

UK manufacturing booms as global demand soars

The manufacturing sector is a clear bright spot in the UK economy at the moment. But the larger flagging service sector is why we don't expect a sharp pick-up in growth next year



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58.2

UK manufacturing PMI

Better than expected

The big economic story of 2017 has been the positive turnaround in global growth, which along with the weaker pound, has seen manufacturing sentiment soar in the UK. The PMI is now at 58.2, and Markit/CIPS said that new orders are rising at one of the fastest rates for four years. Admittedly sentiment has been very robust throughout this year, while the 'hard' output data has failed to keep pace. Encouraging though, a sharp 0.7% MoM rise in production in September and some positive readings over the summer suggest this strength is starting to show through in the official numbers.

The manufacturing sector is clearly a bright spot in the UK economy at the moment. However, given that manufacturing represents a relatively small share of the UK economy, the ongoing consumer slowdown and the knock-on effect this is having on retailers is a bigger concern, and is why we don't expect overall growth to accelerate in 2018.

But the outlook for interest rates also relies heavily on Brexit. The recent encouraging signs emerging from the negotiations make it more likely that a transition period can be agreed-in-principle in the new year, but even then there are still some big questions to be resolved later in 2018.

We still think the Bank will keep rates on hold in 2018, although admittedly this is an increasingly close call. Policymakers have signalled they would be comfortable with a hike next year and a move in February or May therefore certainly shouldn't be ruled out.

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