

News Release

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

UK manufacturing remains subdued in May

Data collected 12-25 May 2016

Key points:

- UK Manufacturing PMI edges back above stagnation mark to 50.1
- Growth registered in consumer and intermediate goods sectors
- Input costs and average selling prices both move higher

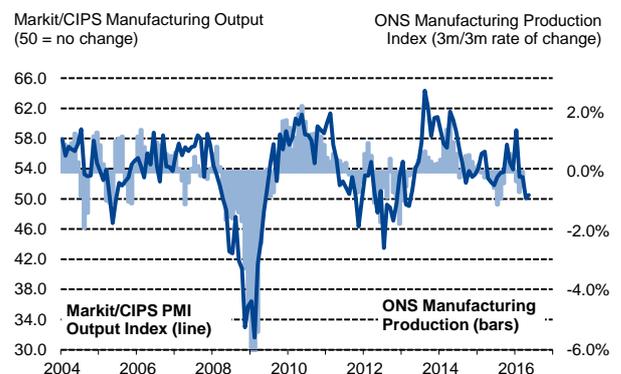
Historical Overview:



Summary:

The UK manufacturing sector maintained its generally lacklustre start to 2016. At 50.1 in May, up from 49.4 in April, the seasonally adjusted Markit/CIPS Purchasing Managers' Index® (PMI®) edged only negligibly back above the neutral mark of 50.0.

Production volumes were broadly unchanged during the latest survey month, as the growth rate of new order inflows remained subdued (albeit slightly quicker than in April). Where an increase in new business was registered, this generally reflected a further increase in new work from domestic clients. In contrast, the level of new export business fell for the fifth consecutive month.



Where weakness in new order inflows was reported, manufacturers linked this to softer global economic growth, challenging exchange rates and ongoing client and market uncertainties. The latter partly reflected the forthcoming EU referendum.

According to a special question added to the survey this month, over a third of respondents have seen a detrimental impact on their business from uncertainty regarding the forthcoming vote, within which 8% indicated that the impact was 'strongly detrimental'. Further details are provided in the research note following this press release.

May saw further growth of production and new business in the intermediate goods sector, alongside a return to expansion in both variables at consumer goods producers. The investment goods industry remained in the doldrums, however, with downturns in output and new orders continuing.

Manufacturing job losses were registered for the fifth straight month in May. However, the rate of reduction eased to a three-month low and was only modest overall.

Job cuts were focused on the weaker performing investment goods industry. In contrast, new order growth in the consumer and intermediate goods sectors encouraged firms to increase employment.

The level of work-in-hand (but not yet completed) at UK manufacturers fell markedly during May. Furthermore, the rate of depletion accelerated to its fastest in just over three years. Available spare capacity and the use of existing finished goods inventory to settle contracts both contributed to the latest reduction in backlogs of work.

May saw stores of inputs and finished products both depleted further. In both cases this reflected intentional depletion programmes, although lower levels of purchasing activity also contributed to the reduction in pre-production inventories.

The rate of contraction in input buying volumes was among the quickest seen over the past three years. Reductions were seen across the consumer, intermediate and investment goods sectors. Lower demand for raw materials also meant that suppliers lead times were broadly unchanged.

Price pressures moved to the upside during May.

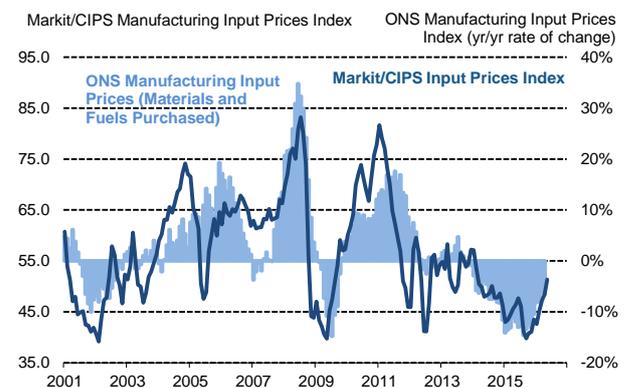
Comment:

Rob Dobson, Senior Economist at survey compilers Markit:

“The manufacturing sector continued its lacklustre start to 2016. Although key indicators for output, new orders and the headline PMI all ticked higher in May, the latest survey is still consistent with around a 0.8% quarterly decline in the official ONS Manufacturing Production Index. The sector will therefore remain a drag on broader economic growth, adding pressure on the service sector to sustain the upturn in GDP.”

“Although the domestic market remains positive for manufacturers, especially for producers of consumer and intermediate goods, softer global growth is weighing on new export orders. There are also signs that increased client uncertainty resulting from slower growth and the forthcoming EU referendum is weighing on investment spending. Manufacturers will have to wait and see whether this trend improves in the coming months.”

Both input costs and output charges rose following sustained sequences of decline. Companies linked higher costs to a firming of commodity prices (notably for oil and metals) that was passed on to clients.



