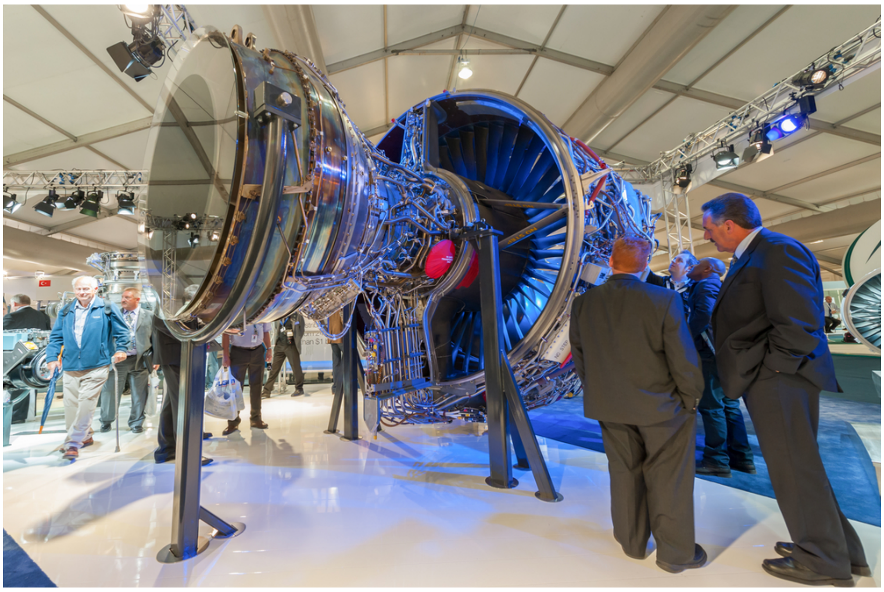
UK manufacturing sluggish despite weak pound

Disappointing manufacturing data another reason why the Bank of England is unlikely to hike this year



Why are we concerned about manufacturing output?

It's been a disappointing morning in terms of UK data. Headline industrial production data was flattered by a 5% rise in oil and gas output, but manufacturing remained flat on the month. In fact, manufacturing output hasn't increased in any month so far this year.

This is particularly concerning when you consider the backdrop of the post-Brexit fall in the pound and the significant improvement in global growth prospects (particularly in Europe, a key trading partner for the UK). While these developments appear to have boosted sentiment amongst manufacturing firms according to recent PMIs, we aren't seeing this being translated into the official data.

13% Post-Brexit fall in the pound

Possible explanations?

One possible explanation for this is that the impact of the weaker pound has been less pronounced than it might have been 10-20 years ago. The increasingly interconnected nature of global supply chains means exchange rate fluctuations are less of a key determinant of competitiveness.

In any case, it's always worth remembering that the manufacturing sector accounts for only roughly 10% of the UK economy. But with the all-important service sector struggling as real incomes fall, today's data is another indication that other parts of the economy (investment and trade in particular) are not providing the offsetting boost the Bank of England is hoping for.

So, we still think a rate hike later this year looks very unlikely.

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