



BERENBERG
PARTNERSHIP SINCE 1590

MACRO NEWS

01/03/17

Kallum Pickering, Senior UK Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

UK PMI MANUFACTURING SIGNALS SOLID GROWTH IN FEBRUARY DESPITE SMALL SLIP

Berenberg Macro Flash

A rising tide lifts all boats: The UK manufacturing PMI slipped a little in February to 54.6 (exp. 55) after hitting a two and a half year high in December (55.9). Nonetheless, the data were strong across the board. Output and orders rose solidly as UK producers benefitted from growing demand at home, and critically, from abroad, as new export orders rose for the ninth consecutive month – a signal that the cyclical upturn in global demand is building momentum. The headline number was well above the long-term average of 51.6. The survey reported solid demand for labour and increased capital investment. While input costs remained at a high level, they dipped from the January high. Today's PMI data follows the European Commission's upbeat industrial sentiment data for February published on Monday – see chart.

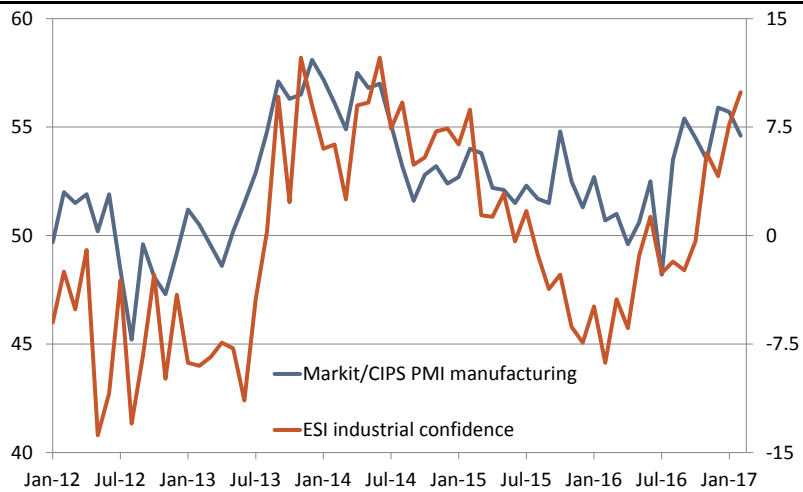
Finally, some light at the end of the tunnel for UK producers: Held back by sluggish global demand and a strong sterling, the UK industrial sector did not grow at all in the five year period to Q4 2016. But the tide has turned. Driven by solid domestic demand and the cyclical upturn in global demand that began in H2 last year, and now compounded by the Trump led pick-up in demand from the US, the UK manufacturing sector is on track for strong start to the year and a solid year ahead. Manufacturing is the biggest sub-sector of industrial production which makes up around 15% of overall GDP. The stage is set for the UK's laggard sector to finally make a positive contribution to growth, and, possibly, encourage a much needed rebalancing toward production away from consumption.

The pros and cons of the weak sterling: While the more competitive exchange rate can boost demand for UK products it is a double-edge sword for some manufacturers. On a trade-weighted basis, sterling has depreciated by 12% since the Brexit vote. While a weaker exchange rate is a positive for export demand, it raises input costs. This rise in input costs will squeeze margins and could limit the extent to which some exporters can pass the gains from a more competitively priced sterling onto foreign consumers. This problem is likely to be especially prevalent for producers who buy inputs in dollars – cable is down 17% since the Brexit vote. But net-net, the weak sterling should have positive impact on UK exports over time. In particular, the depreciation of sterling against the euro plus the continued stable recovery in the Eurozone should support a recovery in industrial production. Demand from the Eurozone already started to improve during the middle of 2016 following a five-year period of declining exports to the Eurozone that began during the euro crisis.



MACRO NEWS

PMI manufacturing versus ESI industrial confidence



Source: Markit/CIPS, European Commission

Index	FEB	JAN	DEC	NOV	OCT	SEP
Manufacturing	54.6	55.7	55.9	53.5	54.5	55.4

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co. KG
 60 Threadneedle Street
 London EC2R 8HP
 Phone +44 20 3207 7878
www.berenberg.com
Karlum.pickering@berenberg.com