

UK manufacturing PMI highlights domestic strength

Manufacturing continues to perform strongly, but it is a small part of the UK economy these days and the larger services sector is looking less rosy



Source: iStockphoto

The latest UK manufacturing purchasing managers' index (PMI) reading is still well above the break-even 50 level and consequently it is consistent with strong growth in the sector, with the report suggesting that domestic demand is the main driver of growth. Apparently exports are improving "only in fits and starts" despite the strong European economy and the competitiveness boost from sterling weakness.

While this is clearly a positive story, we have to remember that manufacturing is a relatively small part of the UK economy. Services appear to be under more pressure, as highlighted within the 1Q GDP report and we will be closely following Monday's services PMI to see if it can hold onto recent gains.

Our chief concerns regarding the economic outlook surround consumer spending given that wages are failing to keep pace with the cost of living. Meanwhile Brexit uncertainty is likely to make businesses more cautious about hiring new workers and investing in their businesses. This lead us

to think the economy will grow only 1.5% this year.

56.7 UK Markit/CIPS manufacturing PMI

Better than expected

Irrespective of the election outcome, Brexit uncertainty is unlikely to fade meaningfully anytime soon. With growth risks remaining to the downside we continue to expect stable policy from the Bank of England until the negotiations are concluded, given the lack of domestically generated inflation pressures.

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