UK manufacturing stays lower amid steadier global growth

At 54.4, the latest UK manufacturing PMI is a little better than hoped but is still a far cry from the levels seen towards the end of last year

Source: iStockphoto

Whilst Markit/CIPS noted the weakness partly reflected a slower pace of domestic orders, we also wonder whether the steadier global growth over the past few months is starting to weigh. We suspect it is too early to see any tariff impact in these figures, but the slowdown in the Eurozone that we saw through the first quarter may be playing a role. The gradual strengthening in the trade-weighted pound since last summer could also be beginning to hit demand at the margin.

Of course, the UK's manufacturing sector only makes up around 10% of the economy, so we suspect the Bank of England will be paying closer attention to next week's services index as it tries to gauge whether growth is rebounding after the weaker first quarter. After a couple of months of dismal weather, May finally saw the sun come out and this should have given the struggling high street a much-needed boost. That said, as we noted yesterday, we think consumer-facing sectors are not out of the woods just yet. Households remain cautious in the face of rising petrol prices, stagnant real wages, as well as economic uncertainty more generally.

For that reason, a rate hike over the summer is still far from guaranteed. However, our feeling from recent Bank of England commentary is that the committee has a preference to hike rates sooner rather than later if the data allows, in part to combat the risk of rising wage growth and underlying inflation.

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