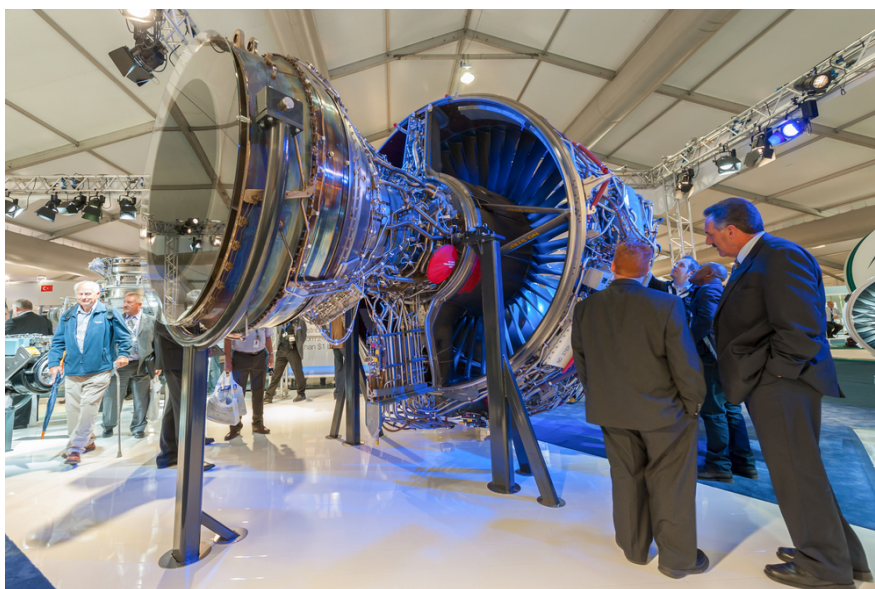


Brexit worries mount for UK manufacturing

A larger than expected fall in the UK manufacturing PMI highlights the concerns of a sector so reliant on complex supply chains. Precautionary Brexit inventory building ahead of 29 March is driving any growth



Push and pull from Brexit

The UK purchasing managers index for the manufacturing sector has fallen more than expected to stand at 52.8 in January versus 54.2 in December and is below the 53.5 consensus forecast. Nonetheless, it is important to remember there is still growth given the index is above the break-even 50 level.

Both orders and output slowed, with the fact that there is still at least some positive growth almost certainly down to the biggest reading for inventory building in the survey's 27-year history. Manufacturing is so reliant on complex supply chains that precautionary inventory building is a necessity. After all, we are so close to Brexit day and an economically disruptive 'hard' Brexit remains firmly on the table. The fact that the overall reading wasn't stronger suggests that final demand for finished products is subdued.

The trends of UK business hunkering down to protect themselves from disruption is likely to mean that inventory building continues. With auto manufacturers announcing factory closures for April (bringing forward annual retooling) it implies that the manufacturing output numbers will continue to soften over the next few months irrespective of what sort of Brexit agreement is made.

With business optimism slipping to a 30-month low, a recession in the manufacturing sector therefore looks increasingly likely. Note, too, that today's survey saw a fall in employment for only the second time since mid-2016. As such, the prolonged nature of getting an agreement on the UK's withdrawal from the EU is further diminishing the chances of a Bank of England rate hike this year.

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