

News Release

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

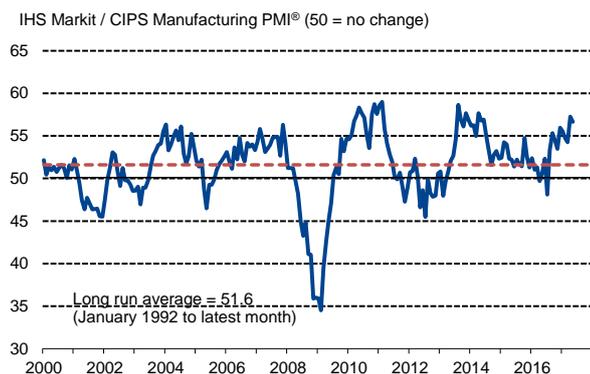
UK manufacturing sees further marked growth in May

Key findings:

- UK Manufacturing PMI at 56.7 in May
- Output and new order growth remain solid
- Rate of job creation at 35-month high

Data collected May 12-25

IHS Markit/CIPS UK Manufacturing PMI



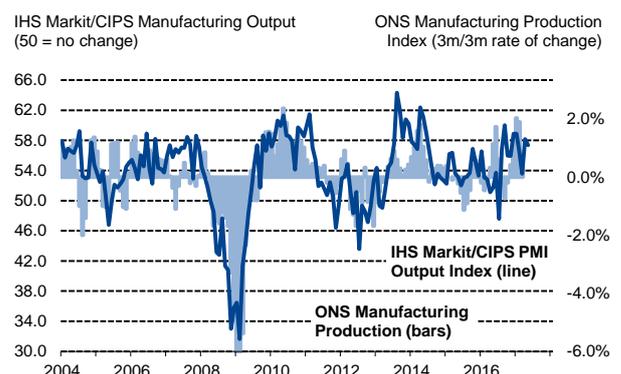
Source: IHS Markit

Summary:

The UK manufacturing sector remained resilient in May, sustaining most of the growth momentum gained during the prior survey month. At 56.7, the seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index[®] (PMI[®]) was only slightly below April's three-year high of 57.3 and signalled an improvement in operating conditions for the tenth successive month.

Manufacturing production and new orders both expanded at above survey average rates. Companies benefited most from the continued strength of the domestic market. There was also a solid increase in new export business as well.

Overseas demand improved due to a combination of the historically weak sterling exchange rate and manufacturers' efforts to promote and launch new products in foreign markets. The level of incoming new export orders rose for the thirteenth month in a row, with the rate of growth broadly in line with the average for that sequence.



Sources: IHS Markit, UK Office for National Statistics

Sector data indicated that solid expansions of production and new orders were seen across the consumer, intermediate and investment goods categories. Output growth was led by the intermediate goods sector, where the rate of increase accelerated to a four-month high. Growth moderated in the other two industries.

The ongoing expansion of the manufacturing sector had a positive impact on both business sentiment and job creation. Optimism regarding the outlook for production levels in one year's time improved to a 20-month high, with 56% of manufacturers forecasting output to rise during the next 12 months. Positivity reflected planned

company expansions, efforts to improve market share and marketing strategies.

Employment rose for the tenth consecutive month in May, with the rate of jobs growth the fastest since June 2014. Alongside solid new order inflows and rising business confidence, manufacturers also raised capacity in response to increased backlogs of work. Outstanding business expanded at the fastest rate in over six years (albeit only a moderate increase overall).

Rates of inflation in input costs and output charges remained elevated in May, despite easing further

from recent highs. Increased costs reflected the historically weak sterling exchange rate and rising raw material prices. There were also signs of a sellers' market developing for some inputs, due to supply shortages and an associated lengthening of vendor lead times.

A number of manufacturers noted that they maintained sufficient pricing power to pass on higher costs to clients. Despite easing to a five-month low, the increase in selling prices was still among the fastest seen in the survey history.

Comments

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

"The strong PMI numbers suggest the manufacturing sector has gained growth momentum in the second quarter after the sluggish start of the year. The ongoing strength of the domestic market remains the main driver of the upturn. Growth of new export business played a lesser role in comparison, with the trend in foreign demand continuing to improve only in fits and starts, despite the assistance of a historically weak sterling exchange rate.

"The survey also provided positive signs that the upturn may be sustained, as growth of new orders remained solid, backlogs of work rose at the quickest pace in six years and business optimism improved to a 20-month high. These underlying dynamics are proving to be a real boon for the manufacturing labour market, with May seeing jobs added at the fastest pace since mid-2014. On this basis, the sector should have sufficient momentum to see it through the uncertainty generated by the current unexpected general election and into the start of Brexit negotiations later in the quarter."

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

"While not quite hitting the heights of April's rebound in activity, the manufacturing sector didn't disappoint with a sustained rise in purchasing activity, output and new orders, optimism at a 20-month high, and storming ahead unfazed by the looming election.

"The domestic market persisted as the driving force, but the weak pound's continuing bounty meant levels of export orders also increased, for the thirteenth month, as export markets made use of the competitiveness of UK firms.

"These continuing levels of expansion have taken their toll on supply chains however, as purchasers reported lengthening delivery times and sourcing difficulties for a number of key materials. To meet these demands employment levels grew at their fastest levels since June 2014 which is good news for job seekers, though the question mark over a continuing skills shortage in the UK will continue along the path to Brexit and the years ahead."

– End –

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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 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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