

ROUND UP

PMI

The UK manufacturing Purchasing Managers' Index [PMI] was at 55.1 in February, an improvement from 54.1 in January. This figure signals growth and expansion within the manufacturing sector which has now been the case for **nine months in a row**, suggesting sustained emergence from the impacts of COVID-19.

However, production has been limited due to supply chain disruptions, more specifically, international shipping delays and raw material shortages due to increased worldwide demand, which has been worsened by the UK's exit from the EU. Our most recent data from *Manufacturing Outlook 2021 Q1* suggests that frictions should ease, implying the manufacturing sector can further recover which can be complemented by the UK expecting to come out of its last lockdown, giving hope that the UK manufacturing PMI will remain above 50.

Manufacturing
PMI was **55.1**
in February

GDP

GDP was

1%

in Q4 2020

In the last quarter of an unprecedented year, GDP grew by 1% compared to the previous quarter and grew by 1.2% in December, with the services sector being the main reason for this growth. However, December GDP was still 6.3% below the pre-pandemic levels seen in February 2020. Annual GDP also fell by 9.9% which is the **largest annual decline** since records began – the impact of the pandemic is laid bare in this data.

Looking at the manufacturing sector more specifically, total manufacturing output increased by 3.3% for Q4 2020 but still decreased by 3.5% compared to Q4 2019. Monthly manufacturing output rose by 0.3% in December, driven by sustained demand in the chemicals sector. Again, comparing this figure to the one from February 2020, manufacturing output was still 3.4% below pre-pandemic levels.

EUROZONE PMI

The Eurozone PMI was recorded at a **three-year high** of 57.9, showing similar patterns compared to the UK of growth and expansion which was mainly driven by increases in both output and new orders. Investment, intermediate and consumer goods all experienced growth with operating conditions improving. It should be noted that the Eurozone also has to be wary of the previously mentioned supply chain disruptions – delivery times for inputs have continued to rise, with cost pressures therefore rising also.

Unfortunately, COVID-19 cases are increasing rapidly in Europe (with the worst in Central and Eastern Europe) meaning many countries within the Eurozone have had to introduce stricter measures to try and contain the spread. Again, this will likely continue to disturb economic growth in the immediate term, but it is hoped that these restrictions will prevent a larger amount of damage in the long term.

Eurozone PMI
was
57.9
in February

UNEMPLOYMENT

Unemployment

was **5.1%**

in Q4 2020

The unemployment rate was at 5.1%, which is the **highest rate since early 2016**. There were 1.74 million people unemployed in Q4 of 2020, the subsequent fallout of the lockdowns and restrictions being placed on certain sectors.

However, with the extension of the Job Retention Scheme and the support for the self-employed both being announced to last until September 2021 in the Spring Budget, it can be hoped that unemployment won't increase much further than this level as the furlough scheme has previously helped to prevent more substantial increases in unemployment. Furthermore, the government plans to taper this scheme off which can help businesses be better positioned to employ more when it ends.

ECONOMIST'S COMMENTS

A year after the UK was hit badly by COVID-19, it is clear that the economy has not yet recovered to the point it was at before the pandemic. However, we can be hopeful that it will only continue to improve from here, with the government's roadmap to get us out of lockdown stating that we could return to 'normal' by the 21st of June this year at the earliest. As well as this, the coronavirus vaccine rollout has been successful with at least 23 million people receiving at least one dose so far. People must continue to follow the regulations and get the vaccine if possible, to prevent new variants from forming which could harm the progress that has been made.

The EU exit may also slow down the UK's recovery to get to the point it was at pre-pandemic due to supply chain disruptions. The government have delayed their plans of full border checks for EU goods by another six months, meaning full enforcement will now come into effect on January 1st 2022. This puts British exporters at an unfair disadvantage as they have been dealing with full checks on their goods entering the EU from the start of this year and the manufacturing sector has suffered due to this. With that being said, hopefully UK exporters will become more accustomed to the new trade agreements, helping to relieve some of the tension.

The Spring Budget was a highly anticipated announcement as many were curious for the government to reveal their plans to continue supporting the economy, whilst improving their budget deficit that has continued to grow due to the pandemic. No changes will be made to income tax and both the personal allowance and higher rate threshold will be frozen until 2026. Corporation tax will be increased from 19% to 25% on any profits over £250,000 but this will only be the case from April 2023, providing businesses with some short-term relief and giving them a chance to properly recover.

Overall, the forecast for the state of the economy is positive and it can be hoped that it can only improve from here, especially with more people getting vaccinated and confidence increasing – it is unlikely that a contraction as great as last year will be experienced again.

DATA SUMMARY

	Period	Figure	Reference	Trend
UK GDP growth	2020 Q4	1%	q-on-q	↓
UK Manufacturing PMI (Index)	2021 Feb	55.1	index	↑
UK Services PMI (Index)	2021 Feb	49.5	index	↑
Eurozone Manufacturing PMI (Index)	2021 Feb	57.9	index	↑
Annual GDP Forecast	2021	5.5%	y-on-y	↑
Average earnings – manufacturing	2020 Dec	1.7%	3m-on-3m	↑
Average earnings – whole economy	2020 Dec	4.1%	3m-on-3m	↑
UK ILO Unemployment rate	2020 Q4	5.1%	%	↑
CPI inflation	2021 Jan	0.7%	y-on-y	↑
RPI inflation	2021 Jan	1.4%	y-on-y	↑
UK Consumer Confidence Index	2021 Feb	-23	index	↑
Index of Production	2020 Dec	0.2%	m-on-m	↓
Index of Manufacturing	2020 Dec	0.3%	m-on-m	↓
UK Trade - Goods balance (£billion)	2020 Dec	-14.31	Level	↑
Business Investment growth	2020 Q4	1.3%	q-on-q	↑
Manufacturing Investment growth	2020 Q3	13.1%	q-on-q	↓
UK Debt to GDP level	2020 Q3	101.6%	GDP %	↑
UK Current Account Balance % of GDP	2020 Q3	-2.9%	GDP %	↓

Sources: ONS, Markit, Gfk, Make UK