

## UK manufacturing sinks as firms grapple with 'no deal' stockpiles

UK production is contracting, as the stockpiling frenzy of the first quarter translates into a lull in activity during the second. This will ultimately prove temporary, but the combination of ongoing Brexit uncertainty and global trade tensions means the overarching challenges facing the sector will continue to weigh on activity



Source: istock

At 48.0, the UK manufacturing PMI is at the lowest level for over six years and suggests that the sector will post negative growth through the second quarter. Much of this has to do with the stockpiling frenzy of the first quarter, which saw firms scramble to boost inventory to try and insulate themselves against the possible supply chain disruptions of a 'no deal' Brexit.

Much of this stock will have been imported from the EU, but given the global nature of modern supply chains, this stockbuilding process saw UK manufacturing rise in tandem. The decision to extend Article 50 has meant firms are grappling with how best to deal with all this extra stock – and first and foremost this has resulted in a fall in new orders and therefore production.

We'd expect this trend to continue as we head into the summer months, and this is the main

reason why we expect overall second quarter growth to come in more or less flat. But as we approach the new October Brexit deadline, firms face a tricky decision.

In some cases, firms may look to maintain the level of inventory they are holding, although this is costly (both in terms of storage and the opportunity cost). Companies may also find it harder to source the necessary warehousing space, with much of it reportedly already booked up ahead of Christmas. This means many firms will be forced to destock now and rebuild again as we move into the autumn – according to IHS/Markit, companies have begun reducing holdings of inputs/components.

While these challenges will ultimately prove temporary, the combination of ongoing Brexit uncertainty and global trade tensions means the outlook for manufacturers remains tricky. Partly for this reason, we do not expect any change in policy from the Bank of England this year.

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