UK manufacturing falters despite pre-Brexit stockbuilding

The latest PMI signals that UK manufacturing is being partially boosted by pre-Brexit stock building, although high inventory levels and lack of warehousing space means this effect will be much smaller than before the original March Brexit deadline

Source: istock

At 48.3, the latest Markit/CIPS UK manufacturing PMI is far from cheery. Admittedly this is a little better than expected – and this comes amid some, albeit limited, evidence that firms are rebuilding stocks of inputs ahead of the October 31 Brexit deadline.

Remember back in the first quarter, firms initiated significant stockpiling ahead of the original exit date. And while much of this by definition involved higher European imports, this gave associated UK manufacturing a boost too. It's unlikely, however, any boost will be on the same scale this time around. Inventory levels are still perceived to be fairly high, but also warehousing space is becoming more constrained given the close proximity to Black Friday and Christmas.

While we suspect the recent negativity in the manufacturing data has been to some extent exaggerated by the post-March 31 correction in production, output is also unlikely to meaningfully rebound in the near-term. Alongside all the Brexit uncertainty, the global growth story is also weighing on demand, particularly from the eurozone.

> As always, it's worth remembering that the manufacturing sector represents only around 10% of the UK economy, but the much wider service sector is also coming under pressure. Despite reasonably resilient consumer activity over recent months, investment is falling and this will, in turn, likely reduce demand for associated service-sector activities (professional, finance etc). Putting this together, the underlying pace of UK growth is still likely positive, albeit pretty lacklustre.
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> While we are sceptical the Bank of England will follow the Fed and the ECB towards policy easing right now, all of this emphasises that any prospect of policy tightening is a long way off.

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