

Round up

UK Manufacturing PMI in expansion

The UK manufacturing Purchasing Managers Index (PMI) continued its upward trajectory and increased to 51.7 in February. The growth in output is at a ten month high as domestic orders continue to recover. However, according to Make UK data – export orders are still weak. For the time being business optimism is improving as manufacturers are gearing up to invest in capacity expansion. Yet the outbreak of the COVID-19 are yet to be fully seen in the data.

The impact of COVID-19 is already filtering through the global economy by slowing down delivery times in key component supply-chains. IHS Markit's *UK Manufacturing Suppliers' Delivery Times Index*, of which a below 50 mark indicates a longer delivery time since the previous month, saw the biggest month on month decline since data collection began almost 30 years ago. If these indicators are a true reflection of the impact of the coronavirus, then manufacturers should be wary of the domino effect likely to follow – even for firms that do not trade directly with the East Asian markets.

Manufacturing
PMI was

51.7

in February

Inflation getting closer to 2%

CPI inflation
increase to

1.8%

in February

As a result of increasing housing and energy costs the inflation (CPIH) rate increased by 0.4% in January to 1.8% - the highest rate since August last year. Ofgem announced recently to reduce the price cap in order to pass through the benefit of lower supply costs to consumers. However, this did not result in energy prices falling in the short term, and the increasing cost of air fares will make further upward contributions in the coming months.

Till now prices have been low relative to recent months which is welcome news for consumers who are low on spending confidence.

Eurozone manufacturing up but remains weak

This is the second consecutive monthly rise for Eurozone manufacturing activities, according to the PMI. Nevertheless the 49.2 reading in February marks 13-months of the Eurozone manufacturing sector reading below the 50 no change mark.

Greece continues to lead the way in manufacturing activity reaching a ten month high at 56.2. The Netherlands, Ireland, Spain and Austria have all also reported PMIs above the 50 mark. However, just as the UK manufacturing sector is yet to see the impact of COVID-19 so are a number of EU nations. Italy has quarantined its population as many parts of the country are afflicted by the virus. Make UK members have also reported a number of key supply-chains have been unable to serve their customers in the UK, and vice versa UK firms have been unable to service customers in Italy too.

Eurozone
manufacturing PMI
increased to

49.2

in February

Earnings growth in manufacturing accelerating

Average weekly
manufacturing
earnings up at

2.9%

Average earnings in manufacturing is reported at 2.9%, a 0.2% increase on the previous report. Whilst manufacturing pay growth accelerates in the UK, pay in the whole economy is decelerating – reporting at 3.2%. ONS data reveals that manufacturing pay has relatively outpaced the average wage growth across the whole economy. The latest gap stands at 0.3% wide – substantially smaller than this time last year (1.9%).

Additionally, the national living wage is set to rise 6.2% in April, in what will be the biggest increase ever and result in higher input costs for UK manufacturers.

Economist's Comment

There are less than nine months left until the transition period is over and at the time of writing there is yet to be any significant indication of the future trading relationship between the UK and Rest of the World (RoW), which now includes the EU. Nevertheless, confidence amongst manufacturers is promising although the propagative impact of COVID-19 are yet to be fully quantified.

As it stands the economic risk to the UK remains low. However GDP forecasts are likely to be revised downwards as manufacturing supply-chains are increasingly disrupted. Still, the detrimental impact of COVID-19 on the global economy will be not only physical logistical delays (of shipping and air freights) but equally a surge in risk aversion amongst consumers and investors too. The behaviour of risk averse agents across the world has already impacted a number of stock markets. The FTSE 100 recorded its biggest fall since the financial crisis. Some analysts have gone as far as to describe this result as "Black Monday". Although, that title is unlikely to hold as the FTSE is already signalling a recovery. The Bank of England (BoE) has already responded by cutting the base rate to 0.25% whilst the current government's latest Budget 2020 revealed a number measures designed to support small businesses across the country. For the time being the UK government have opted to approach with caution, whilst maintaining that the UK is still in "*business-as-usual*" mode.

Nonetheless, COVID-19 is but one of a number of events that UK manufacturers should be wary of. Saudi Arabia has initiated an oil price war with plans to increase the production of crude oil to 12.3m barrels a day (2.5m more than its current level) in the face of declining demand due to the coronavirus. This would result in the global market being flooded with more oil than it demands – effectively reducing the price of the scarce resource. The dumping of oil could also be quite damaging for US shale firms who will likely require federal assistances for protection. In the short-term low fuel costs could be good news for energy intensive industries as well as the automotive sales market. But there is a greater challenge in understanding the moves' long term implications.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q4	0%	q-on-q	↓
UK Manufacturing PMI (Index)	2020 Feb	51.7	index	↑
UK Services PMI (Index)	2020 Feb	53.2	index	↓
Eurozone Manufacturing PMI (Index)	2020 Feb	49.2	index	↑
Make UK Annual GDP Forecast	2020 Q1	0.9%	y-on-y	↓
Make UK Pay Settlements	2020 Feb	2.5%	3m-on-3m	↔
Average earnings – manufacturing	2020 Feb	2.9%	3m-on-3m	↑
Average earnings – whole economy	2020 Feb	3.2%	3m-on-3m	↓
UK ILO Unemployment rate	2020 Feb	3.8%	%	↔
CPI inflation	2020 Feb	1.8%	y-on-y	↑
RPI inflation	2020 Feb	2.7%	y-on-y	↑
UK Consumer Confidence Index	2020 Feb	-7	index	↑
Index of Production	2020 Feb	-0.1%	m-on-m	↑
Index of Manufacturing	2020 Feb	0.3%	m-on-m	↑
UK Trade - Goods balance (£billion)	2020 Jan	0.84	Level	↑
Business Investment growth	2019 Q4	-1%	q-on-q	↓
Manufacturing Investment growth	2019 Q4	-4%	q-on-q	↔
UK Debt to GDP level	2019 Q3	84.2%	GDP %	↓
UK Current Account Balance % of GDP	2019 Q4	-2.8%	GDP %	↔

Sources: ONS, Markit, GfK NOP and Make UK

[makeuk.org](https://www.makeuk.org)

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