seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index[®] (PMI[®]) was down further from November's 51-month high and at its lowest level since June last year. That said, the PMI remained well above its long-run average of 51.7. The latest survey was conducted from 12-26 January.

Manufacturing output continued to rise at a solid pace, although the rate of expansion eased to a six-month low. Higher production reflected rising new order intakes, albeit the slowest in seven

months, which increased through robust demand from both domestic and export clients.

Sector data signalled solid increases in output and new orders across the consumer, intermediate and investment goods sectors. Rates of expansion were higher in the latter compared to those at consumer and intermediate goods producers.



Sources: IHS Markit, UK Office for National Statistics

January saw the trend in new export order inflows strengthen. Foreign demand improved at one of the quickest rates over the past four years. There were reports of increased sales to clients in North America, China, mainland Europe, the Middle East and Japan.

One consequence of the upturn was an upsurge in price pressures. On the cost side, increased demand for inputs led to improved supplier pricing power and shortages of raw materials, resulting in a marked acceleration in input cost inflation.

Purchase prices rose at the fastest rate in 11 months and to one of the greatest extents in the

survey history. Companies reported a wide range of raw materials and commodities as up in price, including chemicals, food products, metals, oil, paper and plastics. Part of the increase in costs was passed on to clients in the form of higher selling prices. January saw the steepest increase in output charges since April of last year.

Input buying activity among UK manufacturers rose for the eighteenth successive month, with the rate of increase remaining marked. Some companies reported bringing forward planned purchases to guard against future prices rises and delays in the delivery of goods from suppliers.

Vendor performance continued to deteriorate at the start of 2018. Average supplier delivery times lengthened to a marked extent, albeit slightly less so than before the turn of the year.

UK manufacturers maintained a positive outlook,

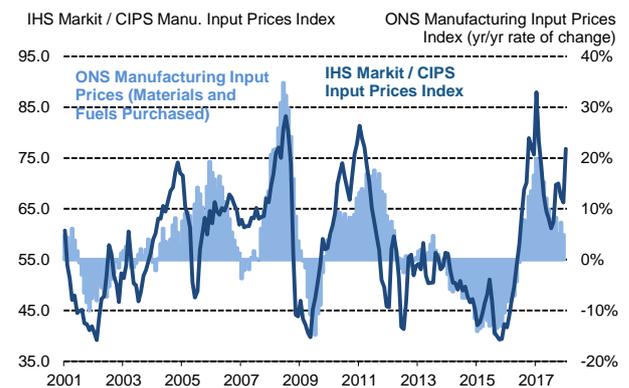
Comments

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

“The UK manufacturing sector reported an unwelcome combination of slower growth and rising prices at the start of 2018. Encouragingly, despite the slowdown, the latest survey is consistent with production rising at a solid quarterly rate of around 0.6% in January, with jobs also being added at a faster pace. However, output growth has slowed sharply since last November’s high, and the more forward-looking new orders index has slipped to a seven-month low. The trend in demand will need to strengthen in the near-term to prevent further growth momentum being lost in the coming months.

“The biggest advance during the latest survey came on the prices front, with the recent easing in inflationary pressure seeing a sudden sharp reversal. Cost inflation surged to an 11-month high and to one of its highest levels in the series history, as oil prices surged higher and demand for many inputs outpaced supply. The pass-through of these costs took selling price inflation to its highest in nine months. These price trends will be watched closely to see if the upsurge is simply a one-off spike or something more embedded.”

with over 55% forecasting production to be higher in one year’s time. Optimism reflected improved market conditions, global economic expansion, fuller order books, export opportunities, investment in new equipment and planned product launches.



Sources: IHS Markit, UK Office for National Statistics

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

“Growth in the manufacturing sector continues to provide positive encouragement for the UK economy as the year started on a positive, if slightly reserved note.

“Though the PMI showed continued growth, it was the weakest since June as shortages in commodities and raw materials resulted in a scramble to complete goods, suppliers disappointed with longer delivery times and costs were on the rise again.

“Purchasers reported that global demand impacted on their costs, with another sharp inflationary rise. Respondents mentioned forward buying as a way of controlling prices and securing supply to remain competitive, but firms also attempted to claw back some of their margins by raising their own prices to clients at a level not seen for nine months.

“Job creation remained strong, as optimism rose to its highest level for two years, even though orders from the domestic market were overshadowed by one of the biggest spikes in export orders in four years. Along with the strength of the global economy and investment by the sector in marketing and product launches, this is setting manufacturing up for a successful year ahead.”

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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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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 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 <https://ihsmarkit.com/products/pmi.html>.

About CIPS

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