Sharp fall in UK manufacturing drags growth lower

The UK economy contracted during April, although unsurprisingly this was down to a sharp fall in manufacturing production. Most of this should only prove temporary, although rising uncertainty surrounding Brexit and the growing likelihood of an autumn general election means the Bank of England is unlikely to raise rates in 2019

Source: iStockphoto

At face value, the latest UK growth numbers for April look dreadful. Real GDP fell by 0.4% on the month, although this is almost entirely down to a Brexit-related correction in manufacturing.

UK-based firms significantly built levels of inventory during the first quarter, and while by definition much of this was sourced from Europe, UK manufacturing production also received a temporary boost. But as it became clear that the 'no deal' risk had been postponed with the Article 50 extension, firms began to grapple with what to do with all the extra stock. As the PMI indicators have also signalled, first and foremost this has meant a fall in production, which declined by 3.9% month-on-month – the sharpest such fall since 2002.

It's also worth noting that several firms said they were planning to bring forward their annual shutdown to April. This period, which typically lasts for two weeks over the summer to allow time for co-ordinated vacation as well as factory refitting/retooling, was made earlier in some cases to insulate against the initial impact of a 'no deal' exit.

All of this raises the possibility that growth could come in negative for the second quarter as a whole, but either way, it should largely prove temporary. That said, the wider growth story continues to look fairly bleak. While consumer spending may be a little stronger given the modest improvement in real wage growth, investment is likely to continue falling over the summer as Brexit uncertainty weighs on decision-making.

> We therefore think it is unlikely that the Bank of England will hike rates during 2019, although we'd continue to flag that recent hawkish commentary from Governor Mark Carney suggests that a November move shouldn't be 100% ruled out if Article 50 is extended further.
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> In reality though, rising concerns about a possible 'no deal' Brexit, as well as the growing likelihood of a general election in the autumn, make it more likely that the central bank remains on hold through this year.

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