

United Kingdom

Manufacturing PMI highlights two-speed economy

- **PMI rises to 51.9 in July but remains weak by historical standards**
- **Data consistent with a further fall in manufacturing output**
- **Surging demand for consumer goods contrast with falling orders for investment goods**

Manufacturing looks set to act as a drag on the UK economy again in the third quarter, as goods producers are hit by the strong pound, weak global demand and waning business investment. However, rising consumer spending, buoyed by low inflation and falling fuel bills, continues to act as a boost to the goods-producing sector and the wider economy.

The Markit/CIPS Manufacturing PMI rose from 51.4 in June to 51.9 in July. However, the latest reading is only marginally above the average of 51.7 seen in the second quarter, which had been the lowest quarterly average for two years, suggesting that the manufacturing economy remains very much in the doldrums. With official data showing that manufacturing output contracted 0.3% in the second quarter, contrasting with a robust 0.7% service sector expansion, the survey data indicate that the goods-producing sector is continuing to dampen economic growth at the start of the third quarter. Although above 50.0, the current output index reading is consistent with a 0.1% decline in manufacturing output (see chart).

Investment v consumption

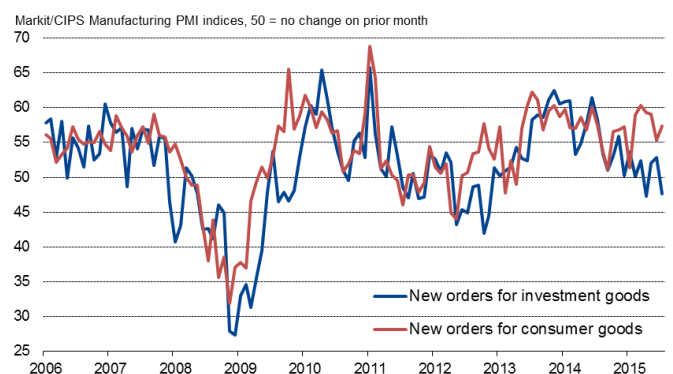
New orders for consumer goods continued to surge in July, contrasting markedly with a downturn in orders for machinery and equipment. The data therefore sow further seeds of concern that the economic recovery remains all too dependent on consumer spending to drive growth and suffers from a lack of business investment, which is widely regarded as being essential for boosting productivity and raising long-term growth.

The new orders index for consumer goods rose to 57.4, matching its average in 2015 to date. The new orders index for investment goods, on the other hand, fell to 47.7, and has averaged just 50.8 in the year so far.

UK Manufacturing Output



Manufacturing orders



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