



## News Release

**MARKET SENSITIVE INFORMATION**  
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### CIPS/Markit UK Manufacturing PMI

## UK Manufacturing PMI rose to 15-year high at the start of 2010

#### Key points:

- Growth of output at 43-month high. New orders rose at steepest pace for six years.
- Series record growth of new export orders.
- Employment increased slightly for first time since April 2008.

#### Summary:

January data from CIPS/Markit signalled that the UK manufacturing sector built on its solid end to 2009. The headline seasonally adjusted **Purchasing Managers' Index® (PMI®)** rose to 56.7, from an upwardly revised figure of 54.6 in December, to record its highest level since October 1994.

The headline PMI – which provides a single figure indication of operating conditions in the manufacturing sector – has now remained above its no-change level of 50.0 for four consecutive months. The index is calculated using data collected on new orders, production, employment, supplier performance and stocks of purchases.

Manufacturing production increased for the eighth successive month in January, with the rate of expansion the quickest since June 2006. Higher output mainly reflected improved intakes of new work and efforts to clear outstanding business. Total new orders rose at the fastest pace in six years, underpinned by stronger domestic demand and the steepest growth in new export orders since (exports) data were first collected at the start of 1996.

Companies reported that overall sales efforts were being supported by improvements in economic conditions and confidence, competitive pricing and low levels of stock at clients. Growth of new export orders was also reported to have been assisted by the relative weakness of sterling. Gains in overseas business reflected new contracts from Asia, the

Eurozone, Latin America, the Middle-East and the US.

The expansions of output and total new orders were broad-based by both sector and company-size definitions. However, the performance of larger sized enterprises tended to be stronger than at small firms.

January data pointed to a slight increase in employment for the first time in twenty-one months. A number of companies reported that it had been necessary to raise capacity in order to satisfy current demand requirements. However, there was still mention of ongoing redundancy programmes in certain parts of the manufacturing sector, particularly the basic metals and mechanical engineering sub-industries.

Average purchasing costs increased at the fastest rate since September 2008, driven higher by rising commodity prices. Part of the increase reflected supply-chain factors resulting from low stock levels at suppliers. This was highlighted by the sharpest deterioration in vendor performance for thirty-nine months. Average charges rose at the fastest pace since October 2008, as companies moved to protect operating margins. However, the rate of increase in selling prices was well below that signalled for costs.

January data pointed to the sharpest increase in purchasing activity for over fifteen years. Apart from rising production requirements, firms indicated that they were pre-ordering raw materials to guard against expected price rises and delivery delays from suppliers. Stock holdings fell, but at slower rates.

#### Comment:

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



“This is very positive news and a great way to start the year. Although the manufacturing sector represents a smaller proportion of total UK GDP than 10 or 20 years ago, it is still a very important part of the economy. It is therefore encouraging to see such strong growth and it suggests we are coming out of recession much quicker than previously feared.

“One of the most encouraging aspects of this month’s PMI is the turnaround on the jobs front. For the first time in 21 months there has been an increase in employment, albeit only a slight one. Employment is usually a lagging indicator so it suggests that firms are becoming much more confident about the future.

“Inevitably, though, purchasing managers voiced some notes of caution. The spike in purchasing activity was attributed to inflationary concerns and delivery delays – rather than increased client

demand. Also, the highly competitive nature of this still fragile market meant firms shied away from raising their selling prices to a sufficient extent to fully cover cost increases.”

Rob Dobson, Senior Economist at Markit said:

“January data point to a robust start to 2010 for the UK manufacturing sector. The headline PMI hit a 15-year high as growth of new orders and production accelerated and employment rose for the first time since April 2008. The main driver of growth was a surge in new export orders, as improving global market conditions and the ongoing weakness of sterling led to the sharpest rise in foreign demand recorded in at least 14 years.

“The survey therefore raises hopes that the sluggish recovery from recession signalled by GDP data in the final quarter of last year will have gained momentum as we move into 2010.”

**The February *Report on Manufacturing* will be published on Monday 1<sup>st</sup> March 2010 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**

Caroline Lumley  
Telephone +44-20-7260-2047

**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](http://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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