News Release

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

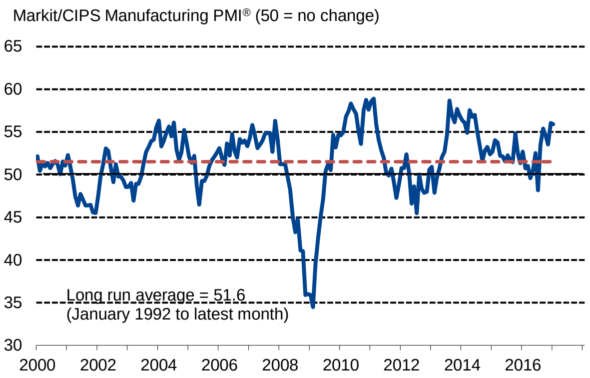
Manufacturing makes strong start to 2017 despite survey record increase in input costs

Key findings:

- UK Manufacturing PMI at 55.9 in January
- Output growth at 32-month high
- Purchase price inflation at new survey record

Data collected January 12-26

Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

Summary:

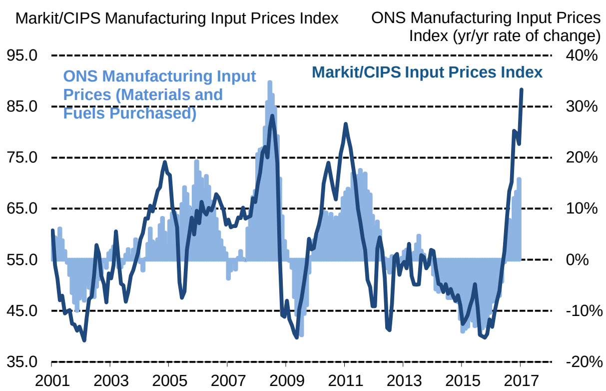
The UK manufacturing sector made a strong start to 2017. Output rose at the fastest rate since May 2014, as new order intakes expanded at a robust pace. Price pressures intensified, however, as input cost inflation surged to a survey record high and output charges also increased at one of the steepest rates in the series history.

The seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) posted 55.9 in January, only a couple of ticks below December's two-and-a-half year high of 56.1. The headline PMI has remained above the neutral mark of 50.0 for six straight months.

The latest expansion of manufacturing production was underpinned by a solid increase in new order intakes. The rate of growth in new business moderated following the prior month's high, but remained well above the long-run survey average.

The domestic market was the prime source of new business wins in January. There was also a modest increase in new export orders, although the pace of expansion was noticeably slower than during the prior survey month. Where an increase in new work from overseas was reported, this was linked to improving global market conditions and the weak sterling exchange rate.

By sector, the strongest growth of output and new orders was registered by intermediate goods producers. The investment and consumer goods sectors also registered further solid expansions of production and new business.



Sources: IHS Markit, UK Office for National Statistics

Average purchase prices rose at the steepest rate in the quarter-century history of the survey, driven

compiled by markit

up by the weak sterling exchange rate and higher costs for commodities such as oil, plastics and steel. Meanwhile, improved pricing power and efforts to pass on part of the increase in costs led to a further sharp rise in average selling prices. Output charges rose to one of the greatest extents in the series history.

Supplier price hikes also played a role in raising average purchasing costs in January. Companies indicated that higher demand for raw materials was testing the capacity at vendors and leading to shortages of certain inputs.

Manufacturing employment rose for the sixth successive month in January, albeit to a lesser extent than one month earlier. The faster pace of job creation was signalled at SMEs, whereas the increase at large-sized producers was only mild.

The January report sees the official launch of a new index tracking business optimism – the Future Output Index – based on a question asking companies if they expect production to be higher, the same or lower in one year's time. Confidence rose to an eight-month high in January. Almost 51% of respondents expect output to rise over the next 12 months, reflecting new market opportunities and planned product launches.

Comments

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

"UK manufacturers have reported a bumper start to 2017, but are also seeing prices rise at an unprecedented rate. Factory output growth accelerated to a 32-month high in January, as solid domestic demand continued to drive production volumes higher. There were signs that the boost to export orders from the weak exchange rate was waning, as growth of new business from abroad slowed sharply.

"The big numbers coming out of the January survey were for the price measures. Input cost inflation spiked to the highest seen since data were first collected in 1992. Over 55% of companies link rising costs to the exchange rate. However, we're also seeing more companies reporting domestic supplier price hikes resulting from the rising cost of commodities such as fuel, oil, plastics and steel. With cost pressures increasingly feeding though to higher selling prices at factories, it looks inevitable that consumer price inflation will rise further in coming months.

"The question is whether increased cost inflationary pressure will act as a drag on manufacturing growth going forward. Companies seem fairly sanguine on this front, as a new index tracking business confidence signals optimism climbed to an eight-month high. Taken alongside robust output growth, rising new order inflows and job creation, all signs are pointing to a solid contribution to UK GDP from manufacturing during the opening quarter of 2017."

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

"The sector was awash with optimism, recording an increase in new orders and the fastest rise in activity since May 2014. The domestic market led the way in the growth of new orders, alongside robust consumer, intermediate and investment goods production, to offset the softer expansion in export orders.

"The ongoing boost in staffing levels, recorded for the sixth consecutive month, showed SMEs with the largest appetite for expansion, though larger firms also increased employment. With the sector's surge of positive business sentiment to an eight-month high, this boost to the employment figures will give the sector the robust platform it needs for opportunities ahead, as the UK remains the fastest growing economy in the G7.

"But there were pressures on the price front as input costs rose at their fastest rate in 25 years and higher commodity prices made an impact on margins along with the weaker pound. With these ongoing cost burdens, manufacturers were no longer able to absorb these costs themselves as output prices grew at one of the fastest rates since records began. Consumers must soon be wondering whether these rising costs will impact on their daily life."

– End –

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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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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

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 procurement and supply management issues. CIPS has a global community of 118,000 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