

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.

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.

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>.