

Round up

UK PMI exactly steady

The UK manufacturing Purchasing Managers Index (PMI), a barometer for the health of the manufacturing sector, has risen to 50.0 in January. The score, a nine-month high, reflects the steadying of the manufacturing sector following a period of significant downturn seen throughout most of last year. The reduced level of political uncertainty that we entered into 2020 with has created small improvements in domestic demand, allowing manufacturers to ease tentatively from their holding pattern and start moving back towards normal trading cycles. While a score of 50 does not indicate any growth for the sector, a hiatus in its' consistent decline will be a small mercy to many.

Manufacturing
PMI was
50.0
in January

Business confidence, however, remains fragile and concerns about our future trade rules mean export orders are still falling. This is the main cause for concern so all eyes will be on the nature and quality of any trade deals secured over the next 11 months.

Eurozone PMI no better

Eurozone
manufacturing PMI
was

47.9
in January

The manufacturing sector in the UK has not struggled alone over the past year. Across the channel, the Eurozone has just entered its 12th consecutive month of PMI scores below 50, indicating that the manufacturing industry there has continued to contract without relief for a straight year. While February's score is the highest since April last year, no one will be celebrating the small mercy that is a slowing in the rate of decline the sector is experiencing.

The biggest contributors, both positive and negative, to this month's score were Greece, with their growth on a five-month high, and Germany, which for the second consecutive month turned in the weakest performance anywhere in the EU, despite it being an 11 month high for the historical stronghold of Eurozone manufacturing. New orders and production volumes continued to decline, albeit it at a slower rate than what was observed towards the end of 2019.

Inflation continues its downward trend

The latest ONS figures (which are lagged by 1.5 months) show that the Consumer Prices Index (CPI) for December 2019 has dropped from 1.5% in November to 1.3%. CPIH, the measure which includes owner occupier's housing costs were reported at 1.4% for December, a smaller decline of only 0.1% compared to the previous month.

CPI reported at
1.3%
in December

The largest upward contribution to the CPIH in December was housing and household services, predominately responsible for the overall direction of CPIH as owner-occupier housing (OOH) costs make up 17% of the CPIH. Apart from OOH, Restaurants and Hotels had by far the largest downward contribution to the rate this iteration, exactly double the impact of the 2nd largest negative contributor which was Clothing and Footwear.

Manufacturing jobs losses finally come to a halt

Job losses have
ended after their

9th
consecutive month

According to IHS Markit, manufacturing job losses have finally come to an end after a nine-month run which has wreaked havoc for the sector's labour market. The looming threat of job insecurity for manufacturing employees has weighed heavily on the sector's morale, something we can now hope to see improved with the news of increased business confidence filtering through into positive hiring trends since the start of the new year. Manufacturer's optimism is at an eight-month high, with 47% of the sector predicting that they would see their output expand in the year to come.

Economist's Comment

Although business will have breathed a sigh of relief at their newfound political stability, a result of the December election last year, many will be somewhat disappointed that the manufacturing sector failed to rebound as rapidly. Although there have been 9 months of continued contraction in the sector, it does remain in a position poised for rapid recovery as businesses venture out from their holding patterns of last year. However, as much as our domestic political stability has been assured for the time being, the UK's global trade outlook still looks as uncertain as ever.

One might have presumed that the UK's exit from the EU on the 31st of January this year would have cleared the air, but this couldn't be further from the truth, as business is only likely to get a visible picture of the global outlook in the immediate run-up to December 31st, the end of the transitional period at the cusp of 2021. Other announcements have surprised industry, such as government's recent commitment to actively seek regulatory divergence, something that may be a boon to a few but a threat to many, particularly those who sit in the supply chain of products that pass through the European Union.

While this month's data now indicates the end of the job purge in the manufacturing here in the UK, the same cannot be said for the similarly troubled manufacturing sector in Europe, which itself has just registered its ninth consecutive month of job losses. Next month's data will show whether the European sector will have a longer run of job losses in the manufacturing industry than the UK, as we have only just seen the end of these consecutive job losses ourselves after a similar 9-month run.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q3	0.4%	q-on-q	↔
UK Manufacturing PMI (Index)	2020 Jan	50	index	↑
UK Services PMI (Index)	2020 Jan	53.9	index	↑
Eurozone Manufacturing PMI (Index)	2020 Jan	47.9	index	↑
Make UK Annual GDP Forecast	2020 Q1	1.4%	y-on-y	↔
Make UK Pay Settlements	2019 Jun	2.6%	3m-on-3m	↔
Average earnings – manufacturing	2020 Jan	2.7%	3m-on-3m	↔
Average earnings – whole economy	2020 Jan	3.4%	3m-on-3m	↓
UK ILO Unemployment rate	2020 Jan	3.8%	%	↔
CPI inflation	2020 Jan	1.3%	y-on-y	↓
RPI inflation	2020 Jan	2.2%	y-on-y	↔
UK Consumer Confidence Index	2020 Jan	-9	index	↑
Index of Production	2020 Jan	-1.2%	m-on-m	↓
Index of Manufacturing	2020 Jan	-1.7%	m-on-m	↓
UK Trade - Goods balance (£billion)	2020 Jan	-5.3	level	↑
Business Investment growth	2019 Q4	0%	q-on-q	↔
Manufacturing Investment growth	2019 Q4	-4%	q-on-q	↔
UK Debt to GDP level	2019 Q3	85%	GDP %	↔
UK Current Account Balance % of GDP	2019 Q4	-2.8%	GDP %	↔

Sources: ONS, Markit, GfK NOP and Make UK

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