

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) October 3rd 2016

Markit/CIPS UK Manufacturing PMI®

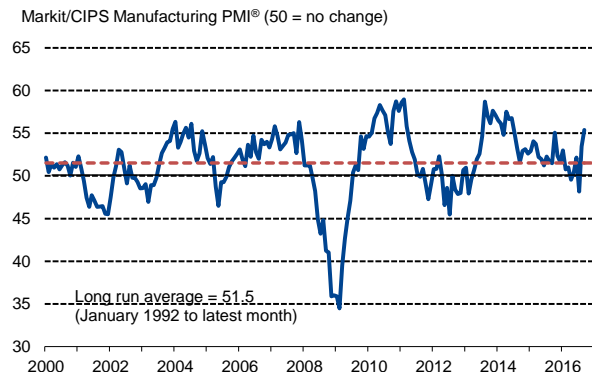
UK Manufacturing PMI rises to highest level since mid-2014

Key findings:

- UK Manufacturing PMI at 55.4 in September
- Growth of output, new orders and employment all strengthen
- Weak exchange rate drives export orders and input prices higher

Data collected September 12-27

Markit/CIPS UK Manufacturing PMI



Source: IHS Markit

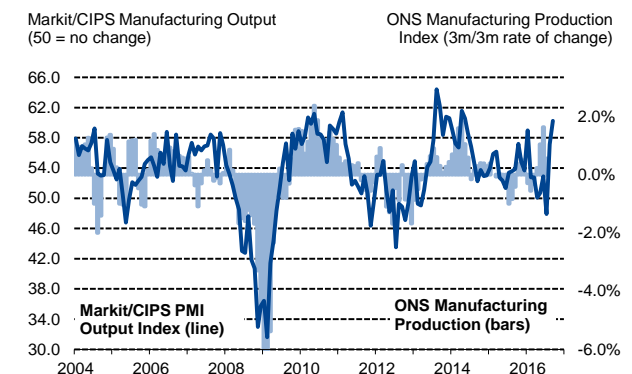
Summary:

Conditions in the UK manufacturing sector continued to improve at the end of the third quarter. Rates of expansion in output and new orders accelerated further, rising at rates rarely achieved since the middle of 2014. The domestic market remained a prime driver of new business wins, while the weaker sterling exchange rate drove up new orders from abroad.

At 55.4 in September, up from 53.4 in August, the seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) rose to its highest level since June 2014. Furthermore, the rebound in the

PMI level since its EU-referendum related low in July has been sufficient to make the third quarter average (52.3) the best during the year-to-date.

September saw manufacturing production expand at the quickest pace since May 2014. Growth was led by the consumer goods sector, where output rose at the quickest pace in one-and-a-half years. There were also substantial and accelerated increases at intermediate (11-month high) and investment (eight-month high) goods producers.



Sources: IHS Markit, UK Office for National Statistics

Underpinning the latest scaling up of output was a marked increase in new business. New orders rose to the second-greatest extent since mid-2014. Companies linked the latest increase to higher sales to both domestic and overseas clients, supported by promotional activity and (for exports) the weaker sterling exchange rate.

Total new orders rose strongly at consumer and investment goods producers. A modest gain was also seen in the intermediate goods sector.

September saw the level of incoming new export orders increase at the fastest pace since January

2014. UK manufacturers reported improved demand from clients in Asia, Europe, the USA and certain emerging markets.

The recent rebound in the manufacturing sector encouraged companies to take on additional staff during September. Employment rose for the second straight month, after declining throughout the earlier part of the year. Job creation was linked to increased capacity requirements, new order growth and the launch of new product lines.

Purchasing activity also increased during September. Input buying volumes were raised to one of the greatest degrees over the past two years. This exerted pressure on vendors, however, resulting in the steepest lengthening in supplier lead times since May 2011.

Comments

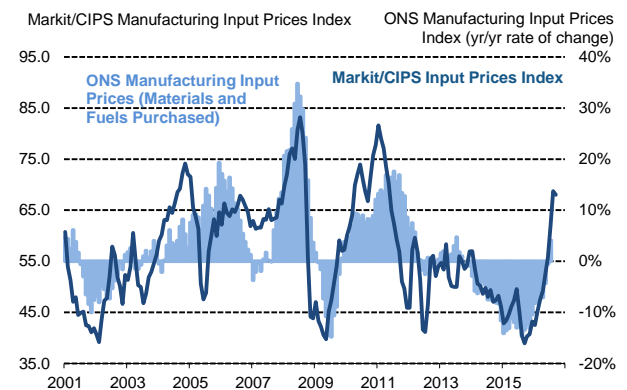
Rob Dobson, Senior Economist at IHS Markit, which compiles the survey:

“September saw the UK Manufacturing PMI rise to its highest level since mid-2014, recovering further from its EU referendum inspired low in July. The rebound over the past two months has been encouragingly strong, and puts the sector on course to provide a further positive contribution to GDP in the third quarter.”

“The weak sterling exchange rate remained the prime growth engine, driving higher new orders from Asia, Europe, the USA and a number of emerging markets. The domestic market is also still supportive of growth, especially for consumer goods. Further step-ups in growth of new business and output in the investment goods sector may also be a sign that capital spending is recovering from its early year lull, in the short term at least.”

“On the price front, input costs are still rising at a double-digit annual rate, as the weaker sterling exchange rate drove up import prices. This led to a further solid increase in output charges. However, with rates of inflation easing in both cases, it looks as if the recent surge in inflation may not quite reach the peaks of previous bouts such as in 2008 and 2010-2011.”

Higher import costs, a by-product of the weak exchange rate, led to a further substantial increase in average purchase prices in September. Manufacturers passed on part of the rise to clients in the form of higher charges. Output price inflation remained well above the series average.



Sources: IHS Markit, UK Office for National Statistics

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

“This month, manufacturing made up lost ground since the EU referendum, with a robust rise in new orders and production expanding at a pace not seen for over two years.”

“It was largely domestic orders that fuelled the rise in overall activity, although the weaker pound also bolstered export orders which increased at the steepest rate for 32 months. Consumer goods sector output rose at the strongest pace since March 2015.”

“Purchasing activity also increased at one of the quickest rates for over two years, impacting on suppliers’ delivery capabilities. This led to the sharpest lengthening in delivery times since May 2011, as higher demand for inputs reduced stock levels at vendors. Competition for raw materials also increased, along with input prices, as shortages in metals, chemicals and food were reported.”

“Employment levels were moderately encouraging with the second monthly rise in a row in this post-referendum bounce. Firms sought to increase their competitive edge, with marketing activity and the launch of new product lines. It is difficult to say whether this solid rebound will be sustained, however, as there will potentially be more challenges and uncertainties ahead.”

**The October 2016 Report on Manufacturing will be published on:
Tuesday November 1st 2016 at 09:30 (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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