

UK manufacturing falters as stockpiling impact unwinds

The stockpiling frenzy of the first quarter is translating into a lull in activity for UK manufacturers in the second. But while this is partly a temporary correction, the sector faces a challenging summer as firms grapple with how best to prepare for a possible October 'no deal' Brexit



Source: iStockphoto

There was a stockpiling frenzy during the first quarter, as firms looked to insulate themselves against the supply-chain disruption of a possible 'no deal' Brexit back in March. By definition, much of this involved EU imports. But given the global nature of modern supply chains, the production data indicates that this process also gave UK-based manufacturers a boost during the first quarter.

So what next? Well in the short-run, the last manufacturing PMI suggests that the sector faces a lull in activity as firms unwind at least some of their excess stockpiles. The PMI slipped from 53.1 to 49.4 in May, indicating contraction. But with 'no deal' fears rising now that the Conservative leadership contest is getting underway, businesses face a tricky decision over coming months. Some may opt to maintain elevated levels of stock ahead of the October deadline, which comes with an opportunity cost. Many others may be forced to unwind stock and rebuild it as we approach the Autumn, although warehousing ability will be again be a major challenge – much of

it is reportedly already booked up ahead of Christmas.

Throw in the impact of global trade tensions, and the sector faces a challenging few months. The immediate slowdown in production will contribute to a lower GDP figure for the second quarter (we're pencilling in 0.2% QoQ), while the weaker investment climate generally will offset some of the better news on consumer spending over the next few quarters.

For this reason, we don't currently expect a rate hike from the Bank of England this year. That said, recently hawkish commentary from Governor Mark Carney suggests that a November move shouldn't be totally ruled out, should the Article 50 period be extended further.

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