

UK manufacturing

Smaller manufacturers underperform in economic revival

- **Small manufacturers have seen weaker output growth than larger firms in the recovery so far.**
- **Divergence linked to exports in April.**

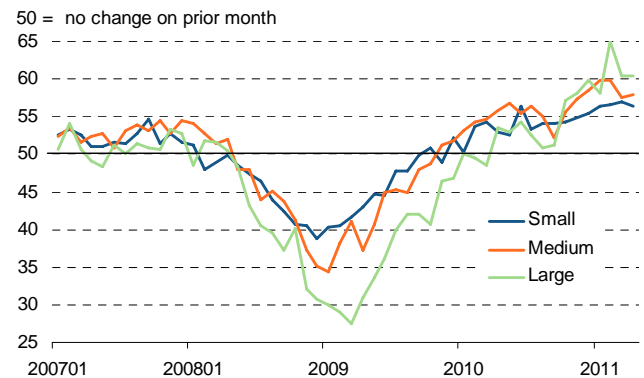
Markit/CIPS Manufacturing PMI data show that smaller companies have underperformed relative to larger manufacturers in the recovery to date. Although smaller firms saw output rise at the fastest rate since September 1994, when the sector was rebounding sharply out of the financial crisis in March of last year, small firms have subsequently seen slower production growth than medium- and large-sized companies.

Manufacturing PMI Output Index



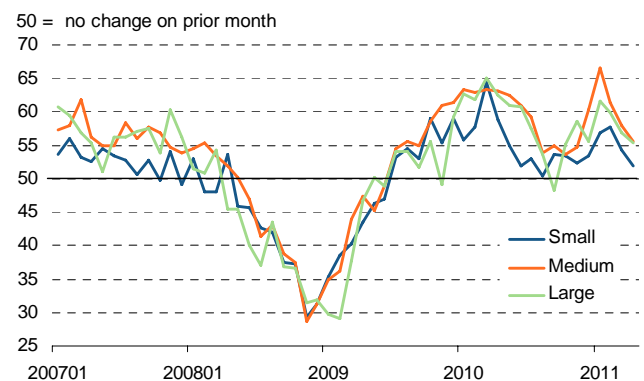
Job creation has also been directly related to company size in recent months. Although smaller firms took on staff at the joint-fastest rate for 16 years in March, with the pace of job creation slipping only slightly in April, the rate of increase has lagged well behind that of large companies. However, this may in part reflect the steeper pace of job cutting at larger companies during the downturn and early phase of the recovery. Large firms may simply be rebuilding their headcounts in recent months whereas smaller firms held on to staff in greater numbers during the recession. In the two years prior to last October, smaller companies had generally outperformed larger firms in terms of employment.

Manufacturing PMI Employment Index



The differing rates of output and employment growth can be explained by total order book trends and, in recent months especially, export orders. Small manufacturers saw the weakest order book growth of the three different size classes of companies in April (as has been the case in 15 of the past 17 months), registering the smallest influx of new orders since August of last year. Growth also slowed at medium- and large-sized companies, but remained far stronger than at small firms.

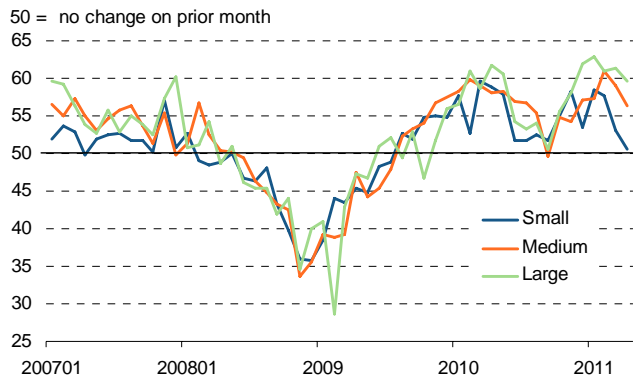
Manufacturing PMI New Orders Index



Export performance played a big role in these divergent order book trends. New export orders barely rose at smaller firms in April, the rate of growth having slowed very sharply since the near-record high seen at the start of the year. In contrast, medium-sized companies have reported a far more modest easing in the rate of export growth, while at larger companies the

rate of growth has slowed only slightly from January's record high.

Manufacturing PMI New Export Orders Index



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