



News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Manufacturing PMI

UK manufacturing PMI ended 2009 at highest level in over two years

Key points:

- Manufacturing PMI rose to a twenty-five month high.
- Growth of output and new orders strengthened.
- Weaker fall in employment. Price pressures building.

Summary:

The UK manufacturing sector ended 2009 on a positive footing. The headline seasonally adjusted **CIPS/Markit Purchasing Managers' Index® (PMI®)** reached a twenty-five month high of 54.1 in December, up sharply from 51.8 in November. The average reading for Q4 2009 as a whole was the highest since the final quarter of 2007.

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.

Manufacturing production increased for the seventh consecutive month and at the fastest pace since November 2007. Output rose at consumer and intermediate goods producers, but fell in the investment goods sector. Supporting the latest increase in total output was a further gain in incoming new business.

New orders rose at the strongest pace for twenty-nine months in December. Manufacturers linked higher levels of new work to market conditions starting to improve and clients moving to rebuild stocks. However, the latest increase was mainly focused on the domestic market, as growth of new export orders was only slight.

Growth of output and new orders was again led by consumer and intermediate goods producers in

December. Output and new orders rose at marked rates in both sectors. In contrast, production was cut at capital goods companies, the fourth successive month that output in this sector had failed to rise.

UK manufacturing employment fell for the twentieth consecutive month in December, reflecting ongoing cost saving and redundancy programmes. However, the rate of reduction was the weakest since May 2008. Job losses were mainly centred on large sized enterprises. In contrast, SMEs reported a slight increase in staffing levels.

Price indicators moved higher in December. Average purchasing costs increased at the steepest pace for fifteen months, reflecting higher commodity prices. Part of the increase was attributed to supply-side factors – including low stocks at vendors – as highlighted by a further deterioration in average supplier performance. Meanwhile, output prices rose for the second month in a row, although competition between manufacturers meant that the rate of increase remained only modest.

December data pointed to a marked rise in purchasing activity. The rate of growth in input buying volumes accelerated to hit a twenty-five month high. However, the latest increase was insufficient to prevent a further drop in holdings of raw materials. Stocks of finished goods also fell in December.

Backlogs of work declined again during the latest survey period, indicating that spare capacity remained available at manufacturers.



Comment:

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

"Despite operating against one of the toughest economic backdrops ever witnessed, 2009 saw the UK manufacturing sector slowly regain its footing and end the year in comparatively strong shape. On the back of significant increases in production and new orders, the December PMI posted its strongest reading in over two years.

"However, the troubles of the downturn are still close to hand and firms are keeping a beady eye on all activities. In particular, purchasing managers said new order growth was dependent mainly on domestic demand, while the capital goods sector continued to suffer from falling production levels. Although a hike in commodity prices pushed up costs, rife competition meant firms were able to increase output charges only slightly.

"Though still falling and for the twentieth month, firms trimmed staff at the weakest rate since May 2008. Interestingly, while larger firms continued to shed jobs, some SMEs actually hired new staff - in line with rising client demand."

Rob Dobson, Senior Economist at Markit Economics said:

"December PMI data signal a positive end to a tumultuous year for UK manufacturers. The latest release sees the headline PMI rising to its highest level for over two years following robust growth in both production and new orders. The consumer and intermediate sectors are faring well, so is domestic demand, but lacklustre capital spending and subdued export performance are proving to be a drag on the industry as a whole. The outlook is somewhat clouded given the uncertainty of the timing of fiscal and monetary stimuli withdrawal but the momentum and broad-base of the recovery should hopefully aid sustainability."

The January Report on Manufacturing will be published on Monday 2nd February 2010 at 9.30am

-Ends-

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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 leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

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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