

## News Release

**Purchasing Managers' Index®**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 09:30 (UK), 2<sup>nd</sup> January 2013**

### Markit/CIPS UK Manufacturing PMI®

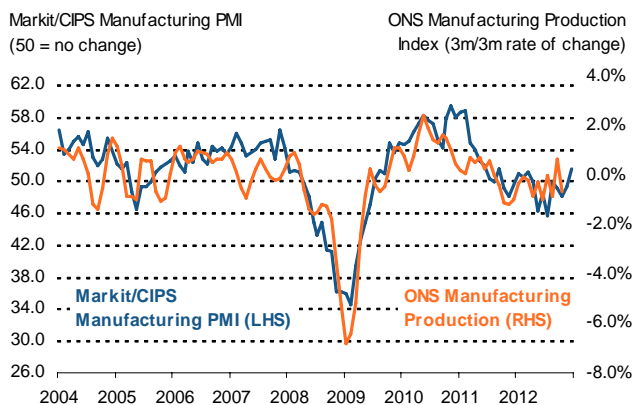
## Manufacturing production and new orders expand in December

Data collected 5-18 December 2012.

#### Key points:

- UK Manufacturing PMI rises to 51.4
- Production and new orders expand at accelerated rates
- Input cost inflation surges higher

#### Historical Overview:



#### Summary:

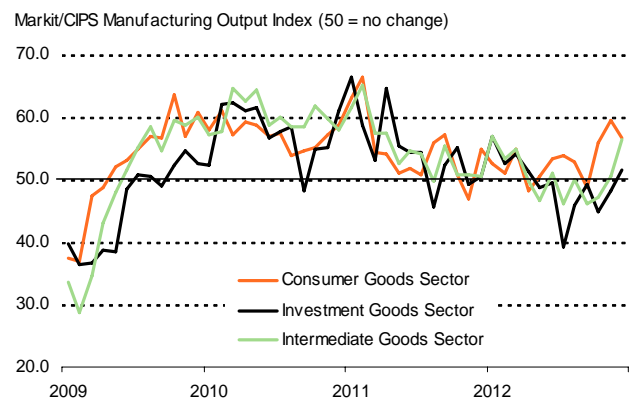
The UK manufacturing sector ended 2012 on a positive note, with levels of production and new orders rising at faster rates in December. The labour market also showed signs of stabilising, with employment broadly unchanged over the month.

The seasonally adjusted Markit/CIPS **Purchasing Manager's Index® (PMI®)** rose back above the 50.0 no-change level in December, recording a 15-month high of 51.4. The average PMI reading in Q4 (49.5) was above that in Q3 (48.1), while the average over 2012 as a whole was only 49.2.

Manufacturing **output** increased for the second month running, with the rate of growth accelerating sharply to a 20-month high. The sharpest gains were reported by consumer and intermediate goods producers. There was also a modest increase in

capital goods production following declines in the prior seven months.

#### UK Manufacturing Output by Sector



Higher output mainly reflected improved demand from the domestic market. The total volume of **new work received** increased for the second month in a row, despite the level of **new export orders** contracting again. Overseas demand fell in every month of 2012 as conditions in the UK's main export partner, the Eurozone, have generally remained subdued throughout this period.

Manufacturing **employment** declined for the eighth month running in December. However, the rate of job loss was negligible and the least marked for four months. Where a decline was signalled, this was linked to company restructuring, natural wastage and the non-replacement of leavers.

Signs of spare capacity remained present in the manufacturing sector during December, as highlighted by a further substantial decrease in **backlogs of work**. Levels of work-in-hand (but not yet completed) have contracted in each of the past 23 months.

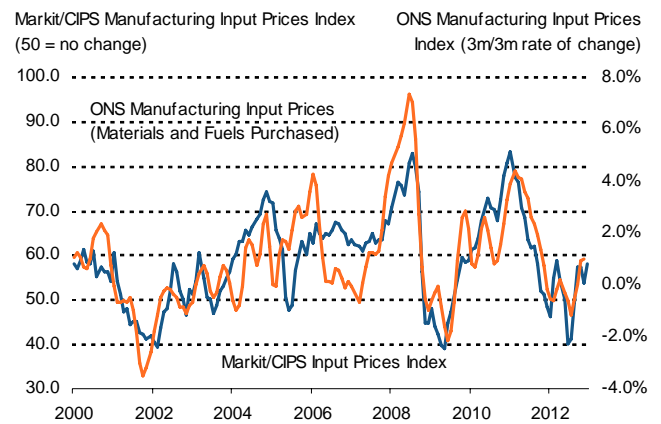
**Input price inflation** surged higher in December, with the rate of increase hitting a nine-month high.

Manufacturers reported higher purchasing costs for chemicals, energy, food products and plastics. There were also reports of suppliers raising their prices and increased costs for imported goods.

**Output price inflation** also accelerated at the end of 2012, hitting an eight-month high. Where an increase in factory gate prices was reported, this mainly reflected rising raw material costs.

Manufacturers remained **cost cautious** during December, leading to further reductions in purchasing activity, stocks of raw materials and holdings of finished products. Low inventories at suppliers, meanwhile, led to further delivery delays.

### UK Manufacturing Input Prices



#### Comment:

**Rob Dobson, Senior Economist at survey compilers Markit:**

*“UK manufacturing exited 2012 on a positive note, with December’s PMI data signalling a reassuringly solid return to growth for the sector. However, this does little to change the view that the sector contracted over the fourth quarter as a whole following the temporary growth surge of 0.7% in the third quarter.*

*“The domestic market remained the main spur for growth of production and new orders in December, although there are also signs that global trade flows are stabilising as China and the US strengthen and the downturn in the Eurozone eases. If the recovery in overseas markets continues to build at the start of 2013, this would be of major benefit to UK exporters.*

*“The latest survey also showed that manufacturers remain on a cost cautious footing, leading to lower levels of purchasing, the running-down of inventories and a reluctance to increase payroll numbers. However, there are increasing signs of firms starting to move out of this cost-cutting mode, though it is clear that the outlook remains far from certain. Business confidence among producers therefore remains fragile and could easily be derailed by setbacks in key export markets, notably any resurgence of the Eurozone debt crisis or the failure to reach agreement on averting the US ‘fiscal cliff’ (talks on which were still ongoing at the time of writing this quote).”*

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

*“In what has been a difficult year for the manufacturing sector, it is very encouraging to see 2012 end on a high, with a second consecutive increase in output and the strongest rate of growth in 20 months presenting a more solid platform for 2013. This is largely a reflection of improved performance in the domestic market.*

*“However, the sector is far from out of the woods. The decline in new export orders demonstrates that challenging global economic conditions and the Eurozone crisis continues to act as a drag. Moreover, the slight fall in employment, increased costs and spare capacity are warning signs for the year ahead.*

*“While December’s figures do not reverse the disappointing performance over the year as a whole, manufacturers will hope that the solid upturn in production volumes is the first sign of a more stable footing going into 2013.”*

**The January 2013 Report on Manufacturing will be published on:**

**Friday 1st February 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<sup>®</sup>.

The Markit/CIPS UK Manufacturing PMI<sup>®</sup> 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<sup>®</sup> 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*<sup>®</sup> (PMI<sup>®</sup>) 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 2,300 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](http://www.markit.com).

### About PMIs

*Purchasing Managers' Index*<sup>®</sup> (PMI<sup>®</sup>) 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](http://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](http://www.cips.org)

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