

UK manufacturing

Rise in official manufacturing output data supports PMI message of possible GDP increase in Q2. Larger companies lead the upturn.

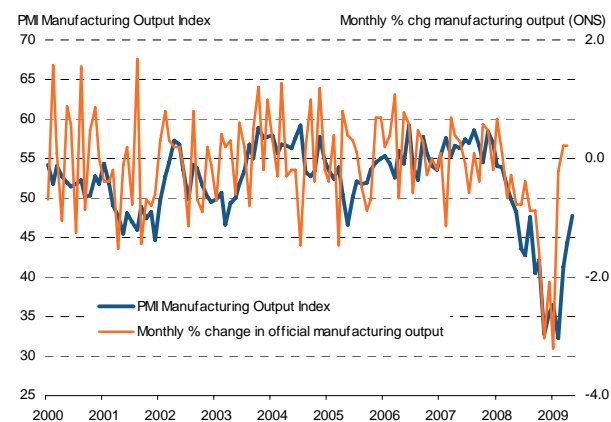
- Official data and the PMI point to a turning point for UK manufacturing.
- PMI gain led by larger firms, which have also seen the steepest job cuts.

Stronger official manufacturing numbers support PMI message

Official data published on 10 June indicated that UK manufacturing output rose in April, with a 0.2% rise matching an upwardly revised performance for March (the ONS had previously stated that output had fallen 0.1% in March). The improvement exceeded consensus expectations, which had anticipated no change in output during the month.

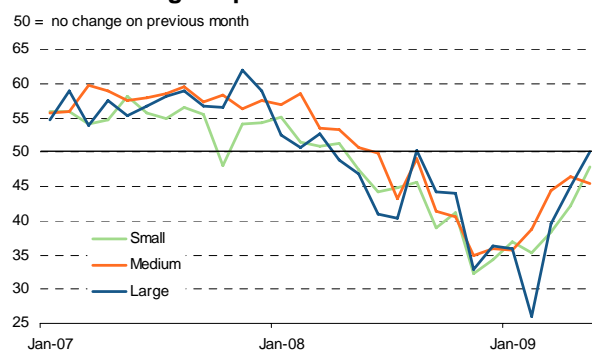
Estimating manufacturing output in advance is notoriously difficult due to the strong volatility in the official data (see chart 1), and a better guide to the true trend can be gleaned from using a three-month average of the official data or an annual % change (see appendix). In all three cases, the PMI Manufacturing Output Index, compiled by Markit and sponsored by CIPS, anticipated the marked improvement in the official data series, though the PMI suggested a smaller upturn than the official data.

Chart 1: Manufacturing output

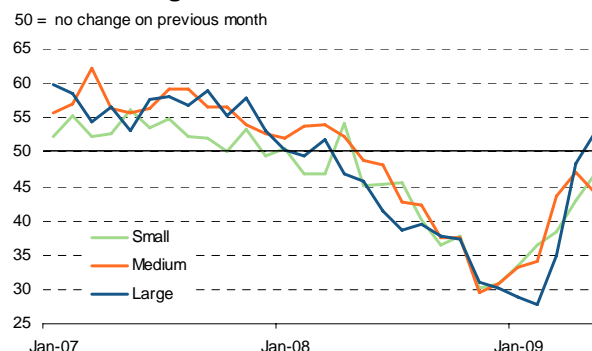


CIPS/Markit PMI data by company size

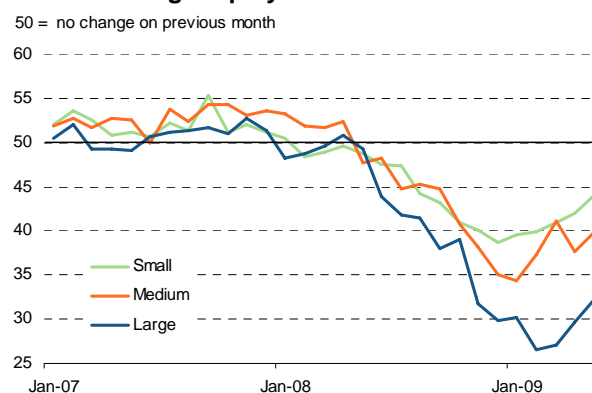
Manufacturing Output



Manufacturing New Orders



Manufacturing Employment



Crucially, the improvement in the official data corroborates the manufacturing PMI's gains in recent months which, combined with the easing reported by the construction PMI and the rise in activity signalled for May by the services PMI, raises the prospect of a much earlier end to the recession than had previously been thought possible. The weighted combination of the output indices from the three sectors rose above the no-change level of 50.0 for the first time in 14 months in May¹.

Larger companies led the upturn, but also reported the fastest rate of job cutting

The charts in the box on page 1 plot the UK PMI manufacturing data by company size. Small companies are classed as those with fewer than 100 employees while large firms have more than 500. All three size categories clearly suffered steep falls in output and new orders during the height of the downturn, but larger firms are notable in being the only category to see a return to growth of new orders this year, and is also the only sector to see output stabilise in May.

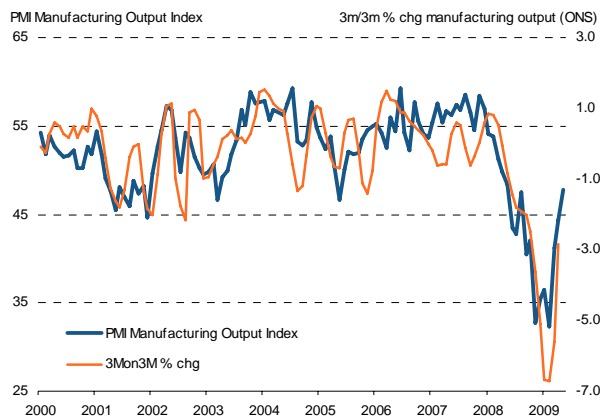
Interestingly, while rates of decline for output and new orders have shown relatively little variance between the different size bands, it is a different story for employment. Jobs have been cut at a far faster rate at larger manufacturers than at small and medium sized firms. While this follows a general trend in recent years for larger firms to report a greater incidence of job cutting in the PMI survey, the divergence is particularly marked in the recent recession.

There is a possible upside to this. With larger firms seeing a return to order book growth in May, which has occurred far sooner than most experts and businesses had expected, the above-average rate of job cutting during the recession may pave the way for an early – and possibly strong – return to hiring by these big companies. However, much will depend on the sustainability of any upturn and of course profit margins, which may remain under pressure from rising commodity prices (notably oil, now above \$70 a barrel again), and sluggish consumer demand.

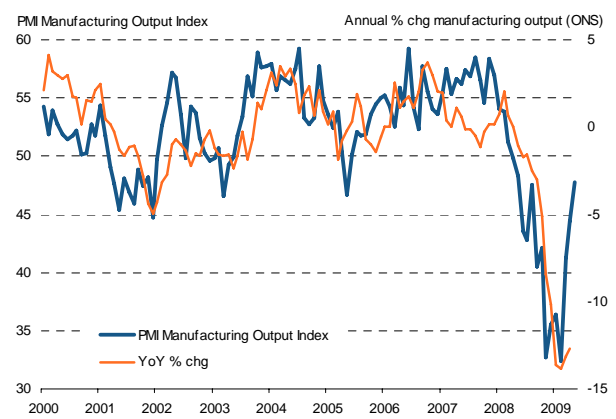
¹ See http://www.markit.com/assets/en/docs/commentary/markit-economics/june%2009/UK_allsectorPMI_09_06_03.pdf

APPENDIX

Manufacturing Output – smoothed monthly change



Manufacturing Output – annual change



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