

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) June 1st 2018

IHS Markit/CIPS UK Manufacturing PMI[®]

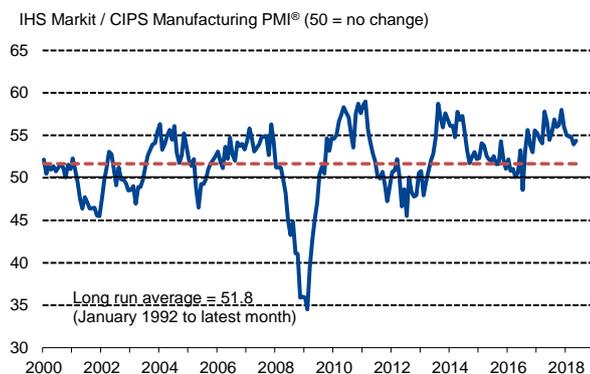
Mild output growth acceleration masks underlying weaknesses

Key findings:

- UK Manufacturing PMI rises slightly to 54.4 in May
- Output growth ticks higher despite slower expansion of new work received
- Supply-chain constraints and cost pressures intensify

Data collected May 11-25

IHS Markit/CIPS UK Manufacturing PMI

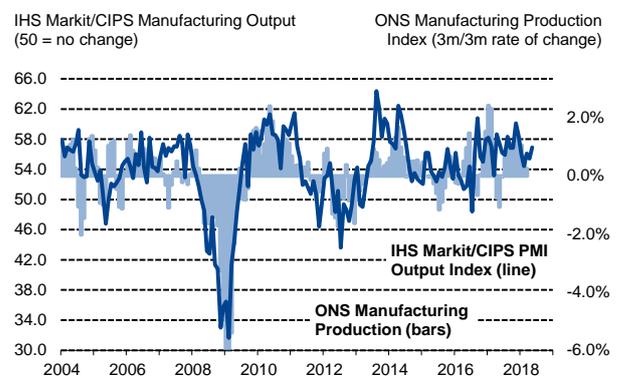


Source: IHS Markit

Summary:

May saw a mild improvement in the performance of the UK manufacturing sector. The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index[®] (PMI[®]) rose to 54.4, up slightly from April's 17-month low of 53.9, to signal growth for the twenty-second straight month.

The improved trend signalled by the PMI masked several areas of potential concern. Although growth of production accelerated to its best during the year-so-far, this was mainly achieved through the steepest build-up of finished goods inventories in the 26-year survey history and a sharp reduction in backlogs of work.



Sources: IHS Markit, UK Office for National Statistics

Growth of incoming new business remained solid in May, but the pace of expansion eased to an 11-month low. The slower trend reflected a softer increase in new work from the domestic market, as inflows of new business from overseas strengthened slightly. Companies reported growth of new work from mainland Europe, North America, China, India, South America and Africa.

The pace of job creation in the manufacturing sector also lost momentum in May. Employment rose only marginally, with the pace of increase the lowest in 15 months. Higher staffing levels at intermediate and investment goods producers were partially offset by job losses at consumer goods producers.

UK manufacturers also faced rising cost inflation and supply-chain pressures during May. The rate of increase in average input prices accelerated for the first time since January, with companies reporting that general raw material cost increases were being exacerbated by shortages developing for a number of inputs. Average vendor lead times

– a bellwether of supply-side constraints – deteriorated to the greatest extent during 2018.

Manufacturers maintained sufficient pricing power to pass on part of the increase in costs. May saw output charges rise for the twenty-fifth successive month, with solid increases across the consumer, intermediate and investment goods sectors. That said, the rate of selling price inflation eased to its weakest since last August.

UK manufacturers maintained a broadly positive outlook for the sector in May, with almost 52% of

companies forecasting that production would rise over the coming year. That compared favourably to less than 6% that anticipate a contraction. Optimism was attributed to rising order intakes, growth in export markets, new product launches and planned company expansions. That said, the overall degree of positive sentiment dipped to a six-month low.

Comments

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

“At first glance, the mild acceleration in the rate of output growth and rise in the headline PMI would appear positive outcomes given the backdrop of the slowdown seen in manufacturing since the turn of the year. However, scratch beneath the surface and the rebound in the PMI from April’s 17-month low is far from convincing.”

“A slowdown in new order inflows meant the expansion in production was achieved only by firms working through their backlogs of work. Weaker than expected sales meanwhile led to the largest rise in unsold stock in the survey’s 26-year history. This suggests that manufacturers have yet to fully adjust their production to the weakening trend in new business growth and there will need to be a rapid improvement in demand if output volumes are to be sustained in the coming months.”

“Manufacturers will also likely be constrained if the resurgence in both cost inflation and supply-chain pressures becomes more firmly embedded. Input price inflation accelerated for the first time since January as general cost increases, often linked to higher oil prices, were exacerbated by shortages of certain inputs. Average vendor lead times – a key bellwether of supply-side constraints – lengthened to the greatest extent during 2018 so far. These price and supply headwinds, combined with a further slowdown in new order growth, could jeopardise any further expansion of the manufacturing sector.”

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

“To the casual eye, the manufacturing sector appears to be in a robust mood with a further rise in activity and the highest output growth for five months. But pore over the detail, there are some darker developments taking place, impacting on new order and jobs growth and creating the lowest optimism for six months.”

“Manufacturers reported the weakest increase in new orders since June 2017, which translated into a dampening of the desire to hire especially in the consumer goods sector which experienced some job losses. Also, the performance of supply chains offered little reassurance as supplier delivery times got longer, raw material shortages became more acute and manufacturers struggled to complete production promises as a result of a squeeze on supplier capacity.”

“Complacency should not replace vigilance as creeping business uncertainty and consumer apathy further compounded these deepening concerns. As Brexit worries continue to dominate, the sector will be looking to the UK Government to provide solutions and prevent this underlying fragility from becoming entrenched stagnation.”

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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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