

# UK Manufacturing

Official data indicated that severity of recession in UK manufacturing sector deepened in January, and the PMI suggests weakness will persist

Today saw the release of official figures on the performance of the UK manufacturing economy, with the latest Office for National Statistics (ONS) data highlighting the increasing weakness of the sector. The official data showed that output fell some 2.9% in January compared to December, more than double the decline expected by economists (Reuters poll of analysts predicted a fall of 1.4%). On the year, output declined by a considerable 12.8%, the worst contraction since January 1981.

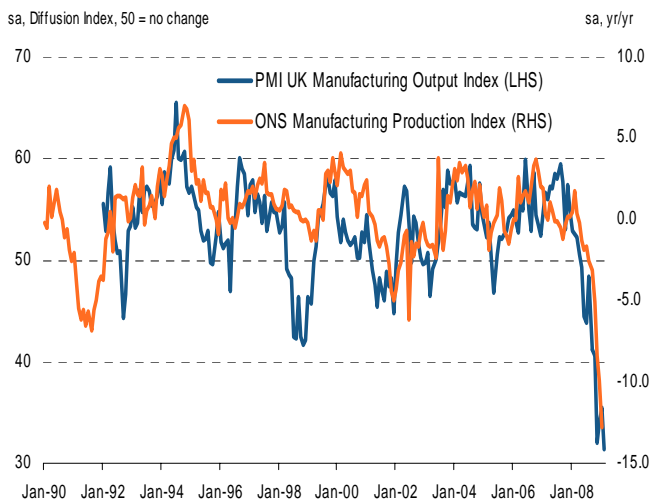
The CIPS/Markit UK Manufacturing PMI Output Index suggests that weakness has persisted into February and possibly beyond. The PMI Output Index in fact points to an even more severe annual fall in production in the near-term (the Output Index hit a new series low in February of 31.4). Taken literally, the PMI figures suggest an acceleration in the annual rate of decline towards 15% and closer to the series record fall of nearly 17% seen at the end of 1980.\*

Both the PMI and official data confirm that the UK manufacturing economy is now probably in the midst of its worst downturn since World War II. The scale by which the deterioration has occurred has been surprisingly steep: having registered relatively strong growth prior to the onset of the credit crisis, the PMI Output Index has lost twenty-eight points over the past eighteen months (from 59.4 to 31.4).

While the downturn is occurring at a time of sharp currency depreciation, which under normal conditions would provide a fillip to UK manufacturers, the scale and breadth of the global downturn has seen demand from key trading partners such as mainland Europe and the US dwindle sharply. This is currently proving to be a much stronger drag on exports than the boost to competitiveness provided by weak sterling. February's CIPS/Markit PMI showed that new export orders placed with UK manufacturers declined at a rate only just shy of December's series record. Coupled with extremely weak domestic demand, and evidence of continued inventory-write down in the sector (stocks of finished goods were pared back at a near survey record pace in February), there is little evidence to suggest any improvement in the sector's prospects in the near-term at the very least.

*\*the official ONS manufacturing output series began in 1968.*

**Chart 1: CIPS/Markit UK PMI Manufacturing Output Index versus ONS Manufacturing Production**



Sources: ONS, Markit Economics

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