IHS Markit

CIPS Chartered Institute of Procurement & Supply

News Release

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

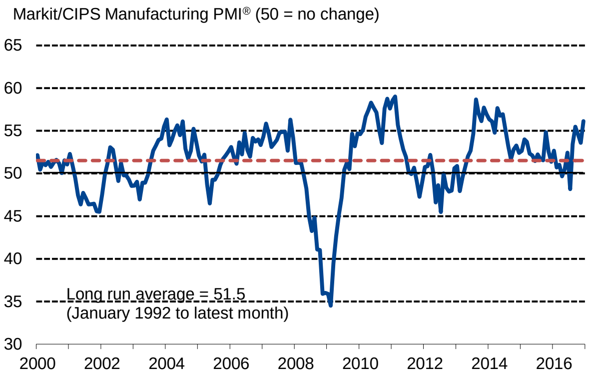
Manufacturing PMI at 30-month high as growth of output and new orders strengthen

Key findings:

- UK Manufacturing PMI posts 56.1 in December
- Improved domestic and overseas demand boosts output and new order growth
- Price pressures stay elevated but ease further from recent highs

Data collected December 6-19

Markit/CIPS UK Manufacturing PMI



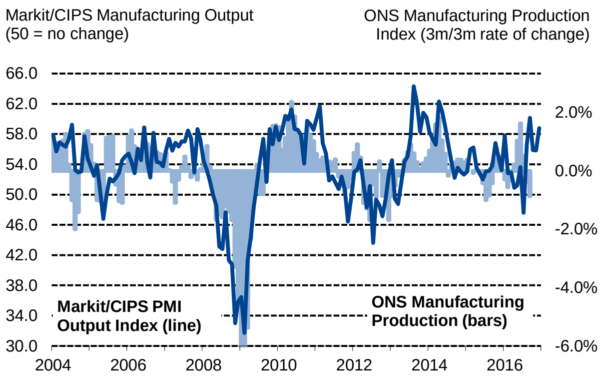
Source: IHS Markit

Summary:

The UK manufacturing sector ended 2016 on a positive note. Rates of growth for production and new orders in December were among the best seen over the past two-and-a-half years. Companies benefited from stronger inflows of new work from both domestic and overseas clients, the latter aided by the boost to competitiveness from the weak sterling exchange rate.

The seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) rose to a 30-month high of 56.1 in December, up from 53.6 in November and well above its long-run average (51.5). The headline PMI has signalled expansion in each of the past five months.

December saw output expanded to meet the needs of stronger new work inflows. Growth of production and new business was broad-based by sector, with strong gains registered across the consumer, intermediate and investment goods industries. However, the increases seen at consumer goods producers were relatively mild in comparison to those seen in the other sectors.



Sources: IHS Markit, UK Office for National Statistics

New export business rose for the seventh successive month in December. Furthermore, the rate of growth was the second-highest since early-2014, bettered only by that signalled in September 2016. Companies reported increased levels of new work from the USA, Europe, China, Middle East, India and other Asian markets.

Improved inflows of new business led to a slight increase in backlogs of work in December, the first rise since February 2014. This combination of higher output, new orders and work-in-hand encouraged manufacturers to expand capacity.

Employment rose for the fifth consecutive month in December, with the pace of jobs growth accelerating to the fastest in 14 months. SMEs saw the steepest expansion of staffing levels, although large-scale producers registered a modest increase too.

Price pressures remained elevated in December. Rates of inflation for input costs and output charges both remained among the fastest seen during the survey history, albeit both slowing from October's highs.

The increase in purchase prices was the eighth in as many months. Companies linked this to the weak exchange rate driving up import costs. Among firms offering a reason for higher input prices, 75% made some reference to the exchange rate (compared to 90% in October and 84% in November). There was also mention of the rising cost of commodities like oil and steel.

Higher costs were passed on at the factory gate, as selling prices rose for the eighth straight month in December. Steep increases were seen across the consumer, intermediate and investment goods sectors.

Comments

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

"The UK manufacturing sector starts 2017 on a strong footing. The headline PMI hit a two-and-a-half year high in December, with rates of expansion in output and new orders among the fastest seen during the survey's 25-year history.

"Based on its historical relationship against official manufacturing output data, the survey is signalling a quarterly pace of growth approaching 1.5%, a surprisingly robust pace given the lacklustre start to the year and the uncertainty surrounding the EU referendum.

"The boost to competitiveness from the weak exchange rate has undoubtedly been a key driver of the recent turnaround, while the domestic market has remained a strong contributor to new business wins. A plus point from the December survey was that the expansion was led by the investment and intermediate goods sectors, suggesting capital spending and corporate demand took the reins from the consumer in driving industrial growth forward.

"On the prices front, higher input costs continued to feed through to increased selling prices, with rates of inflation remaining among the highest seen during the survey history. Of the companies citing a cause of higher costs, 75% linked the increase to the exchange rate."

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

"The sector continued to strengthen this month, signalled by the headline index rising to a 30-month high. Manufacturers enjoyed the stronger economic environment and consequently raised production at a robust pace, while finding room to increase purchasing activity at the strongest rate for two-and-a-half years.

The stimulus for growth came from new order wins in both domestic and overseas markets. The rates of growth remained marked, while new export orders were boosted by the sustained weakness of the pound. Some respondents commented on an increase in orders from India, China, the US and EU.

This growth in new order inflows was the strongest in two-and-a-half years. In response, employment levels gathered pace at the fastest rate for 14 months, where SMEs saw the biggest rises in staffing.

This fervent activity placed suppliers under greater pressure. Supplier delivery times lengthened for the eighth month in a row, with manufacturers reporting raw material shortages as placing strains on vendor performance. Backlogs of work also increased for the first time since February 2014.

The impact of rising input costs continued to be felt, as the rate of cost inflation stood at one of the highest in the survey's 25-year history. However, this did not deter manufacturers from leveraging *their buying capability and increasing their input orders - the fifth month in succession. In fact, the rate of stock building reached its fastest for six years, partly to counteract future expected price increases in raw materials and any possible shortages in the year ahead.*

This fizz in new orders signals good news for UK manufacturers which has previously been hit by uncertainties following the EU referendum, and the sector looks set to reach a more robust growth path at the start of 2017."

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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

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