

United Kingdom

Record breaking start to 2011 signals manufacturing remains a leading light for UK economy

Key findings

- **Manufacturing PMI hits record high.**
- **Strongest jobs growth since survey began in 1992.**
- **Increased signs of pass through of rising costs to factory gate prices.**

PMI data signalled that the UK manufacturing sector made a spectacular start to 2011. Growth of both new orders and employment picked up sharply to the highest rates in the 19-year survey history, allowing manufacturers to ramp up production to the greatest extent since 1994.

However, there were increasing signs that rising cost pressures, reflecting global commodity price increases and input shortages, were being passed down the supply-chain in the form of higher factory gate prices.

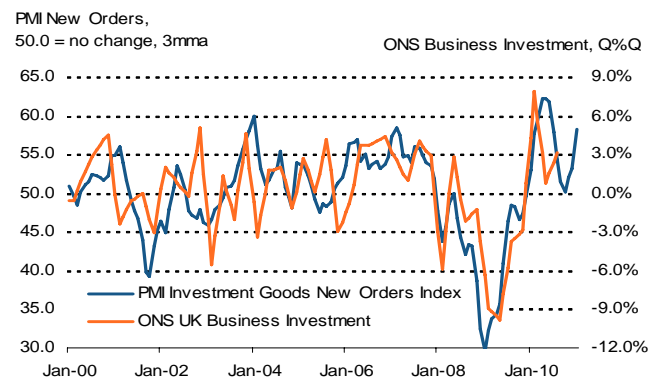
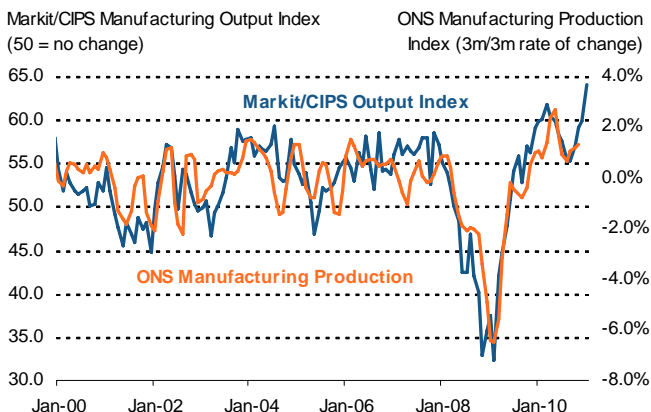
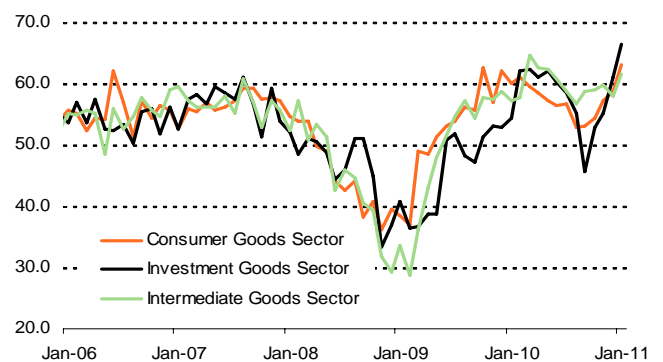
Manufacturing growth continued to surge

At 62.0 in January, from an upwardly revised reading of 58.7 in December, the seasonally adjusted Markit/CIPS UK Manufacturing PMI™ rose to a survey record high. The PMI has remained above the 50.0 mark, signalling expansion, throughout the past year-and-a-half.

The PMI was driven higher by survey record growth in new orders and employment and a near-record increase in output. The PMI Output Index is broadly consistent with a trend rate of growth in official manufacturing production of over 3.5% (3m-on-3m) in January, the best start to a year since 1973. Moreover, the latest official data (available up to last November) and the December PMI Output Index signal that growth of manufacturing production for 2010 as a whole was close to 4.0%.

Robust demand was supported from both the domestic and overseas markets in January, suggesting that what we are seeing is not just an export orientated recovery. There are also signs of life in domestic consumer and business spending.

