

Round up

GDP flat in the three months to October

The Bank of England last year predicted that the UK is at risk of a recession after the economy had contracted by 0.2% in the second quarter. Although this had been avoided by a meagre expansion of 0.4% in 2019 Q3 – more recent results do not paint a pretty picture of what is to be expected for the remainder of the year. In the three months to October the UK saw no growth as gains from the services sector were equally offset by contractions within manufacturing and construction. The latter industry bears a larger share of the blame for the zero-growth value as output in the sector is the lowest since January 2018.

However, an inspection of performance for the month of October does reveal manufacturing expanded slightly (+0.2%) whilst the decline in construction appears as more of an anomaly in the data. Therefore, the next GDP results should be analysed with caution as the following months will reveal more information on what the results of the final quarter of 2019 will hold.

GDP growth of

0%

between August
and October

PMI contracts at the fastest rate in almost 8 years

Manufacturing
PMI fell to

47.5

in December

The UK manufacturing PMI contracted at its fastest pace in seven-and-a-half years in December. The latest result exemplifies the chaotic year UK manufacturers have experienced due to a never-ending series of Brexit and trade war developments. This contraction is negative news for the sector, but the rate of the decline itself is somewhat misleading. As our latest quarterly outlook shows stockpiling boosted output before the October 31st Brexit deadline along-with an increase in Christmas export orders suggesting the November PMI may have been only temporarily boosted. The industry remains in contraction, below the 50.0 no-change mark.

Eurozone PMI showing little signs of improvement

The Eurozone manufacturing sector spent the majority of 2019 within contractionary zones according to a series of last year's PMIs. The final figure of the year reported a further contraction of the sector, falling from 46.9 in November to 46.3 in December. According to Markit data, the weak performance continues to be tied to the investment and intermediate goods sectors. Additionally, a reduction in orders and unused capacity has hit employment across the Eurozone. The latter has consequently declined for an eighth consecutive month. Germany is still the weakest performing country as the automotive market continues to struggle as a result of weak consumer demand. Greece and France are the final two countries to remain above the 50.0 mark as the Netherlands joins the group of contracting countries.

Eurozone PMI fell
to

46.3

in December

Average weekly earnings stable

Earnings in
manufacturing
stable at

2.7%

between August
and October

Three-month average earnings in manufacturing remains unchanged in October 2019. While pay in manufacturing is 2.7% higher than this time last year - relatively lower than the wage growth seen across the whole economy - the gap between the two has shown signs that it is steadily narrowing. More significantly, pay growth is currently slightly above the 1.5% inflation rate suggesting that workers are benefiting from some improvement in living standards as employment rates remain at historically high levels. Added to this more than 210,000 UK workers enjoyed a Christmas pay increase as employers raised their voluntary national living wage payments while the Low Wage Commission has announced that the government's compulsory living wage is to rise by 6.2% this year, the biggest annual increase ever. However, traditional neo-classical economics does warn that we should be wary of the economy "overheating" due to a combination of high employment and weak growth across the whole economy.

Economist's Comment

This month the UK is expected to formally exit the EU and utilise the remainder of 2020 to negotiate its future relationship with the bloc. One thought we are certain of is that uncertainty has been the underlying source of weak growth, productivity and investment for UK manufacturers for too long.

The results of the recent general election saw the Conservative Party secure a 78 seat majority. Interestingly, Make UK analysis shows that almost a third of constituency seats the Conservatives gained from Labour are significant employers in the manufacturing sector. Therefore, it is highly imperative the government considers all measures to protect and champion the manufacturing industry in its plans for the next five years. On a related note, the party's manifesto signalled a loosening in fiscal policy, as characterised in the Queen's Speech, which will result in a boost to economic growth depending on how the expenditures are distributed to different sectors.

Nevertheless, as Make UK's latest quarterly outlook reported, UK manufacturers are more optimistic about the future albeit a number of important developments will need to be observed closely this year. This includes developments beyond Brexit. First, interest rates remain at historically low levels and the recent appointment of the new Bank of England governor Andrew Bailey could signal a change in tack by the BoE. Secondly, the US presidential election is looming, the outcome of which will help determine the sort of trade deal the UK may negotiate with the US. Finally, unpredictable geopolitical events regularly distort the fundamental value of oil prices and tensions between the US and Iran have recently escalated resulting in oil prices increasing.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q3	0.4%	q-on-q	↑
UK Manufacturing PMI (Index)	2019 Dec	47.5	index	↓
UK Services PMI (Index)	2019 Dec	50	index	↑
Eurozone Manufacturing PMI (Index)	2019 Dec	46.3	index	↑
Make UK Annual GDP Forecast	2020	1.4%	y-on-y	↑
Make UK Pay Settlements	2019 Jun	2.6%	3m-on-3m	↔
Average earnings – manufacturing	2019 Dec	2.7%	3m-on-3m	↔
Average earnings – whole economy	2019 Dec	3.5%	3m-on-3m	↓
UK ILO Unemployment rate	2019 Dec	3.8%	%	↔
CPI inflation	2019 Dec	1.5%	y-on-y	↔
RPI inflation	2019 Dec	2.2%	y-on-y	↑
UK Consumer Confidence Index	2019 Dec	-11	index	↑
Index of Production	2019 Dec	0.1%	m-on-m	↑
Index of Manufacturing	2019 Dec	0.2%	m-on-m	↑
UK Trade - Goods balance (£billion)	2019 Dec	-14.4	level	↓
Business Investment growth	2019 Q3	0%	q-on-q	↑
Manufacturing Investment growth	2019 Q3	-4%	q-on-q	↓
UK Debt to GDP level	2019 Q2	85%	GDP %	↓
UK Current Account Balance % of GDP	2019 Q3	-2.8%	GDP %	↑

Sources: ONS, Markit, GfK NOP and Make UK