

Solid UK manufacturing overshadowed by service-sector struggle

Another encouraging UK manufacturing PMI will help cement expectations ahead of the Bank of England's historic rate hike decision on Thursday



Source: iStockphoto

56.3 UK manufacturing PMI

Better than expected

At 56.3, manufacturing firms remain relatively upbeat, as the stronger global growth environment and weaker pound continue to inject energy into the sector. This tallies with the modest improvement we've seen in the official manufacturing figures recently, although the overall post-Brexit increase in output is still lower than what would have been expected given the pound's fall.

Remembering that manufacturing only makes up a relatively small part of the UK economy. The much larger service sector is still struggling to find momentum

As Brexit Secretary David Davis alluded this week, one of the "complex and mixed" explanations for the disconnect is that supply chains are increasingly interconnected. This means the sector could be less sensitive to currency moves than 10-20 years ago, as logistical and technological considerations assume greater priority.

Whatever the explanation, it's worth remembering that manufacturing only makes up a relatively small part of the UK economy. The much larger service sector is still struggling to find momentum. With inflation still outpacing wage growth, consumers continue to take a cautious approach to discretionary spending. And despite some encouraging noises from the Brexit negotiations, considerable uncertainties will continue to drag on investment.

[Read our full Bank of England Preview, along with scenario analysis here](#)

However, none of that is likely to stop the Bank of England in its tracks tomorrow. But given the uncertain outlook for demand, as well of course Brexit, we remain sceptical that the Bank's first rate hike in ten years will evolve into a meaningful tightening cycle.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.