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Western European Economic Indicators and Insights

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UK: Manufacturing Contraction Sharpens Afresh?

Volatility Diminishes Latest Message

Coming in below expectations this time around, the headline manufacturing PMI dropped afresh in September, easing 1.2 points to 48.4, albeit only unwinding some of the 4.4 points jump seen in August, when the index recovered from the lowest reading since May 2009. The survey suggested that orders weakness abated further.

Meanwhile, price pressures were mixed. While cost pressures surged higher in September, with the rate of increase in average purchase prices hitting a six-month high, average selling prices only edged higher and with the rate of charge-inflation being the lowest in eight months, as *weak demand and strong competition restricted manufacturers' pricing power*. There was also evidence of spare capacity on the supply-side, as average vendor lead times shortened for the fifth successive month.

DE View: These numbers are showing continuing high degrees of month-to-month volatility in recent months, with the last few months alone seeing an average swing of almost three points. *Surely such volatility undermines the incremental message of each new the survey update, especially as they have been poor at foreshadowing actual activity.* Indeed, for the likes of the BoE, several things imply that the manufacturing PMI figures will be put to one side, not least the fact that alternatively-sourced factory sector survey data paint a far less downbeat picture as have official manufacturing numbers.

Instead, further signs of an improvement in mortgage lending and in underlying monetary growth in data also released today will probably have more significance to the BoE, especially as they may be signs that the recently-launched Funding for Lending Scheme may be having some impact.