

News Release

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

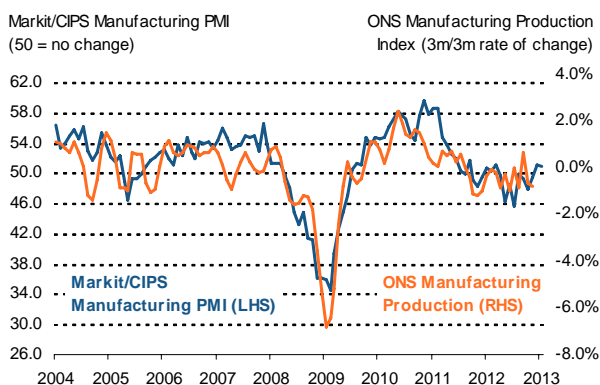
Growth of UK manufacturing production at 16-month high in January

Data collected 11-28 January 2013.

Key points:

- UK Manufacturing PMI at 50.8 in January
- Total new orders rise only slightly as new exports continued to fall
- Input costs and output prices both increase

Historical Overview:



Summary:

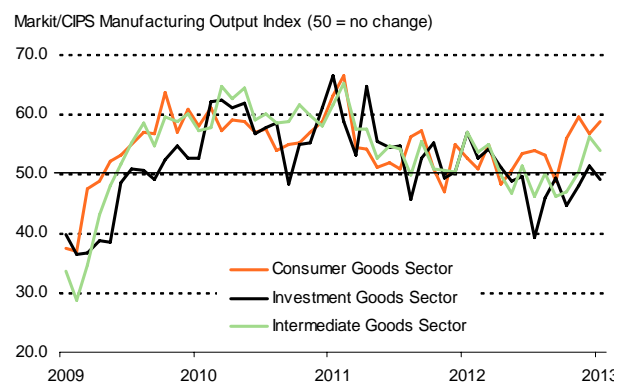
UK manufacturing production continued to expand at the start of 2013, following a further increase in new orders and ongoing efforts to clear backlogs of work. The labour market also continued to stabilise following the job losses seen through much of the middle of last year.

At 50.8 in January, edging lower from December's 15-month high of 51.2, the seasonally adjusted Markit/CIPS *Purchasing Manager's Index*® (PMI®) remained above the neutral 50.0 mark for the second month running.

Manufacturing output expanded at the fastest pace since September 2011. This mainly reflected a robust increase in consumer goods production, although output also rose at intermediate goods

producers. In contrast, investment goods output fell for the eighth time in the past nine months.

Manufacturing Output by Sector



Companies reported a marginal increase in new orders for the third successive month, which some attributed to improved inflows of new business from the domestic market. This offset a further reduction in new export orders, which fell for the thirteenth month in a row. Companies linked lower volumes of new work from overseas to the ongoing weakness of markets in mainland Europe.

With new orders rising only marginally during the latest survey month, companies supported production volumes through the depletion of backlogs of work. Outstanding business declined at a substantial pace. There were also reports of companies settling existing contracts from inventories, leading to a reduction in finished goods holdings for the tenth month running.

Average input prices rose for the fifth successive month in January, with costs rising across the consumer, intermediate and investment goods sectors. Companies reported higher prices paid for

chemicals, energy, food products, metals, packaging and plastics.

Part of the increase in costs was passed on to clients in the form of higher average selling prices. Charges rose for the thirty-ninth successive month, although January's rate of inflation was below the average for the period of increase. A number of companies noted that generally subdued market conditions had restricted price rises.

Companies continued to exhibit a degree of cost caution with regard to purchasing activity and inventory holdings. Input buying volumes declined for the twelfth successive month in January, mainly due to a sharp reduction by investment goods producers. Meanwhile, stocks of purchases and finished goods were both reduced further at the start of 2013.

Comment:

Rob Dobson, Senior Economist at survey compilers Markit:

"A second consecutive month of improving business conditions in the manufacturing sector is an encouraging start to 2013. Companies reported that output growth gathered further momentum, reaching a sixteen-month high, suggesting that the sector could help lift the economy from the slide back into contraction late last year.

"A small gain in employment also suggests that some firms are becoming slightly less focused on cost reduction amid signs of stabilising order books, which should hopefully lead to further production growth in February. Export orders are still declining, but Sterling's weakness and indications of firming demand in key export markets such as Germany and emerging markets like China may filter through and lift sales in coming months.

"However, with manufacturing only accounting for around 10% of the economy, the survey will do little to assuage fears of a triple-dip recession unless accompanied by an improvement in the services sector, which contracted at the fastest rate for two years in December."

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

"On the surface this is good news for manufacturing and should be welcomed. However underlying factors suggest deep rooted problems remain. Until these are resolved, the sector will continue to be pulled from pillar to post.

"Economic weakness in Europe is the primary issue affecting the industry, reflected in the continued scarcity of export orders during January and the fact that many firms remain cost cautious in response to increased input prices. This situation looks set to continue in the face of the difficult macro-economic conditions.

"These more negative factors have been offset however, by the strength of domestic orders, particularly in consumer goods, which alongside intermediate goods are driving expansion in manufacturing activity. This steady flow of new orders has enabled manufacturers to work through backlogs bolstering expansion."

The February 2013 Report on Manufacturing will be published on:

Friday 1st March 2013 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

Markit is a leading, global financial information services company with over 2,800 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 please see www.markit.com.

About PMIs

Purchasing Managers' Index® (*PMI*®) surveys are now available for 32 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 Purchasing & 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 over 94,000 in 150 different 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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