



News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Manufacturing PMI

Manufacturing PMI edged lower in September as growth of production eased sharply

Key points:

- Manufacturing PMI remained below 50.0 as growth in output slowed.
- Total new work received and new export orders continued to rise.
- Input cost reduction was weakest during current period of decline.

Summary:

At 49.5 in September, down from 49.7 in August, the seasonally adjusted **CIPS/Markit UK Manufacturing Purchasing Managers' Index® (PMI®)** posted below the neutral 50.0 mark for the second month running. However, the average PMI reading for Q3 2009 as a whole (49.9) was close to this benchmark level and the highest quarterly figure since Q1 2008.

The headline PMI provides a single figure indication of operating conditions in the manufacturing sector. The index is calculated using data collected on new orders, production, employment, supplier performance and stocks of purchases.

Although September data signalled that the recent solid gains in the level of production had been sustained, and built on, the overall rate of expansion eased sharply. Fuller order books remained a principal factor underlying the increase in output, particularly with respect to growth of new export orders. However, firms continued to support higher production through offering discounted prices to stimulate sales.

Total new orders increased for the third successive month in September, but to a lesser extent than in previous months. New export business rose at a faster rate than in August, supported by improving overseas market conditions and the weak sterling exchange rate.

Consumer and intermediate goods producers continued to report higher levels of output and new orders in September. However, the downturn in the investment goods sector deepened.

Job losses were reported in the UK manufacturing sector for the seventeenth consecutive month in September, reflecting ongoing cost reduction and workforce restructuring programmes. Although easing to its slowest since June 2008, the pace of decline remained substantial and stronger than the survey average. Job losses were mainly centred on large-sized manufacturers, as employment was broadly unchanged at small companies.

A further modest reduction in input buying volumes was reported in September. Meanwhile, stocks of purchases and finished goods both continued to drop at historically rapid rates.

Average input prices fell only slightly in September and at the weakest rate during the current eleven month period of decline. A number of firms reported that rising commodity market prices and shortages at suppliers were starting to filter through to costs.

Output prices also fell at the slowest pace during their current eight-month sequence of decline.

Over Q3 2009 as a whole, the average readings for most of the survey indexes were higher than in the second quarter. The average for the output index was the highest since Q1 2008, while averages were at their most elevated since Q4 2007 and Q2 2008 for indexes tracking new orders and employment respectively.

Comment:

David Noble, Chief Executive Officer at the Chartered Institute of Purchasing & Supply, said:

“The latest data will disappoint those hoping for a quick economic recovery. However, it must be remembered that after hitting an unprecedented low



in November last year, we have seen the manufacturing industry make a significant rebound. Total new orders increased for the third successive month in September, output for a fourth month running and new export business rose at a faster rate than in August. But we are now seeing the sector bump along through the recovery phase, as some of the momentum inevitably wanes.

“From a holistic point of view, Q3 saw significant improvements on the previous quarter with the average PMI reading at its most elevated since the first quarter of 2008. Moreover, purchasing managers said they’re still seeing domestic new orders rise and the weak sterling boosting foreign demand.”

Rob Dobson, Senior Economist at Markit said:

“At first glance the latest PMI data are disappointing. The headline index posted below its neutral mark for the second month running and came in below market expectations. Growth of

output eased sharply, new order gains were less robust than in August and the downturn in the capital goods sector took a turn for the worse. Job losses are still running at a rapid pace.

“However, the picture is one of consolidation not contraction in September. New orders are rising, sterling is supporting export sales as overseas markets improve and the key orders-inventory ratio remains at an elevated level. All this means that manufacturing should provide a positive contribution to GDP in Q3. Looking ahead, the data are still broadly consistent with a solid rebound following by a subdued recovery. But the outlook remains uncertain given the current reliance on price discounting and fiscal support.”

The October Report on Manufacturing will be published on Monday 2nd November 2009 at 9.30am

-Ends-

For further information, please contact:

Hill & Knowlton
Miranda Gulland
Tel: +44-20-7973-5987

CIPS
Trudy Salandiak, Press Officer
Tel: +7554 400 731

Markit Press Office
Claire Gorman
Telephone +44-20-7064-6032

Notes to Editors:

The CIPS/Markit 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 CIPS/Markit UK Manufacturing Purchasing Managers' Index (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 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.

Where appropriate, please refer to the survey as the CIPS / Markit UK Manufacturing PMI.

About CIPS

The Chartered Institute of Purchasing & Supply (CIPS) is the leading international body representing purchasing and supply management professionals. It is the world-wide centre of excellence on purchasing and supply management issues. CIPS has almost 54,000 members in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of purchasing and supply chain professionals can have a major impact on the profitability and efficiency of all types of organisation.

About Markit

Markit is a financial information services company with more than 1,200 employees in Europe, North America and Asia-Pacific. Over 1,500 financial institutions use our independent services to manage risk, improve operational efficiency and meet regulatory requirements.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become 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.

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