

UK manufacturing

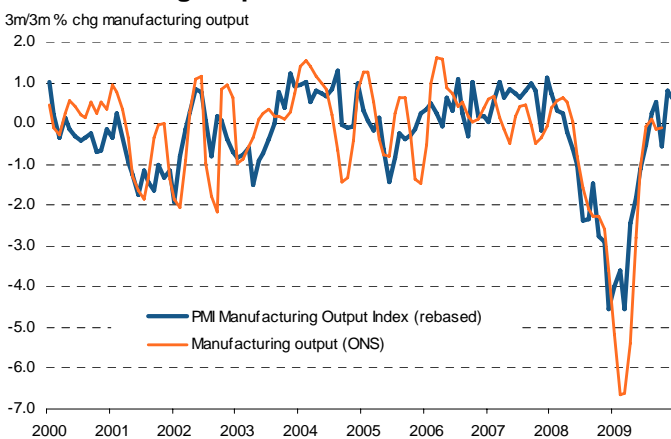
UK manufacturing upturn reflects rising consumer spending and restocking, but business investment remains subdued

- **Output shows firm growth as exports increase at fastest rate for two years.**
- **Growth held back by weak business investment.**

Further robust growth of manufacturing production was signalled in November. The Output Index from the CIPS/Markit Manufacturing PMI survey slipped back from October's 23-month high but nevertheless remained above levels seen since the financial crisis took hold in late-2007.

The survey has now signalled an expansion of output for six consecutive months, with the November reading consistent with manufacturing production rising at a quarterly rate of approximately 0.6%.

Manufacturing output*

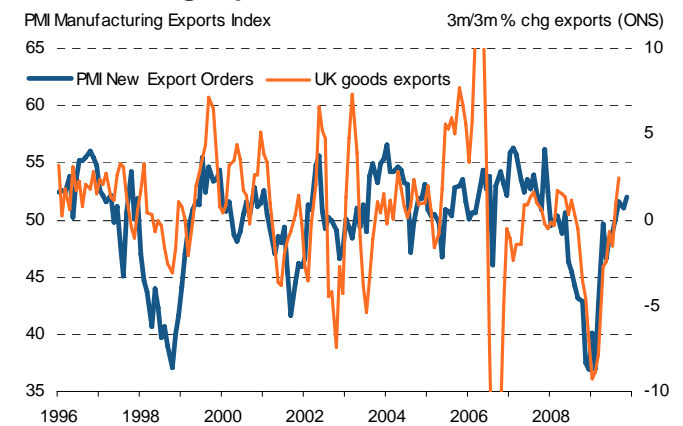


* Chart uses regression analysis to rebase the CIPS/Markit PMI Output Index to correspond with equivalent quarterly rates of change in ONS data.

The increase in production was driven by a fifth consecutive monthly increase in new orders. The data suggest that domestic demand continued to rise at a stronger rate than export sales, although the latter picked up to show the largest monthly gain for two years. The PMI's New Export Orders Index provides a good guide to the underlying trend in actual UK goods

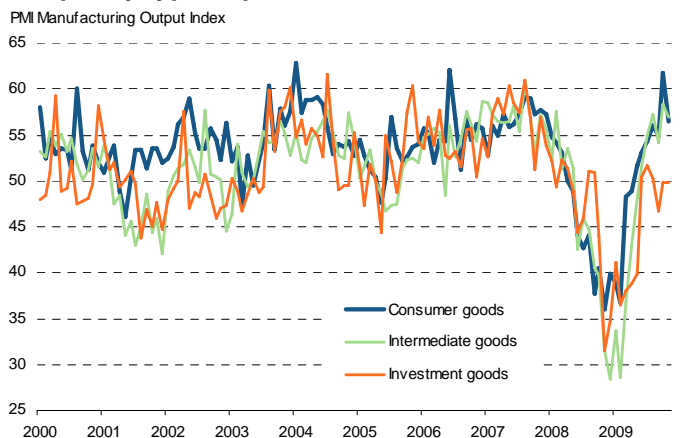
exports, although the latter tend to show greater volatility. The PMI's export index is consistent with quarterly trend growth of exports in the region of 1%¹.

Manufacturing exports



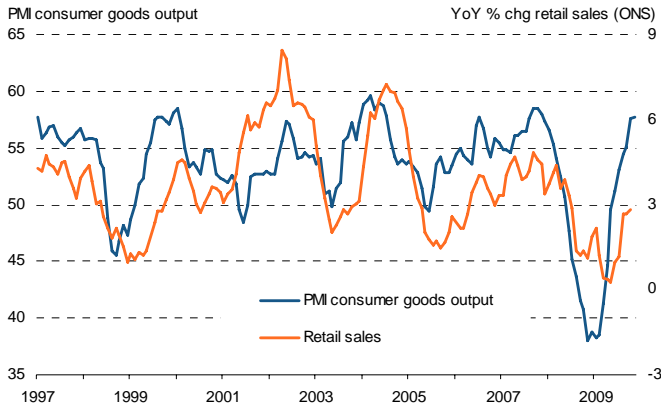
The recent rebound in manufacturing activity has been driven largely by increased production of consumer goods and intermediate goods (products supplied as inputs to other companies). Producers of these two types of good have reported the strongest upward trend in output for two years in recent months.

Output by type of product



¹ Estimate based on regression of the PMI against actual goods exports.

Consumer goods output and retail sales*



* three month moving averages used to better illustrate trends.

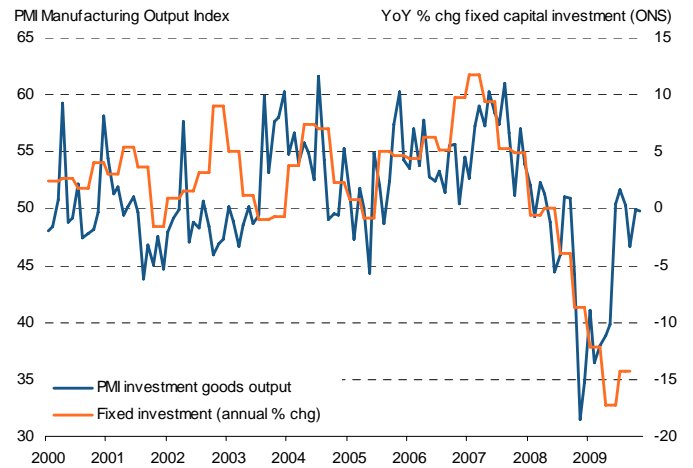
The upsurge in consumer goods production reflects rising consumer spending, corroborating recent data from the ONS and the CBI showing rising retail sales.

Increased production of intermediate goods, meanwhile, reflects moves towards the restocking of warehouses as demand for goods (domestically and globally) continued to revive. The UK PMI survey, for example, showed that the amount of inputs bought by manufacturers rose at the fastest pace for two years in November, causing stocks of purchased inputs to fall at the slowest rate for 16 months.

In contrast to the robust growth in the consumer and intermediate goods markets, producers of investment goods (capital equipment bought by other companies) has shown merely a stabilisation in recent months (in fact still falling marginally). This suggests that fixed capital investment remains subdued in Q4, although

the annual rate of decline is likely to have eased markedly from the 14.3% pace of contraction seen in Q3.

Business investment



Summary

The PMI data therefore suggest that the recovery in UK manufacturing is being driven by rising demand for consumer goods and inputs used by other producers. This is in turn a reflection of rising consumer confidence and a need to rebuild inventories. However, business investment continues to act as a drag on growth, most likely reflecting the need for companies to contain costs and scale-back expansion plans in the face of uncertain times ahead.

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