

Round up

Economic activity bouncing back in January

After a sharp slowdown in December, when the UK economy contracted by 0.4% in the month, January's economic activity showed some signs of relief with 0.5% growth offsetting the previous drop. This positive outcome was the result of widespread recovery across all the major sectors.

In March, the ONS also produced final GDP numbers for Q4 and the whole of 2018. GDP growth for Q4 was confirmed at 0.2%, despite an upward revision for business investment which was upgraded by 0.5%. However, the numbers for business investment remain bleak with four quarters in a row of negative growth and the overall level in Q4 down by 2.5% when compared to a year ago.

Looking at survey data, March service PMI showed the lowest reading since December 2012 and the joint worst in a decade. This is a clear cause of concern considering the importance of the service sector for the UK economy.

GDP grew by
0.2%
between November
and January

Manufacturing recovering but stockpiling activity at all time high

Manufacturing
expanded by

0.9%

in 2018

After six months of contraction in a row, manufacturing was finally able to register a monthly expansion in January. The sector expanded by 0.8% in the month recovering a little bit of the ground it had lost and returning to the level it was at last October.

Food products and pharmaceuticals were the two sectors reporting the largest contribution to manufacturing expansion in January. However, these two sectors are deeply involved in stockpiling activities and this might be a reason behind their January expansion.

On the other hand, motor vehicles continue to suffer from the current uncertain situation with another 2.3% drop in the month.

Wages continue to run fast but not in manufacturing

The UK labour market continues to be extremely solid with unemployment dropping to its lowest recorded level at 3.9%. The low unemployment, high level of employment and low inactivity rate are pushing wage growth high at 3.4% showing some resurgence of the so called "Phillips Curve" – the historic link between employment levels and wage rises. This is the third month in a row showing the same rate of growth and it translates into a 1.4% real growth when inflation is taken into account.

However, this acceleration has not been felt to the same extent by all sectors. In the last two readings, manufacturing wages grew by just 1.9% compared to the 4.2% increase in financial and business services and 4.1% in construction.

Annual regular wages
were up by

3.4%

in the 3-months to
January

European manufacturing PMI in negative territory

Eurozone
manufacturing PMI
was

47.5

in March

The latest reading for manufacturing PMI in the eurozone confirmed that the common currency area is experiencing difficulties at the moment. The 47.5 reading in March was the lowest since April 2013 with the three major economies – Germany, France, and Italy – all in negative territory. Particularly low was the German performance with PMI down to 44.1 – an 80-month low. It appears that the weakness is set to continue with new eurozone orders showing the sharpest decline since 2012.

Economist's Comment

Once again, our *Monthly Bulletin* is characterised by Brexit uncertainty. Despite the fact the originally scheduled Brexit day of 29th March has now passed, the Brexit finish line is still to come.

Avoiding the cliff-edge implied by an exit with no-deal was a sensible decision. However this does not solve the problems the UK is facing. With Parliament unable to reach a majority for either Theresa May's deal nor an alternative, the UK might crash out on 12th April with consequences that are difficult to imagine at the moment.

As we have pointed out in previous bulletins, some of these consequences have already been felt by the UK economy with business investment contracting for four quarters in a row, and by the manufacturing sector in particular with six months of contraction before the bounce back registered in the last reading.

Uncertainty has hit some subsectors hard, such as automotive which has a high degree of foreign investment and a global market to sell to. The sector contracted once again in January continuing a decline which started a few quarters ago. The sector is currently at a level last registered in July 2017. The current contraction is expected to continue in light of the Brexit deadline having been pushed back to mid-April.

If the UK's current situation is not cheerful, the rest of the Europe is also facing difficult times with early indicators pointing to important economic activity contraction in the major European economies – in particular Germany and Italy. Moreover, European Parliament elections are due in May and even if the traditional parties should be able to maintain a functioning majority, the continuous rise of the far-right and populist parties is another cause of concern for the future of the entire continent.

Data summary

| | Period | Figure | Reference | Trend |
|-------------------------------------|----------|--------|-----------|-------|
| UK GDP growth | 2018 Q4 | 0.2% | q-on-q | ↓ |
| UK Manufacturing PMI (Index) | 2019 Mar | 55.1 | index | ↑ |
| UK Services PMI (Index) | 2019 Mar | 48.9 | index | ↓ |
| Eurozone Manufacturing PMI (Index) | 2019 Mar | 47.5 | index | ↓ |
| Make UK Annual GDP Forecast | 2019 | 1.1% | y-on-y | ↓ |
| Make UK Pay Settlements | 2019 Feb | 2.5% | 3m-on-3m | ↔ |
| Average earnings – manufacturing | 2019 Jan | 1.9% | 3m-on-3m | ↔ |
| Average earnings – whole economy | 2019 Jan | 3.4% | 3m-on-3m | ↔ |
| UK ILO Unemployment rate | 2019 Jan | 3.9% | % | ↓ |
| CPI inflation | 2019 Feb | 1.9% | y-on-y | ↑ |
| RPI inflation | 2019 Feb | 2.5% | y-on-y | ↔ |
| UK Consumer Confidence Index | 2019 Mar | -13 | index | ↔ |
| Index of Production | 2019 Jan | 0.6% | m-on-m | ↑ |
| Index of Manufacturing | 2019 Jan | 0.8% | m-on-m | ↑ |
| UK Trade - Goods balance (£billion) | 2019 Jan | -13.1 | level | ↓ |
| Business Investment growth | 2018 Q4 | -0.9% | q-on-q | ↓ |
| Manufacturing Investment growth | 2018 Q4 | -3.4% | q-on-q | ↓ |
| UK Debt to GDP level | 2017/8 | 85.4% | GDP % | ↓ |
| UK Current Account Balance % of GDP | 2018 | -3.9% | GDP % | ↓ |

Sources: ONS, Markit, GfK NOP and Make UK