

Round up

UK Manufacturing PMI lowest in 28 years

The UK manufacturing Purchasing Managers Index (PMI) dipped to 32.6 in April, the lowest value reported since records began almost 30 years ago.

The crisis brought forth by COVID-19 has laid bare to not only how vulnerable manufacturing supply-chains are but also its strategic importance in maintaining economic activity during such crises. According to the data, last month saw waves of decline across output, orders and employment giving policy makers their first real indication of the economic impact – this is enforced by an even larger decline in the Services PMI. Finally, vendor lead times once again increased as a consequence of logistical problems created by various lockdown measures applied by different countries.

Business sentiment for the near future continues to be low following our previous bulletin but many are increasingly confident that economic activity will return should the impact of the virus and lockdown measures ease.

Manufacturing
PMI was
32.6
in April

GDP declines at fastest rate since financial crisis

GDP fell by

2%

in Q1 2020

As expected this week's steep decline in UK GDP for Q1 somewhat mirrored the decline of UK PMIs, for both manufacturing and services. Despite a relatively normal period of economic activity between January and February, a time where COVID-19 appeared distant, the level of shutdowns alone in March was significant enough to contract the economy at a level not seen since the finance crisis.

However, breaking down the data does reveal unique insights. For example, the biggest contributor to the decline in manufacturing production were the transport equipment and machinery equipment sectors, declining 1.4% and 0.6% respectively. In contrast, basic pharmaceuticals expanded by 0.7% reflecting the sectors increasing importance during a pandemic.

Eurozone PMI worst since financial crisis

The Eurozone PMI similarly declined in April as manufacturing supply-chain disruptions in the most severely impacted countries affects neighbouring countries too. The latest results reported declines in output, orders and employment. Worryingly, producers of investment goods across the Eurozone reported the biggest declines in output which reflect the weak sentiment towards capital investments.

However, at the time of writing, a number of the worst hit countries with the most stringent policies now have plans to ease lockdown – namely Italy and Spain. For example, Spain has outlined a phase one process which will enable citizens to return to live cultural events, subject to limits on gatherings. The outcomes of such plans could prove to be a good indicator of how other countries should relieve its own lockdown measures overtime.

Eurozone
manufacturing PMI
fell to
33.4
in April

Unemployment creeping upwards

Unemployment
increased to

4%

The rise in unemployment is to be expected given businesses in many parts of the economy lack the means to pay their workers as demand for goods and services dissipates.

However, thanks to the government's Job Retention Scheme – a scheme which shields wage costs for employers by subsidising 80% (or up to £2,500 per month) of each furloughed worker's salary – unemployment has not substantiated to the levels that would have occurred in the absence of this scheme. Hence, the news which extends the schemes expiration will be seen as welcome news to many. Yet, the long-term threat of rising unemployment remains if manufacturers do not see orders return.

Economist's Comment

Much like the financial crisis few were able to predict the dire situation the UK, as well as numerous other countries would find themselves in due to COVID-19. Many economists had even attempted to proxy one event for the other as a means of forecasting the long-term economic impact on the UK. However, it has become increasingly clear that these crises stand individually as two different types of animals and the current pandemic's financial impact will be difficult to ascertain without more information.

As it was mentioned last month unprecedented levels of government interventions have resulted since the start of this crisis. A number of these interventions have been welcomed by the business community as a means to support cash-flow problems for manufacturers, who despite being qualified to operate under the circumstances have seen orders and output decline substantially. Many of Make UK's members have taken advantage of the various schemes – such as the Coronavirus (Large) Interruption Loan Scheme and the Job Retention Scheme – which has fortunately mitigated, or possibly delayed the economic impact of COVID-19. As opposed to what the impact might have been in the absence of these interventions – the value of which will be challenging to quantify.

In spite of the challenges ahead there is still much work to be done in other areas, such as negotiating an adequate Free Trade Agreement (FTA) with the EU. However, the lessons learned from the current pandemic should play a role in defining what matters for frictionless trade, particularly for manufacturing as supply-chain vulnerabilities have undoubtedly now been exposed. There will be questions raised on whether the meaning of an FTA is only about being tariff/quota free given during a crisis the free movement of goods does little to promote trade. For example, this could include ensuring air or shipping freights are still always accessible. Indeed, one of Make UK's key asks to the government is to undertake a study which will clearly map out manufacturing supply-chains and identify those vulnerabilities.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2020 Q1	-2%	q-on-q	↓
UK Manufacturing PMI (Index)	2020 Apr	32.6	index	↓
UK Services PMI (Index)	2020 Apr	13.4	index	↓
Eurozone Manufacturing PMI (Index)	2020 Apr	33.4	index	↓
Annual GDP Forecast	2020	-7.9%	y-on-y	↓
Make UK Pay Settlements	2020 Feb	2.5%	3m-on-3m	↔
Average earnings – manufacturing	2020 Apr	2.1%	3m-on-3m	↓
Average earnings – whole economy	2020 Apr	2.9%	3m-on-3m	↓
UK ILO Unemployment rate	2020 Apr	4%	%	↑
CPI inflation	2020 Apr	1.5%	y-on-y	↓
RPI inflation	2020 Apr	2.6%	y-on-y	↑
UK Consumer Confidence Index	2020 Apr	-33	index	↑
Index of Production	2020 Apr	0.1%	m-on-m	↓
Index of Manufacturing	2020 Apr	0.5%	m-on-m	↑
UK Trade - Goods balance (£billion)	2020 Apr	-11.48	Level	↓
Business Investment growth	2020 Q1	0%	q-on-q	↑
Manufacturing Investment growth	2019 Q4	7.4%	q-on-q	↑
UK Debt to GDP level	2019 Q4	85.4%	GDP %	↑
UK Current Account Balance % of GDP	2019 Q4	-1%	GDP %	↑

Sources: ONS, Markit, GfK NOP and Make UK

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