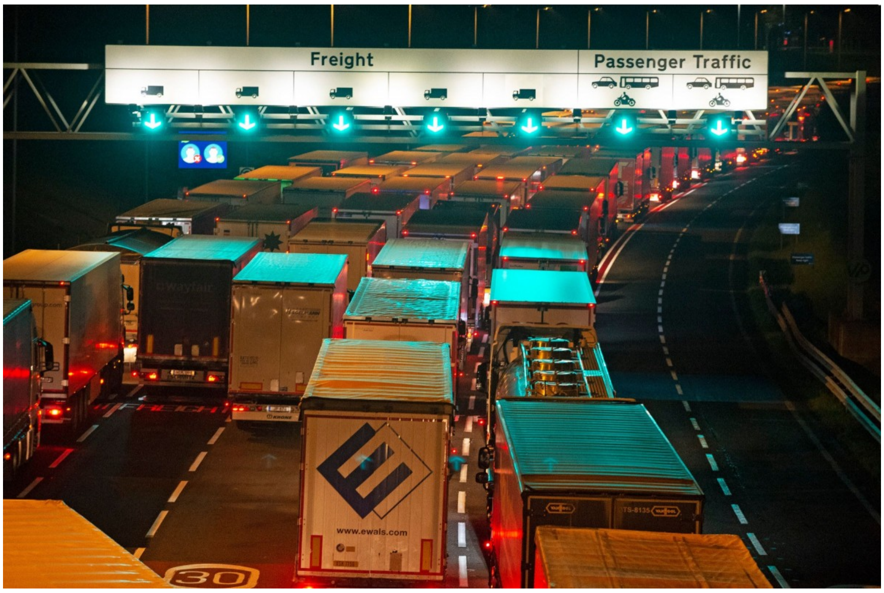
UK: Problems at the ports add extra winter economic challenge

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 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.

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