Brexit woes mount for UK manufacturers

Manufacturers are continuing to build supplies in a bid to insulate themselves against the risk of a 'no deal' Brexit, and the sector is likely to face further challenges as we inch closer to 29 March

Source: istock

As we enter the final countdown to the 29 March deadline for the UK to leave the European Union, the UK manufacturing PMI has slipped back further as Brexit preparations accelerate. The current index reading – 52.0 – does mean the sector is still narrowly expanding, but make no mistake, the underlying details make it clear that this is only because firms are building up inventory ahead of Brexit.

That said, we are sceptical that this stock-building activity will do much to boost overall economic growth. Warehousing availability in the UK is relatively scarce, having been utilised by the rapid growth in online shopping over recent years. Where there is capacity to build supplies of inputs/finished goods, by definition much of this is likely to involve additional imports, so the impact on domestic demand growth is likely to be fairly modest. More broadly, the challenges facing the manufacturing sector are likely to grow over coming weeks.

Manufacturing sector challenges are likely to grow

While an extension to the Article 50 negotiating period is becoming more likely, we are unlikely to know for sure until much closer to the 29 March deadline. If the Prime Minister's deal is rejected on (or before) 12 March, then it won't be until 14 March until MPs get a vote on delaying Brexit. It will take a few more days still for Theresa May to return to Brussels and seek the necessary unanimous approval from EU leaders.

In the meantime, we think there's an increased risk that manufacturers find their day-to-day operations affected by the threat of 'no deal'. For instance, it may become increasingly tricky/costly to arrange cross-border shipments. According to the supply chain publication Loadstar, 85% of the lorries that operate on the major Dover-Calais shipping route are EU-based. Given that there is a real risk of lorries getting stuck in the UK in the event of no-deal, there's very limited incentive for these haulage firms to take UK-bound jobs in days running up to 29 March.

> The upshot is that first quarter growth is likely to be fairly weak, and we'll be watching next week's services PMI closely to see whether the sector – which is the major driver of economic activity in the UK – has entered contractionary territory.

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