

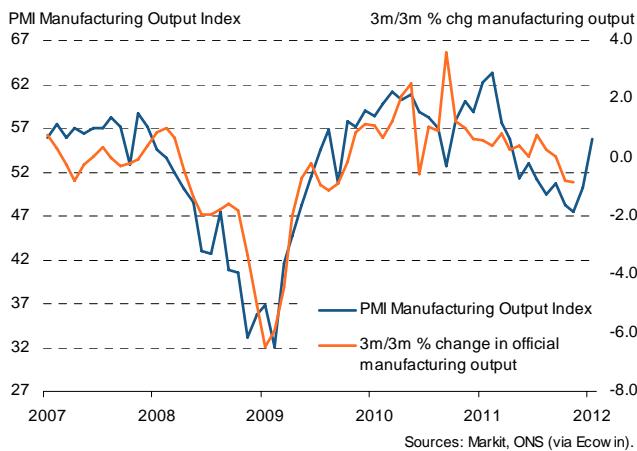
# United Kingdom

## Manufacturing springs into life in January

- **PMI at eight-month high as output jumps higher**
- **Orders rise for first time in seven months, inventories up for first time since Spring 2008**
- **Sustainability of upturn remains highly uncertain**

Manufacturing production grew at the fastest rate for ten months in January, rising for the second month in a row on the back of a return to growth of new orders. The improvements to output and new orders pushed the Markit/CIPS Manufacturing PMI up from 49.7 in December to 52.1 in January, its highest reading since last May.

### Manufacturing springs back to life

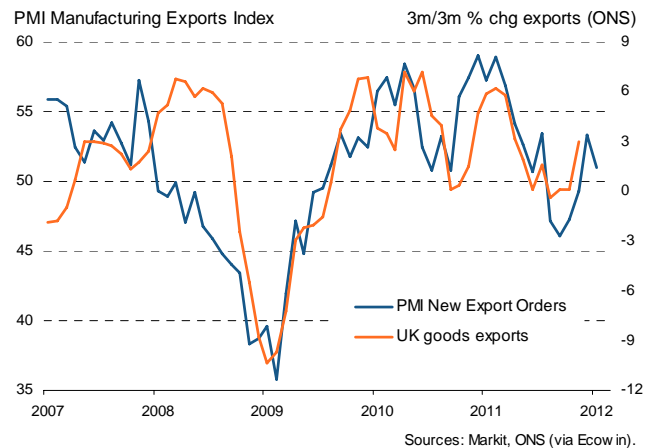


The revival of growth in manufacturing is particularly welcome news, as the sector played a major role in the contraction of gross domestic product (GDP) in the fourth quarter of 2011. Manufacturing output fell 0.9% in the three months to December, according to official data. In contrast, the current level of the Manufacturing PMI Output Index is roughly consistent a 0.5% quarterly rate of expansion for the goods producing sector.

Whether the current rate of manufacturing growth can be sustained in coming months remains highly uncertain. Encouragingly, new orders rose for the first time in seven months, but the increase was only

modest, and growth of new export orders slowed to show only a marginal gain.

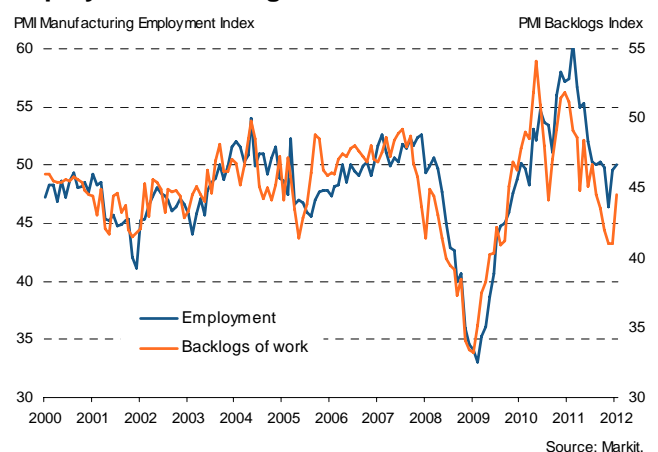
### Goods exports show only modest gain



The increase in new orders was also too small to prevent backlogs of work falling for the twelfth month running, albeit showing the smallest decline since July. This implies that firms are relying on previously-placed orders to drive current production levels.

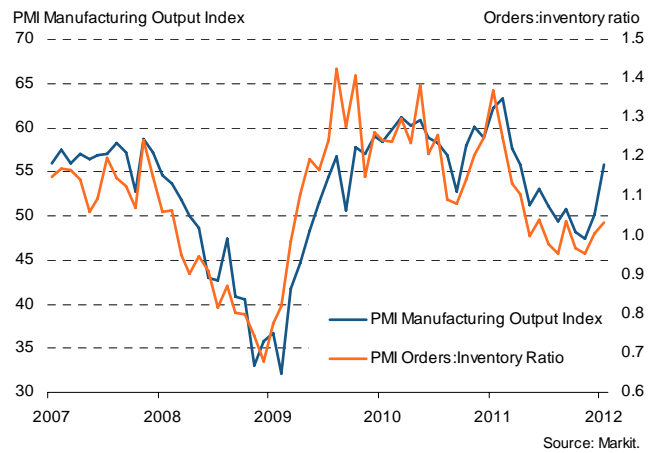
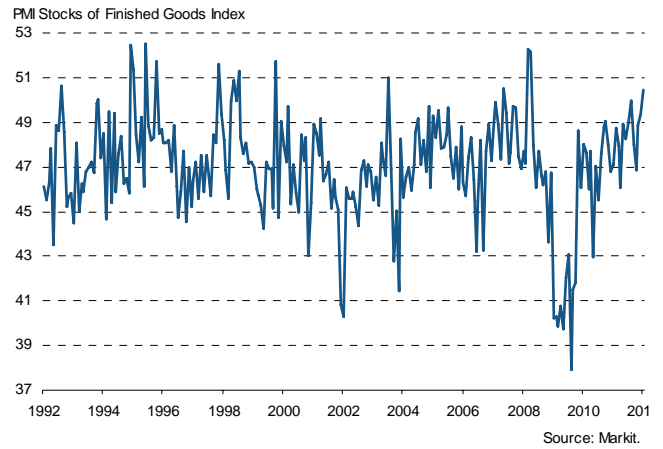
The increase in new orders was also insufficient to encourage manufacturers to take on more staff, with employment having remained largely unchanged since the middle of last year. Historical comparisons suggest that inflows of work need to rise substantially further from their current pace to generate meaningful jobs growth.

### Employment unchanged



A further concern was provided by an increase in inventories of finished goods in January. Although only minor, rising inventories are unusual in the history of the PMI survey, and the January increase was the first since April 2008. While some manufacturers are deliberately raising inventories to meet an expected increase in demand, others saw an unplanned increase because of weaker than expected sales. Whatever the cause, the build-up of stock is a warning signal as it inevitably means that production will weaken in coming months unless growth of new orders picks up from its current modest pace.

**Inventories show unusual rise**



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