

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.

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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.

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