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

“Like a moving car with its brakes on, the sector moved at a sluggish, haltering pace barely registering progress over the last month.”

“Any small pockets of new work, were firmly in the driving hands of the domestic market as exports remained lacklustre, affected by the slowdown in global economic growth.”

“Overall, job losses continued for the fifth month, though not all sub-sectors fared the same, as consumer and intermediate sub-sectors saw a rise in employment to meet a small rise in demand for their goods.”

“Backlogs continued to drop and at the quickest pace for 38 months while purchasing activity slowed for a successive fourth month and firms held on to their cash. It is likely some manufacturers are maintaining a financial shield as a barrier against the uncertainties still affecting the sector, including those arising from the forthcoming EU referendum.”

The June 2016 Report on Manufacturing will be published on:

Friday July 1st 2016 at 08:30 (UTC)

-Ends-

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Notes 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/economics.

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 purchasing 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

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Special Question on EU Referendum

'Brexit' uncertainty having detrimental impact on more than a third of manufacturers

Uncertainty with regards to the outcome of the forthcoming EU referendum is having a detrimental impact on the business performance of more than a third of UK manufacturers.

That's according to the responses provided by PMI panellists to a special question added to the May Markit/CIPS UK Manufacturing PMI survey.

When asked whether the issue of the UK's potential exit from the European Union is currently having an impact on their business, some 27% of the 427 companies that answered the question commented on a 'detrimental' effect, while a further 8% indicated that the impact was 'strongly detrimental'.

Conversely, just 3% reported a 'beneficial' impact, while around 1% indicated a 'strongly beneficial' effect. Over half (51%) noted no significant impact. Over one-in-ten respondents were meanwhile unsure whether 'Brexit' worries were a factor impacting on their business (11%).

Looking at the nature of the impact on manufacturers, nearly a quarter of respondents commented that Brexit 'uncertainty' was making it difficult to make business decisions, and conversely this seemed to be impacting adversely on their sales (nearly 30% of manufacturers indicated some form of detrimental impact in this area).

Costs at nearly 30% of companies were also being adversely affected by the EU referendum uncertainty, with a similar proportion also commenting on a detrimental impact on profits. Investment and planning decisions were similarly also hampered.

In contrast, nearly 80% of the panel reported no significant effect emanating from uncertainty over 'Brexit' on their ability to hire suitable staff.

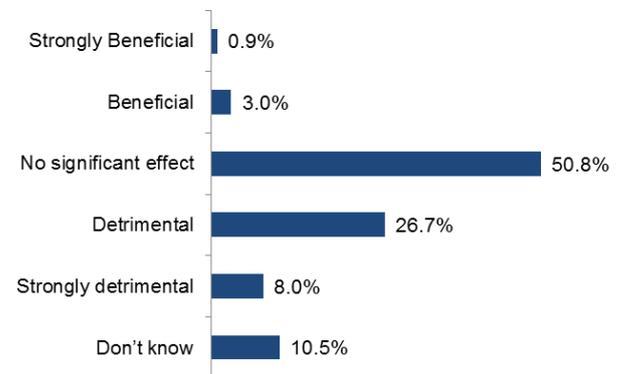
Data were collected between May 12th-26th.

Survey data on the impact of the EU referendum relating to the construction and service sectors will be published in the coming two days.

Overall impact of Brexit uncertainty

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

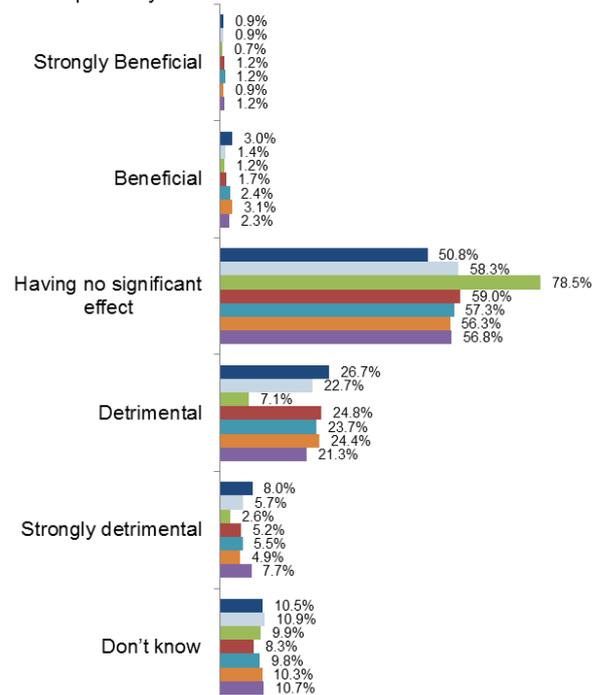
(Sample = manufacturing)



Nature of impact (manufacturing)

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

- Overall impact on business
- Impact on your investment and expansion plan
- Impact on ability to hire suitable staff
- Impact on ability to make business decisions
- Impact on profits
- Impact on sales
- Impact on your costs



Source for all charts: Markit.