

UK manufacturing

Manufacturing orders show largest decline since March 2009

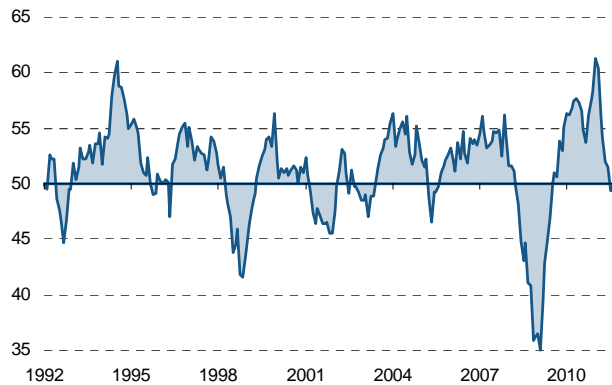
- **PMI drops to lowest since June 2009**
- **Contractions signalled for output, new orders and employment**
- **Falling backlogs of work point to risk of greater job losses in coming months**

The Markit/CIPS Manufacturing PMI® registered 47.4 in October, down from 50.8 in September. The survey has signalled contraction in three of the last four months, with the latest decline the largest since June 2009.

All five components of the PMI deteriorated compared with September, as manufacturers cut output, employment and inventories in the face of a marked downturn in demand for manufactured goods.

Manufacturing PMI

Markit/CIPS Manufacturing PMI (50 = no change)

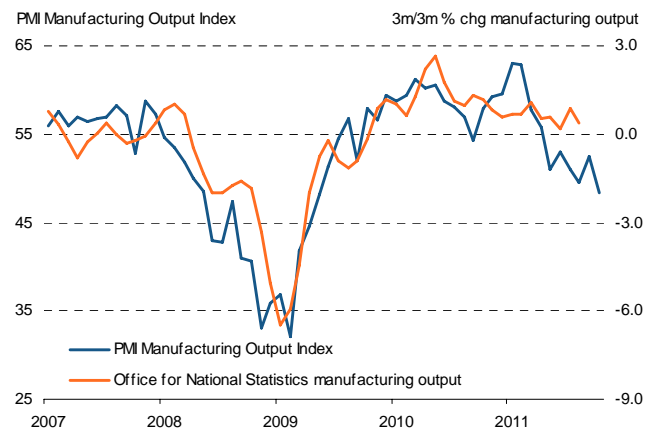


Output fell for the second time in three months, with firms cutting production at the fastest rate since May 2009 as inflows of new orders showed the largest monthly decline since March 2009. New orders have now fallen in five of the past six months, with weakened domestic demand coinciding with falling orders from overseas. New export orders were down for the third month running in October.

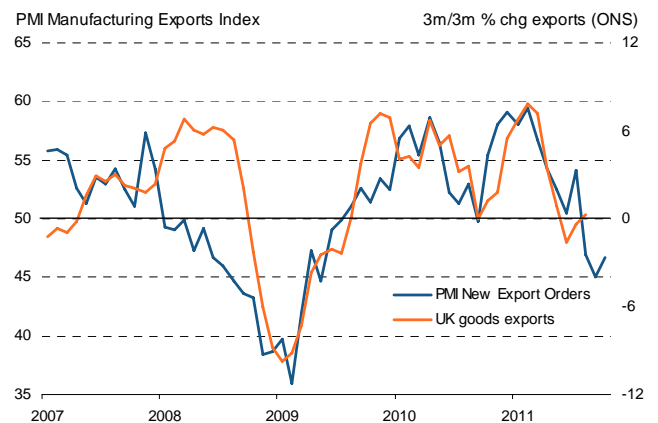
Roughly speaking, the latest Output Index reading from the PMI survey is consistent with manufacturing output falling at a quarterly rate in excess of 1%, suggesting that the sector will act as a drag on

economic growth in the final quarter of the year unless the index rebounds sharply in November.

Manufacturing output

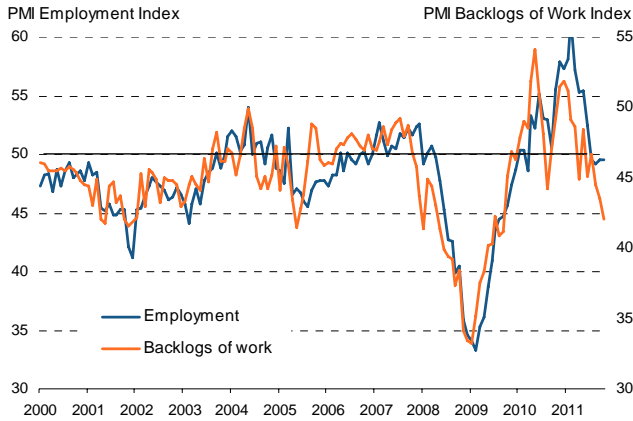


Exports of goods

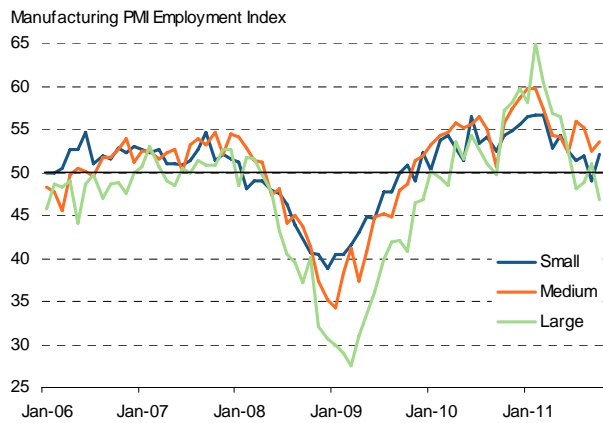


Any such imminent rebound seems unlikely given the order book situation. Backlogs of uncompleted orders fell sharply, declining at the steepest rate since September 2009. Manufacturers may subsequently seek to reduce capacity in coming months, which could also affect headcounts. Staffing levels have fallen marginally in each of the past four months, but firms may seek to cut headcounts more aggressively towards the end of the year unless demand revives. Larger manufacturers have already started downsizing, cutting their headcounts in October at the fastest rate since December 2009.

Manufacturing employment



Employment by company size



Price pressures meanwhile abated, with input prices showing the smallest increase for over two years and prices charged by manufacturers increasing at the weakest rate since December 2009. Both measures have dropped below long-run survey averages, highlighting the recent weakening of pricing power among manufacturers and their suppliers due to weak demand.

Sources: Markit, ONS.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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