THE CHARTERED INSTITUTE OF PURCHASING & SUPPLY®

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News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:30 (UK), 3 October 2011

Markit/CIPS UK Manufacturing PMI®

Return to growth of UK manufacturing production in September, but new export orders fall sharply

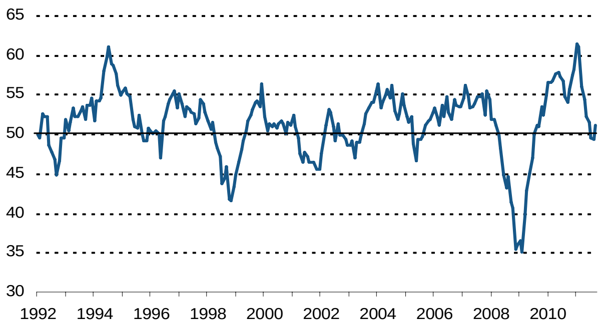
Data collected 12–27 September.

Key points:

- Manufacturing PMI rises to 51.1 in September
- Output and new orders rose following contractions in August
- Price pressures ease further

Historical Overview:

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



Summary:

September saw a moderate expansion of the UK manufacturing sector, an improvement on the contraction signalled in the previous month. However, the underlying rate of growth through the third quarter of the year is well below the high reached in Q1, as the trend in new orders has become more subdued.

At 51.1 in September, down from a revised reading of 49.4 in August, the seasonally adjusted Markit/CIPS UK Manufacturing *Purchasing Managers' Index®* (*PMI®*) posted above the neutral 50.0 mark for the first time in three months. However, the average PMI reading in Q3 2011 (50.0) was well down on those of Q1 (a near-record 59.4) and Q2 (52.7).

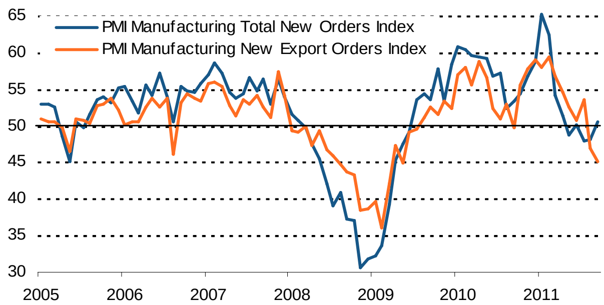
Manufacturing production rose in September, following the slight contraction signalled one month ago. However, a large part of the increase in output was only achieved through the fastest depletion of backlogs of work for two years.

After falling in the previous two months, total new orders rose slightly in September. Companies linked this to a modest improvement in domestic market conditions. In contrast, levels of new export business contracted at the quickest pace since May 2009. There were reports of lower demand from the US, Europe, Asia and the Middle East.

Despite the gains in output and new orders signalled in September, trends in these variables over Q3 2011 as a whole were both markedly weaker than in the opening quarter. Moreover, Q3 saw new orders decline (on average) for the first time since Q2 2009.

Total new orders and new exports

Markit/CIPS Manufacturing Orders Indices
(50 = no change)

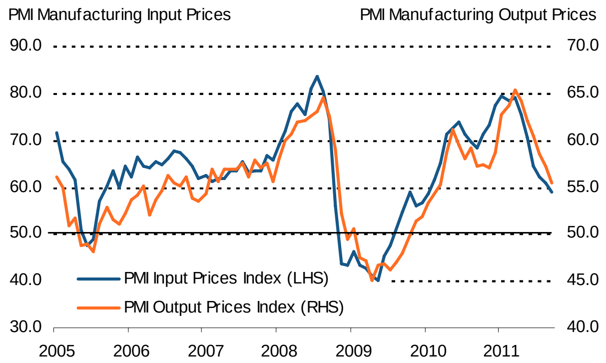


September saw manufacturing employment fall for the third successive month. Job losses were linked to company restructuring, non-replacement of leavers and the ongoing subdued underlying trend in new orders. For the second straight month, the sectors reporting the sharpest reductions in payroll numbers (Timber & Paper and Transport) were also those that reported the weakest trends in output.

Price pressures continued to ease in September, with rates of increase in input costs and output prices the weakest since January 2010 and March 2010 respectively. Companies reported higher purchasing costs for commodities, electrical items, energy and packaging, but also noted reductions in the prices of certain plastics and steels.

Average supplier performance continued to deteriorate in September, amid reports from manufacturers that supplier stock holdings remained relatively low. However, the extent of the deterioration in vendor performance through Q3 2011 was less marked than that seen throughout much of the previous two years. Meanwhile, manufacturers' stock holdings of both raw materials and finished goods fell during September.

Input costs and output prices



Comment:

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

"The modest return to growth of UK manufacturing output in September is a positive, but it is hard to escape the fact that the sector's performance has weakened substantially since the opening quarter's growth surge. A slight increase in new orders was also welcome news, but it looks as if the latest expansion in output was largely achieved through the fastest depletion of backlogs of work for two years. This is only a temporary solution and the replenishment rate of order books will need to improve if manufacturing is to recover its forward momentum.

"The sector is also being buffeted by events in the global marketplace. New export orders fell at the sharpest pace since May 2009, as growth slowdowns in the US, European and Asian markets counter-balanced the ongoing weakness of sterling. This is increasing manufacturers' reliance on a fragile domestic market that itself is being impacted by subdued household and business confidence and ongoing austerity measures.

"These data suggest that the positive contribution of manufacturing to the broader economic recovery is likely to remain modest, at best, through the remainder of the year."

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

"The UK manufacturing figures will offer some cause for relief after the 26 month low we saw in August. The slight improvement is mainly due to a rise in output. However, we are still a long way off from celebrating. The slowdown in the global economy especially in the Eurozone continues to make an impact as new export orders fall at the sharpest pace since 2009.

"Many manufacturers are living off the backlog of orders they have yet to complete, as well as promotional activity and new product launches. The overall picture is rather downbeat as growth for the third quarter is well below the average and employment continues to fall adding to a subdued mood."

The October *Report on Manufacturing* will be published on Tuesday 1st November 2011 at 09:30

-Ends-

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Contact Information:

For economics comments, data and technical queries, please call:

Markit Press Office
Rachel Harling, Associate, Corporate Communications
Telephone: +44-207-064-6283
Mobile: +44-78-2789-1072
Email: rachel.harling@markit.com

For industry comments, please call:

CIPS
Trudy Salandiak
Tel: +44 1780 761576
Email: trudy.salandiak@cips.org

Hill & Knowlton
Joanna MacAdie
Tel: +44 (0)20 7413 3784
Email: joanna.macadie@hillandknowlton.com

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 2,200 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.

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.

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