Dip in UK manufacturing sentiment unlikely to halt November hike

Weaker economic outlook means the number of Bank of England rate hikes could be very limited

Source: iStockphoto

55.9 UK manufacturing PMI

(Previously 56.7)

Worse than expected

It was a bit weaker than expected in September, but UK manufacturing PMI continues to point to a very healthy backdrop in the sector. According to Markit/CIPS, strong external demand and to an extent, the weaker pound is continuing to result in new export business "among the best registered over the past six-and-a-half years".

But despite this optimism, there's been very little to show for it in the official manufacturing data. Since November 2015, when the pound started falling, the value of the currency has fallen by almost 20%. However, manufacturing production has only risen by 2% in this period.

It's entirely possible where the PMI may be overstating the sector's strength; the official data is underestimating it. But it could be that the increasingly interconnected nature of global supply chains means logistical considerations and competitive advantage now often matter more than price or exchange rate movements.

But whatever the case, it's worth remembering manufacturing only makes up around a tenth of the UK economy. The Bank of England will continue to look more carefully at the larger service sector, which is still showing signs of a slowdown, partly as the household squeeze continues to affect consumer-facing industries. While the weaker economic backdrop is unlikely to deter the Bank from hiking in November, it does mean that the chances of a series of rate hikes after that are low.

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