

## Trouble ahead for UK manufacturers as April PMI dips

As firms continue to make preparations for a possible 'no deal' Brexit in October, the outlook for manufacturing looks challenging. This is one reason why we don't expect a Bank of England rate hike this year



Source: istock

Stockpiling had been the key theme in UK manufacturing over recent months, as concerns rose about the possibility of an imminent 'no deal' Brexit. Recent PMI surveys had suggested that firms were building inventory at an unprecedented rate – faster in fact than any G7 economy has experienced in the survey's history.

But now that Article 50 has been extended and the immediate risk of 'no deal' postponed, this stockpiling activity has eased slightly according to the latest survey data. This helped take the manufacturing PMI from 55.1 in March to 53.1 in April. So what should we make of all of this?

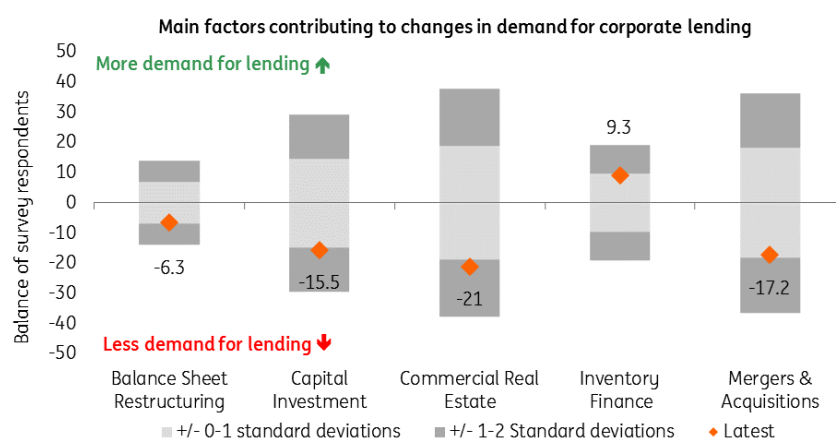
### **1 Stock-building may not translate into significant GDP boost**

Firstly, it's worth remembering that, as with all PMI-style data, the survey only really tells us about the number of firms boosting inventory, but not necessarily by how much. With that in mind, we'd caution that the recent stock-building flurry may not have translated into a significant boost to

activity when looking ahead to GDP data next week.

Anecdotal evidence indicates that warehousing availability is structurally low in the UK, which may have limited the ability of some firms to boost supplies significantly. The Bank of England's credit conditions survey also tentatively suggests that the demand for inventory finance didn't increase by an unprecedented amount either. That suggests that either firms financed the extra stock using cash reserves, or that they did less inventory building than the PMI surveys suggest. Where stock building did take place, by definition much of it is likely to have been imported, so the overall impact on first-quarter demand may have been relatively contained.

## BoE survey suggests demand for inventory finance wasn't unprecedented



Source: Bank of England

Standard deviations based on Bank of England Credit Conditions Survey responses since 2012

## 2 Firms will continue making costly preparations for the 'no deal' risk

Going forward, the outlook for producers looks tricky. We continue to think the risk of a 'no deal' Brexit is relatively low, given that parliament would likely step in to stop it. However businesses have to plan for the worst, and that gives manufacturers a choice. Some may opt to retain their current elevated stock levels, although this doesn't come without cost – be it through financing expenses, or simply the opportunity cost of putting the money at work somewhere else. Others may choose to unwind current stock levels and rebuild them closer to October – although in either case, there are [reports](#) that warehousing space is already in short-supply given seasonal demand ahead of Christmas.

One way or another, the outlook for the sector looks challenging and this is one reason why we expect overall economic growth to remain capped over coming months. We don't currently expect the Bank of England to increase rates this year.

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