UK: Green shoots appear in PMIs as reopening beckons

The better-than-expected UK PMIs come as firms begin preparations for economic reopening in April and May. This bounceback in activity is likely to drive 4-5% growth in the second quarter

A woman walks past a theatre in London, Britain

Source: Shutterstock

Green shoots appear as firms gear up for reopening

The most important takeaway from the latest UK PMI figures is that firms are becoming increasingly optimistic about the outlook for the second quarter.

Services PMI jumped to 56.8 - the second-best reading of the pandemic so far, and according to Markit/CIPS, this is down to higher order volumes as firms gear-up for forthcoming reopenings.

For the second quarter as a whole, we reckon growth will come in at 4-5%, after a circa 2% decline in the first quarter.

Admittedly it's worth emphasising that PMIs aren't always the best at telling us how quickly the economy is growing at turning points such as these. Just as the PMIs in the early days of the pandemic weren't too helpful in gauging the severity of the first lockdown, these latest numbers probably don't help us too much in pinning down GDP growth figures for the next couple of months. They tell us more firms are seeing improving conditions, but don't necessarily indicate by 'how much'.

Nevertheless, it's encouraging and is a reminder that sharply higher growth numbers are on their way. We expect growth of around 2% in March, albeit mainly linked to school reopenings. For the second quarter as a whole, we reckon growth will come in at 4-5%, after a circa 2% decline in the first quarter.

PMIs suggest manufacturing hit is beginning to reverse after January Brexit disruption

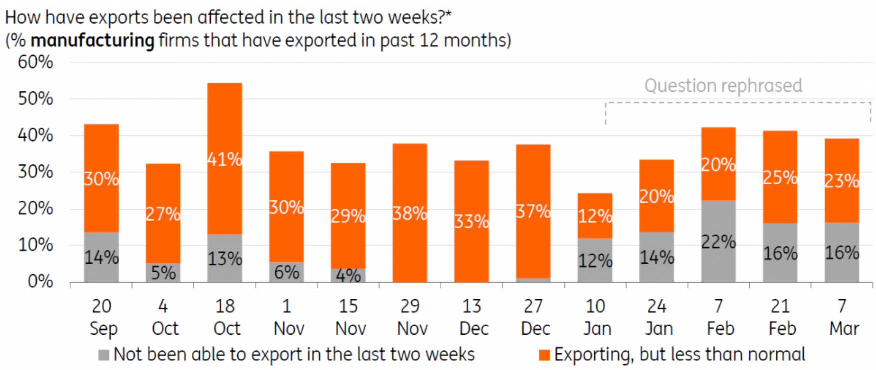
These latest PMIs also give us a few extra clues on whether the Brexit disruption to manufacturing/exports is improving. Data over recent weeks has given mixed signals.

Exports/imports famously fell sharply in January, though the impact on manufacturing output was much more limited - which partly tells us that firms had been stockpiling ahead of the end of the transition period. These latest PMIs suggest output has begun to ramp up again, though export sales remain muted according to Markit/CIPS.

Looking at all the recent data, it's evident that some of the initial teething problems stemming from the end of the transition period have since cleared themselves up. But firms are continuing to struggle under the weight of new paperwork, judging both by anecdotal reports, but also recent Office for National Statistics survey data. The latest Business Impact survey suggests 16% of 'exporting' manufacturers and 11% of wholesale/retail are still reporting not being able to export at all.

The PMIs are still being heavily influenced by longer supplier delivery times, a symptom of both Brexit disruption but also wider issues with global shipping.

Small proportion of exporting manufacturers are still struggling to trade at all



Source: ONS Business Impact Survey

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