

UK: Problems at the ports add extra winter economic challenge

The latest UK PMIs suggest 45% of manufacturing firms are experiencing delays to inbound supplies, reflecting issues at the ports that are likely to be magnified in January as the trading relationship with Europe changes



Port delays causing widespread issues

The key part of the December UK PMIs is not the marginal improvement in conditions - an unsurprising consequence of the unwinding of restrictions earlier this month. Instead, it's the references to the mounting problems at the ports, which according to Markit/CIPS, mean 45% of manufacturers are facing longer wait times on supplies.

This is a problem that has been reportedly brewing for the past few weeks - a combination of pre-Brexit stockpiling (we saw something similar in March 2019 ahead of the original deadline), but also pre-Christmas demand and Covid-19 disruption. The issues have become so acute that some prominent manufacturers have paused production given the lack of parts. According to some reports, the delays are also causing [knock-on effects for UK exports](#) as well as imports.

45%

Percentage of firms reporting longer supplier delivery times

Source: IHS Markit/CIPS

Some initial disruption likely in January, with or without a deal

Of course, the concern will be that these problems will become magnified next month when the UK and EU move to new trade terms. Even under a free trade agreement, which we still think is the mostly likely scenario, there will be major changes for businesses.

One such change are the so-called rules of origin that require a certain percentage of a product to be made in the destination market to qualify for tariff-free access. There is still some uncertainty as to exactly what these requirements will look like next year, if there is a deal.

Given the short amount of time left before the changes kick in on 1 January, a key short-term aspect of any potential deal for businesses will be the number/breadth of any accompanying measures to help limit the initial disruption. As things stand, full customs processes will kick in at European ports in January, while the UK is offering a reprieve for businesses on some elements, including customs declarations.

First quarter GDP still likely to be positive, given Covid-19 volatility

Having said all of this, the reality is that the significant volatility in GDP figures at the moment due to Covid-19 mean we may still end up with a positive first quarter growth figure (although, perhaps not in a scenario where there is a disorderly switch to WTO terms in January).

As for the fourth quarter, the hit to GDP from the latest restrictions may be slightly lower than initially feared. GDP surprisingly grew in October, although this is likely to be followed by a 6-7% slide in GDP in November during lockdowns. We expect a partial, 4-5% rebound in December.

That combined probably puts the fourth quarter contraction closer to -1% than -2%, as we had initially estimated.

Author

James Smith

Developed Markets Economist, UK

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>.