

## News Release

**Purchasing Managers' Index®**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 09:30 (UK), 3 January 2012**

### Markit/CIPS UK Manufacturing PMI®

## UK manufacturing production stagnates in December, as new order inflows remain weak

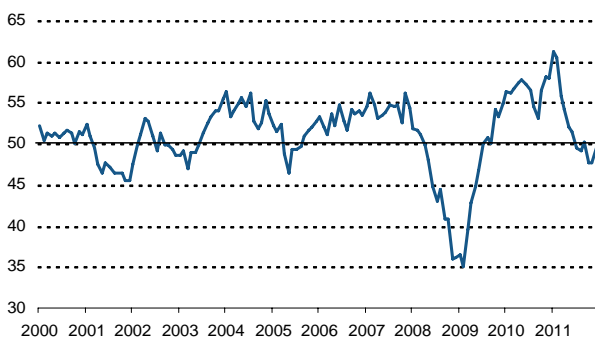
Data collected 5–19 December 2011.

#### Key points:

- UK manufacturing PMI rose to 49.6 in December
- Level of production stabilised following recent contractions...
- ...but over Q4 as a whole, output and new orders show sharpest falls since Q2 2009

#### Historical Overview:

Markit/CIPS Manufacturing PMI® (50 = no change)



#### Summary:

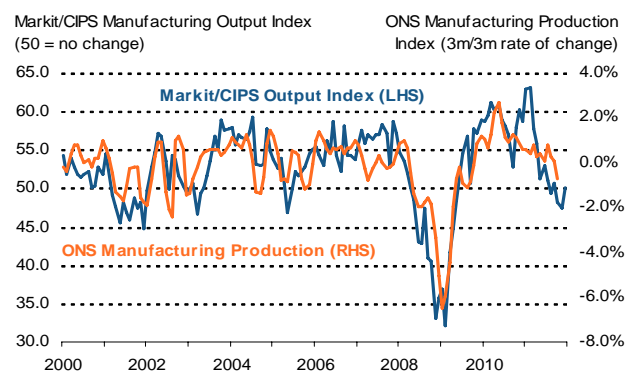
The UK manufacturing sector showed signs of stabilisation at the end of 2011. Production was broadly unchanged in December, following back-to-back contractions, and the rate of decline in new orders slowed as the trend in new exports strengthened.

Weakness was mainly centred on the intermediate goods sector, as growth of output and new orders was recorded at both consumer and investment goods producers.

The seasonally adjusted Markit/CIPS UK Manufacturing Purchasing Managers' Index® (PMI®) rose to 49.6 in December, up from a revised

reading of 47.7 in November. The PMI has nonetheless remained below the 50.0 no-change mark throughout Q4 2011 and its average during this quarter is the weakest since Q2 2009.

#### PMI Manufacturing Output



With levels of total new work falling for the sixth month in a row, companies registering an increase in output generally linked it to higher foreign demand and efforts to clear backlogs of work.

New export orders rose for the first time in five months in December, reflecting increased levels of new work from clients in Germany, East Europe and China. The overall rate of improvement was the fastest since April, but well below the series-record high reached one year ago.

Outstanding business fell for the eleventh consecutive month. The rate of depletion was broadly unchanged from November, when backlogs fell at the quickest pace since August 2009.

Price and supply-chain pressures remained relatively subdued in December. Average input costs fell for the second successive month, with the rate of decline accelerating to the most marked

since June 2009. Companies reported lower prices for chemicals, paper, plastics and steel.

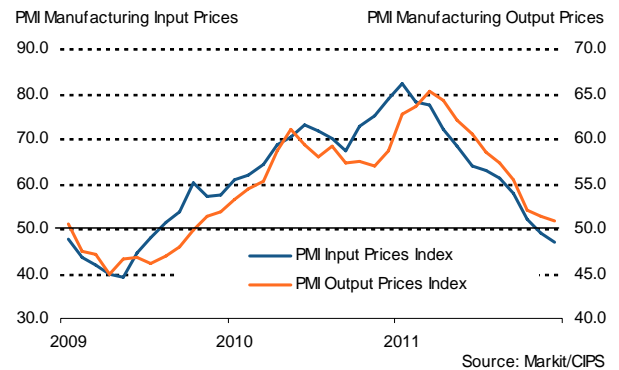
Factory gate prices rose only moderately and to the least marked extent during the current 26-month period of inflation. Companies indicated that weak demand and strong competition had restricted charge increases.

Shortages of certain raw materials and low stock holdings at suppliers led to further lengthening of average vendor lead times during December. However, the extent of the increase was only modest and among the weakest during the current near two-and-a-half year sequence of deterioration.

UK manufacturers reported further depletion of inventory holdings in December, with stocks of purchases and finished goods both falling over the month. However, the rates of depletion in holdings

eased in both cases. Slower reductions to input stocks partly reflected a moderate increase in purchasing activity during December.

### PMI price indices



### Comment:

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

*“December brought some brighter news for UK manufacturers. The level of production stabilised following contractions in October and November as a solid upsurge in new export business countered some of the weakness in the domestic market. Job losses were also less widespread than November, suggesting that pessimism about the coming year may have lifted a little.*

*“However, over the fourth quarter as a whole, producers reported their worst performance since the second quarter of 2009. Manufacturing will therefore likely be a drag on the economy in the closing months of the year. Looking ahead, manufacturers are currently relying heavily on backlogs of work to prop up production. This is only a temporary fix, and the trend in overall order books needs to improve if the sector is to avoid a protracted period of lacklustre performance.*

*“Price and supply-chain pressures are still relatively muted though, and this maintains some scope for further stimulus from the Bank of England. The survey will do little to change expectations that the Bank will need to step up its asset purchase programme in the new year.”*

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

*“There’s no denying that this year will bring both fresh and familiar challenges for the UK manufacturing sector. It is encouraging to see output remain steady last month after the declines of recent months, but with the sector highly exposed to a shaky Eurozone, and reports of softening demand – ironing out economic problems in key export partners will be critical to how the sector performs.*

*“There are fragile signs of growth centred on some very specific parts of the sector where demand remains strong, particularly consumer and capital goods, with some businesses even reporting record growth that defies the gloom. That said for every bright spot there is another business struggling to build momentum.*

*“Falling input costs gave some businesses a little pre-Christmas respite compared to the record rises seen earlier in the year, but with competition restricting manufacturers’ pricing power the impact on profit margins is barely noticeable. The slight bounce in purchasing activity is likely to be short-lived as the pressure to reduce inventories and manage cash flow remains formidable.”*

**The January 2012 Report on Manufacturing will be published on:**

**Wednesday 1<sup>st</sup> February 2012 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 2,300 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*® (*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](http://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](http://www.cips.org)

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