

News Release

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

Manufacturing output rises on solid domestic demand

Data collected 12-26 May 2015

Key points:

- UK Manufacturing PMI at 52.0 in May
- Consumer goods sector remains main growth pillar
- Job creation slows further

Historical Overview:

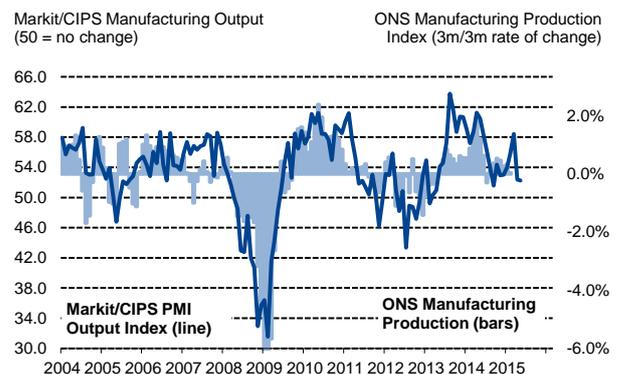


Summary:

The UK manufacturing sector saw further modest expansions of both output and new orders in May, as a solid domestic market continued to offset lacklustre demand from overseas. The consumer goods sector remained the stand-out performer, while investment goods producers fared better than in April. Negative news came from the intermediate goods sector, where the downturn in output continued.

The seasonally adjusted Markit/CIPS Purchasing Manager's Index® (PMI®) – a summary indicator of overall manufacturing sector health – ticked higher to 52.0 in May, up from a revised reading of 51.8 in April (previously reported as 51.9). The PMI has remained above the neutral 50.0 mark for 26 months.

UK manufacturing production rose again in May, extending the current sequence of expansion to 27 months. Although the rate of output growth edged lower, the extent of the easing was only minor and much less severe than April's steep slowdown.



May also saw a further increase in incoming new business, with the rate of growth in new orders picking up slightly from April's seven-month low. Companies attributed improved inflows of new work to solid domestic demand, rising client confidence and recent new product launches.

The trend in new business from overseas remained lacklustre compared to conditions in the domestic market. This was highlighted by the level of new export business holding stable in May following a

modest decrease during the prior month. The exchange rate and soft global market conditions were again cited by companies as factors contributing to the decrease in new work from abroad.

Manufacturing employment rose for the twenty-fifth consecutive month in May. However, the rate of jobs growth was only marginal and the weakest during the current sequence of rising staffing levels. Modest increases in capacity at consumer and investment goods producers were partly offset by job cuts in the intermediate goods sector.

Average selling prices rose for the first time in five months during May, mainly due to solid increases at both consumer and investment goods producers. Factory gate prices were broadly unchanged in the intermediate goods sector.

Comment:

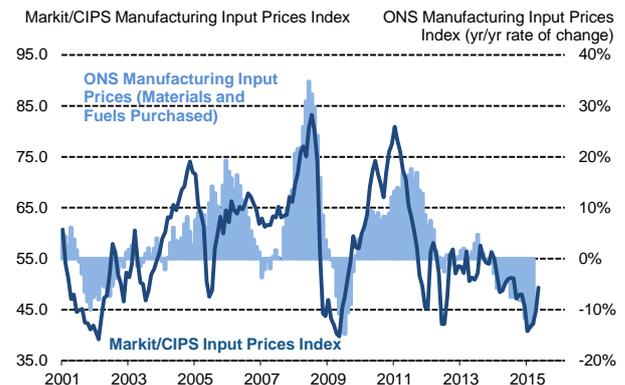
Rob Dobson, Senior Economist at survey compilers Markit:

“Expectations of a broad rebound in UK economic growth during the second quarter of the year are called into question by these readings. Manufacturing looks on course to act as a minor drag on the economy, as the sector is hit by a combination of the strong pound and weak business investment spending. The strength of sterling is serving a double-whammy for economic growth by constraining manufacturer’s export performance and also driving a surge in cheap imports.”

“Where growth is being reported by manufacturers, this remains heavily dependent on the domestic market, and consumer demand in particular. The challenge therefore remains for the new government to take the necessary steps to revive manufacturing, boost investment spending and improve export competitiveness if any headway is to be made on achieving the long promised rebalancing of the UK economy.”

“Manufacturer’s growth funk is also hurting job creation, with increases to payroll numbers easing to a near standstill in May. However, on the price front, the news was better for those hoping deflation may prove short-lived, as manufacturers raised their selling prices for the first time in five months. However, the victory may prove pyrrhic if this ultimately constrains consumer demand and removes the main prop underpinning the economic recovery.”

Although May saw a further decrease in average input costs, the rate of price deflation slowed sharply over the month. Companies continued to report lower costs for a range of raw materials, but also noted that this had been partly offset by recent oil prices rises.



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

“Though hopes of a stronger pace of recovery were dashed by manufacturing this month, the sector resisted repeating April’s sharp slowdown and instead delivered a further modest easing in the growth rate of activity. Though the index remained just above the no-change mark, there was an element of imbalance as the persistent dawdler continued to be the intermediate goods sub-sector, while the consumer sub-sector surged ahead.”

“Suppliers remained under-performing, as delivery times lengthened and shortages of a few key raw materials added pressure to the supply chain. Any caution around future business opportunities also translated into lower inventory levels as business optimism was low key and employment levels remained static.”

“Overall, the sector’s enduring driver continued to be domestic demand, as exports failed to ignite any new highs in recovery. This uninspiring level of activity is likely to cast a shadow in the coming months and encourage expectations of a flatlining future.”

The June 2015 Report on Manufacturing will be published on:

Wednesday 1st July 2015 at 09:30

-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 geographically and by Standard Industrial Classification (SIC) group, based on the regional, and industry contribution 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 Markit

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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 110,000 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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