

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.

Author

James Smith

Developed Markets Economist

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.