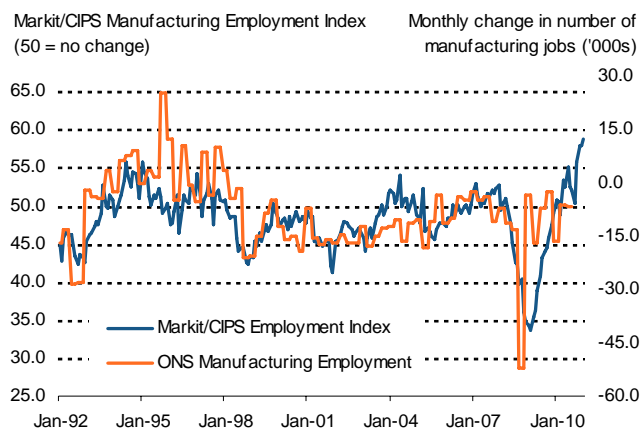
Markit/CIPS Manufacturing Output Index (50 = no change)



Growth was strongest in the investment goods sector, with production and new orders rising at the third-highest rates in the survey history. Based on the historical relationship against official ONS data, the latest PMI readings suggest that rate of increase in UK business investment spending at the start of Q1 2011 was stronger than the 3.1% reported in Q3 (the latest period for which official data are available). Meanwhile, consumer goods output and new orders both rose at the strongest rates in the 19-year survey history. Intermediate goods producers (those that supply sub-components to other manufacturers) also saw faster rates of increase in both variables.

Job creation hit new record high

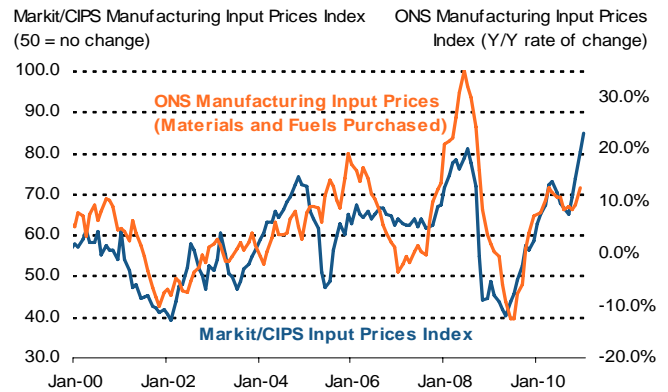
In a further sign of the maturing manufacturing recovery, the PMI Employment Index struck a record high, building on strong gains seen throughout the final quarter of last year. After signalling job creation of over 20k in the final quarter of 2010¹, we estimate that PMI data are historically consistent with around 10k jobs being added in the opening month of this year.



Pipeline inflationary pressures building

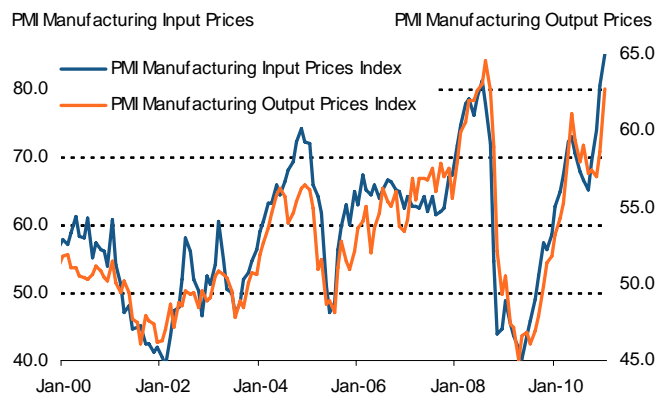
Manufacturers are still being buffeted by increasing cost pressures, however, with raw material prices rising at the steepest pace since the survey began in 1992. Over three-fifths of companies reported an increase in costs, including specific mention of higher prices for chemicals, cotton, energy, food products, metals, packaging, paper and timber.

¹ http://www.markit.com/assets/en/docs/commentary/markit-economics/2011/jan/UK_manufacturing_11_01_13.pdf



However, increasing signs that these costs are being passed down the supply chain in the form of higher factory gate prices will no doubt raise the hackles of the hawks on the Bank of England's Monetary Policy Committee.

Average output prices rose for the fifteenth successive month in January, and the fastest pace for almost two-and-a-half years. Higher factory gate prices mainly reflected increased input costs. This was further highlighted by the sectors reporting the steepest inflation of output prices – Chemicals & Plastics, Timber & Paper, Food & Drink and Textiles & Clothing – also seeing the sharpest increases in costs.



Sources (all charts): Markit, UK ONS

Rob Dobson

Senior Economist

Markit

Tel: +44 1491 461095

Email: rob.dobson@markit.com

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