

UK manufacturing

PMI signals rise in UK manufacturing output in June, contrasting with further falls in all main Eurozone countries

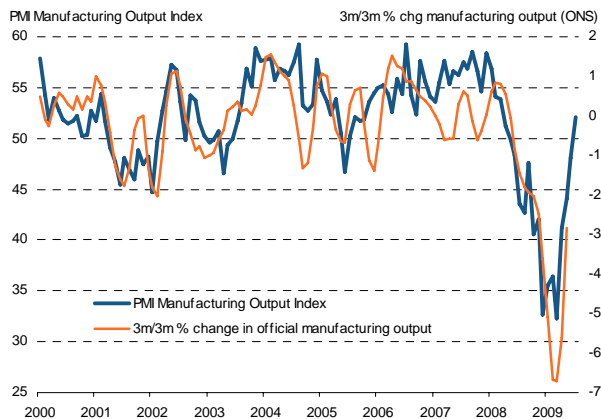
- PMI registers fastest UK manufacturing output growth for 16 months in June...
- ...and signals earlier recovery than all Eurozone neighbours.

Output trend strengthens in Q2

The June CIPS/Markit manufacturing PMI survey indicates that April's 0.2% rise in UK manufacturing output is likely to be followed by further improvements during the remainder of Q2 and into Q3.

The survey's seasonally adjusted Output Index rose above the 50.0 no-change level for the first time in 15 months in June, and signalled the strongest rise in production since February 2008. Tracking the PMI series against a three-month/three-month change in the official data (which removes some of the high volatility in the month-on-month change in the official numbers) both illustrates the close historical correlation between the two series and the sharp improvement that the PMI is signalling for the official data, which are currently only available up to April (see chart 1).

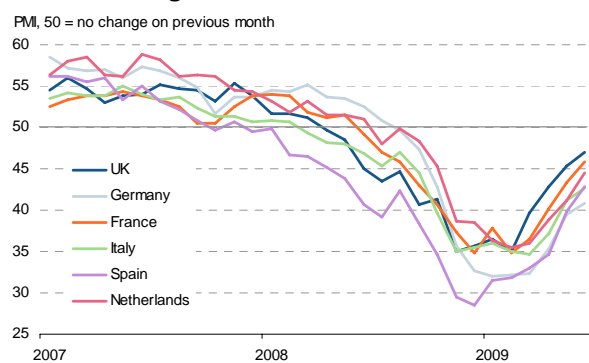
Chart 1: Manufacturing output



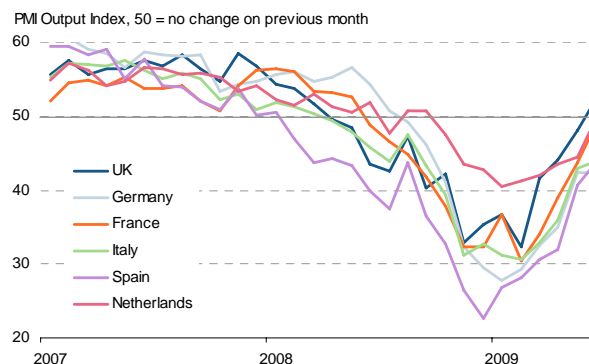
The PMI for June in fact indicates that the rate of change in the latest three months of official data will move into positive territory in June for the first time

European manufacturing PMI comparisons

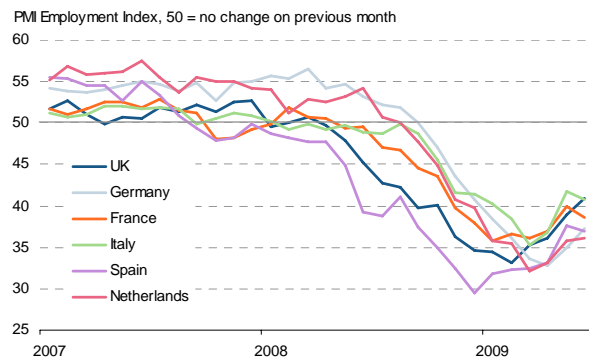
Manufacturing PMI



Manufacturing Output



Manufacturing Employment



since March of last year. This represents a rapid turnaround from the peak 6.7% rate of contraction seen in March.

UK PMI at 13-month high, and above all main Eurozone countries

The increase in output helped drive the headline PMI from the CIPS/Markit manufacturing survey sharply higher in June, exceeding consensus expectations and rising to the highest since May of last year. The PMI remained below the 50.0 no-change level, but this is largely because it is a composite index which includes the Employment Index, which tends to lag output and continued to signal a steep rate of job losses in June (though the rate of decline was slower than in any of the previous nine months).

Although the UK PMI stayed below 50.0, it was nevertheless above equivalent PMIs for all other main European countries. The charts in the box on page 1 plot the PMIs and the output and employment sub-indices for the main European economies. The manufacturing PMI for the UK has remained above PMIs for all of its euro area neighbours for three consecutive months. The next best performer is France, while Germany registered the weakest PMI in June.

The relatively better PMI reading for the UK was highlighted by the fact that the UK was the only large European country to see an increase in manufacturing output in June according to the PMI surveys. In contrast, particularly severe declines continued to be recorded in Germany, Italy and Spain, although a near-stabilisation has been reached in the Netherlands and – to a lesser degree – France.

The PMI surveys also showed manufacturing employment falling in the UK at the slowest rate of all the main European countries in June, albeit by only a small margin. Italy posted the second-smallest decline, while job losses were the highest in the Netherlands.

However, in all countries, the rate of job losses remained intense in June, reflecting the widespread need for companies to reduce costs and down-size capacity and highlighting the likely subdued pace of any economic recovery even when growth is resumed.

Chris Williamson

Chief Economist

Markit

Tel: +44 20 7260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.