

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

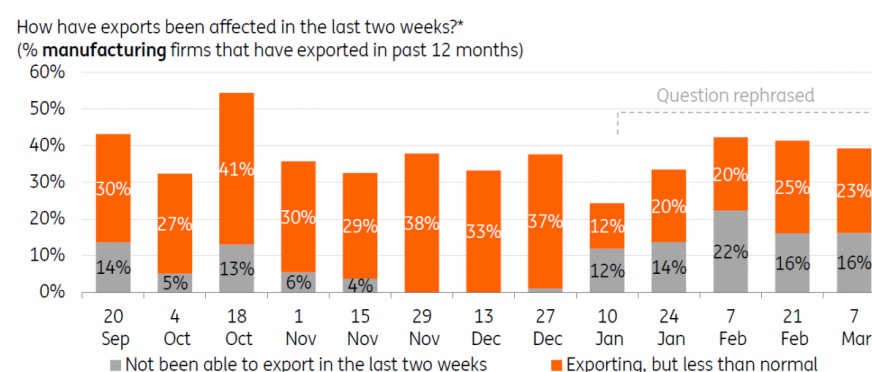
These latest PMIs also give us a few extra clues on whether the Brexit disruption to manufacturing/exports is improving. Data over recent weeks has given mixed signals.

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



Author

James Smith

Developed Markets Economist

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>.