

UK manufacturing

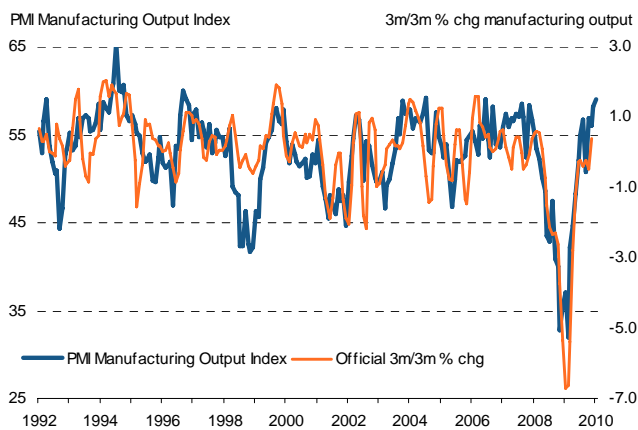
Exports surge helps drive manufacturing growth to 15-year peak

- **Manufacturing PMI hits 15-year high.**
- **Exports surge, led by rising demand for capital and intermediate goods sectors.**
- **Employment returns to growth.**

The UK's manufacturing sector expanded at the fastest pace for 15 years in January, according to PMI data. The headline composite PMI – based on a number of survey indices – was driven up to its highest level since October 1994. Output rose at the fastest rate in over three-and-a-half years, growth of new orders hit a six-year high and manufacturing employment returned to growth for the first time since April 2008.

The data suggest that the official measure of production will continue to improve at the start of 2010, the latest data having shown the sector growing by 0.4% in the Q4 national accounts.

Manufacturing Output



Sources: Markit, ONS

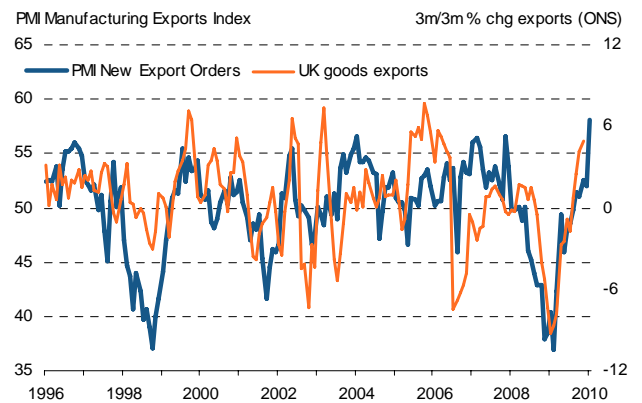
Exports provide extra boost to growth

One of the disappointing and puzzling aspects of UK economic performance over the past year has been the failure of UK companies to benefit from the depreciation of sterling via higher export sales. On a trade-weighted basis, the pound has fallen 25% since the onset of the credit crisis, yet official data show exports have failed to rise accordingly.

However, recent data suggest that the effect of more competitively priced goods is at last beginning to have a substantial impact on overseas sales. The UK manufacturing PMI survey's New Export Orders Index rose to the highest since the index was first compiled in January 1996, indicating the fifth successive monthly rise in overseas sales and a sharp improvement in the rate of increase.

A possible reason for the lack of export growth in 2009 was that producers were using the depreciation of sterling to boost profit margins rather than to price more competitively abroad. If this is true, the surge in new export orders in January may have been a consequence of some manufacturers reducing prices in new annual contracts.

Manufacturing exports



Sources: Markit, ONS.

Looking at the type of good for which overseas sales rose in January, new export orders surged higher for both investment goods, such as plant and machinery, and intermediate goods (i.e. manufactured products which were purchased as inputs by other companies). The increase in intermediate goods was the second-strongest since exports PMI data were first collected at the start of 1996, while the increase in capital goods was the largest since January 2004.

New export orders by product sector



Source: Markit.

The improvement in intermediate goods orders most likely reflects a continuation of the inventory cycle, as firms restock their warehouses, which had been depleted during the downturn. The increase in capital goods is more encouraging as it not only points to rising demand for UK-manufactured products, but also suggests that overseas factories are stepping up investment spending, pointing to a more sustainable economic upturn.

A more muted increase was reported for consumer goods, tallying with weak consumer demand in key export markets such as the Eurozone, which had been signalled by the Retail PMI.

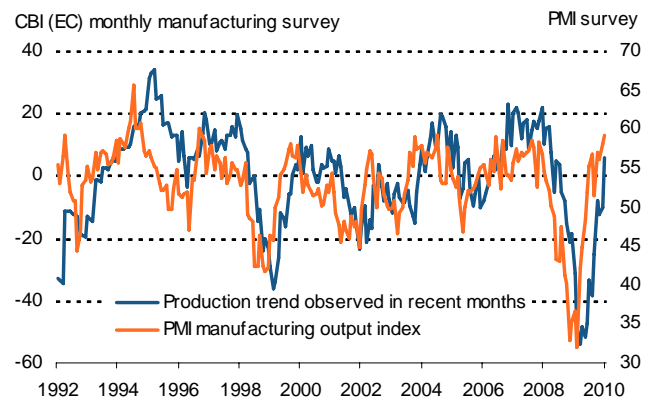
PMI and CBI both point to improved performance

The recent findings of the PMI are corroborated by other survey data, such as that produced by the Confederation of British Industry (CBI). The latest CBI quarterly industrial trends survey found that the

number of companies reporting an increase in output over the past three months exceeded the number reporting a decline to the greatest extent since Q1 2007. At +11%, the net balance was well above the recent low of -53% and was the second-highest reading since 2004.

Charting the PMI and CBI monthly data reveal that the PMI tends to lead the CBI survey. The PMI data therefore suggest the CBI data will continue to show an improving trend in coming months.

PMI and CBI monthly surveys compared



Sources: Markit, CBI.

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