THE CHARTERED INSTITUTE OF PURCHASING & SUPPLY®

markit

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:30 (UK), 1 August 2011

Markit/CIPS UK Manufacturing PMI®

UK Manufacturing PMI signals contraction for first time in two years in July

Data collected 12–26 July.

Key points:

- Output growth slowed to near stagnation.
- Weaker domestic market conditions led to reduced new order inflows.
- Job losses reported for first time since March 2010.

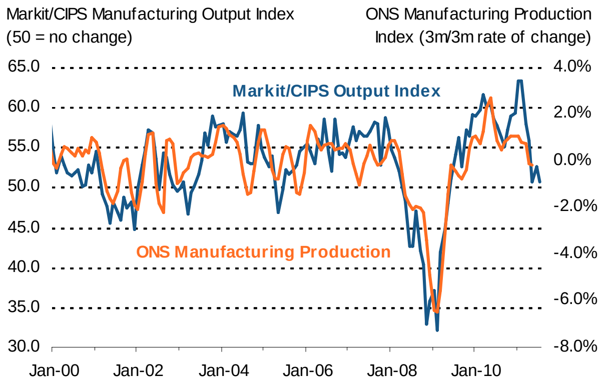
Historical Overview:

Summary:

Operating conditions in the UK manufacturing sector deteriorated for the first time in two years during July. Output growth slowed closer to stagnation, as new orders declined at the fastest rate since May 2009. The weaker performance of the sector impacted on the labour market, as manufacturers lowered employment for the first time in 16 months.

At 49.1 in July, down from a revised reading of 51.4 in June, the seasonally adjusted Markit/CIPS UK Manufacturing ***Purchasing Managers' Index***® (***PMI***®) posted its weakest reading since June 2009.

Output rose only marginally in July, with the rate of expansion the least marked in the current 26-month period of growth. Underlying the slowdown was a reduction in the level of new orders received.



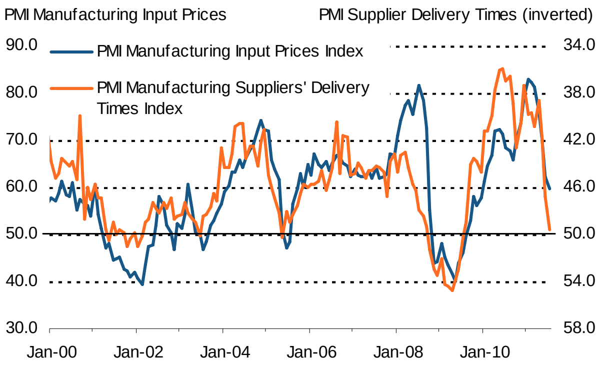
New business declined for the second time in the past three months and at the fastest pace for over two years. This mainly reflected lacklustre domestic market conditions, as levels of new export business rose for the tenth straight month. Companies reported improved sales to Australia, China, East Asia, New Zealand and the USA.

Manufacturing employment declined slightly in July, representing a marked turnaround from the survey record jobs growth seen only five months earlier. Backlogs of work continued to fall despite the reduction in staffing levels. Companies reported that weaker inflows of new work freed up capacity to divert towards progressing existing contracts.

Price pressures eased further in July, as inflation of input costs and output charges eased to the weakest rates since December 2009 and last November respectively.

Manufacturers linked slower input price increases to recent falls in the cost of plastics and steel. The rate of inflation nonetheless remained above the long-run average, amid reports of higher prices for metals, packaging, paper products and power. Part of the increase in costs was passed on to clients in the form of higher selling prices. Output charges rose for the twenty-first successive month, and across all of the sectors covered by the survey.

July data signalled that supply-chain disruption eased sharply, as average vendor delivery times lengthened to the least extent for two years. Where an improvement in supplier performance was reported, this was linked to lower demand for certain raw materials.



Comment:

Rob Dobson, Senior Economist at Markit and author of the Markit/CIPS Manufacturing PMI®:

"The Manufacturing PMI retreated into contraction territory in July. Growth of output reached a near standstill following the steepest decline in new orders for over two years, while payroll numbers were lowered for the first time since March 2010. This is a marked turnaround from the strong start made to the year.

"It is not entirely unexpected given that three of the pillars supporting the surge during Q1 – inventory rebuilding, a purple patch in global growth and stable domestic demand – have somewhat crumbled. Even though the weak sterling exchange rate is still supporting overseas sales, softer economic growth in key trading partners means it is having a much lesser impact at a time when domestic demand is contracting. With austerity arriving at home and debt ills rising in the US and euro area, significant headwinds are on the horizon.

"More positive news was seen on the price front. Inflation of input costs and output prices both moderated, while supply-chain pressures subsided, providing additional support to the Bank of England's belief that inflationary pressures will prove transitory."

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

"Alarm bells are ringing or the UK manufacturing sector, which has seen conditions deteriorate rapidly since the start of the year. In marked contrast from those record highs, weaker consumer demand, sluggish domestic orders and a conservative approach to inventory holdings are weighing down on the overall health of the sector.

Business from overseas buyers still remains strong, contributing to a marginal growth in output. But, we need to be careful that the sector doesn't become too reliant on this alone. Jitters around overall demand in the sector can also be seen with the first fall in employment in 16 months. Unless conditions improve we may have a real problem on our hands. If there is a small chink of light in this gloomy space, then the reduction in supply chain disruption is worth noting, which has had an impact on overall business performance these last months.

Following the sprint run earlier this year, we are hoping that the manufacturing sector is merely moving into a slower but steady marathon pace as conditions prove to be increasingly challenging and threats remain."

The August *Report on Manufacturing* will be published on Thursday 1st September 2011 at 09:30

-Ends-

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY®

Contact Information:

For economics comments, data and technical queries, please call:

Markit Press Office
Rachel Harling, Associate, Corporate Communications
Telephone: +44-207-064-6283
Mobile: +44-78-2789-1072
Email: rachel.harling@markit.com

For industry comments, please call:

CIPS
Trudy Salandiak
Tel: +44 1780 761576
Email: trudy.salandiak@cips.org

Hill & Knowlton
Joanna MacAdie
Tel: +44 (0)20 7413 3784
Email: joanna.macadie@hillandknowlton.com

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 2,200 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 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 65,000 members across the world, 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. www.cips.org