Economic Monthly Brief
September 2019

Insights into the month's economic news

The Manufacturers' Organisation

Round up

GDP grew in July

The surprising, but welcoming news was that the UK Economy grew by 0.3% in July, avoiding a feared recession, for now. However, there are two points to keep in mind. Firstly, according to the ONS this growth was driven by services, an industry that will be less affected by Brexit in the short-run, but in the long run will experience the repercussions of a shift in economic powers. Secondly, we must await the final outcome for overall growth in 2019 Q3 before it is confirmed if we are in the economic safe-zone (i.e. not a recession) or not.

Nonetheless, manufacturing and construction grew by 0.3% and 0.5% respectively in July. This diverges from a number of survey results, including our own *Manufacturing Outlook Q3* which pointed towards a decline in activity across many dimensions.

GDP grew by
0.3%
In July

PMI at its lowest since 2012

Manufacturing PMI was
47.4
in August

At 47.4 in August, the PMI for UK manufacturing fell to its lowest level since June 2012 which, though concerning, is not so surprising. After months of decline it will come as little shock to business owners who have incorporated their expectations of the economic climate into their activities. Make UK data shows that over the last three months UK manufacturers struggled to run down their stocks following intense stockpiling in Q1 and Q2, as both domestic and international orders fall.

As a consequence, the countdown to Brexit has impacted general expectations for the next quarter. UK manufacturers do not expect to see output and orders rise, as foreign customers begin to move their supply chains away from the UK, regardless of the outcome of Brexit.

Business Investment contracts in Q2

Following on from the above, UK business investment contracted by 0.5% in Q2, returning to a similar series of contractions last seen in 2018. Although the data is yet to be updated for Q2 for Manufacturing investment, as Make UK data reveals, a similar investment narrative is likely to be repeated in the sector.

In Q2, a reduction in investment was the main contributor to the fall in GDP. Many manufacturers have taken a "wait and see" approach to spending due to No Deal uncertainties and are experiencing a lack of room to invest as warehouse capacity becoming increasingly filled. In particular, the automotive industry has seen investment decline year on year as diesel car sales were reported at 1.6% lower than in August 2018. Declining export orders have resulted in UK automotive manufacturers halting their investment plans with little clarity on a future pick-up.

Business Investment down by
0.5%
In Q2

European PMI picks-up slightly

Eurozone PMI increased to
47
in August

The Eurozone saw PMI improve very slightly last month, increasing from 46.5 in July to 47 in August. However, the sector remains in contractionary zones. Greece, Netherlands and France continue to perform well, reporting scores of 54.9, 51.6 and 51.1 respectively. Germany maintains its position as the worst performer, scoring 43.5 as the country saw weaknesses grow across all metrics, particularly in employment levels. Although Brexit will bear some responsibility for the troubles faced by Eurozone manufacturing, global trade wars and a volatile oil price remains a primary concern for many firms, small and large.

Economist's Comment

Recent weeks were perhaps some of the liveliest in UK politics since 2016, with the prorogation of Parliament raising many eyebrows, and the release of Operation Yellowhammer that followed. The latter does not bode well for UK manufacturers either, as it was revealed that delays in the movement of goods from the UK to the EU could last for up to 2.5 days. These delays would shock the flow of goods, and as the average number of goods delivered per day declines, disruption to business activities would escalate. As a result, costs will increase for manufacturers, as well as the incentives for EU customers to seek out new suppliers impacting future cash-flow. If so, then the likelihood of recovery would be slim in the long-run. Nevertheless the silver lining, at least according to Yellowhammer, is that these initial revelations may be short-term.

Manufacturing activities saw a decline as August's PMI has shown. New orders took the biggest hit experiencing a drop, particularly from the perspective of exports. The previous Economic Bulletin highlighted how UK manufacturers failed to benefit from weak exchange rates as they are in the middle of supply chains and do not necessarily export final products. However, this only explains a proportion of the problem. As mentioned above, some EU supply chains have redirected away from the UK due to Brexit uncertainty.

From a global perspective, instability amongst a number of countries continues to keep UK businesses awake at night. Since 2018, the US-China trade war has largely been about emphasising economic dominance rather than protecting industries. As a result, 25% tariffs have been placed on approximately $250 billion of Chinese products, which is scheduled to rise to 30% in mid-October. Of course, China retaliated with its own tariffs in that timeframe. However, this rise will inevitably coincide with an approaching Brexit deadline and poses a relatively greater challenge on UK manufacturers in particular. Additionally, a recent shock to oil prices will surely concern the global manufacturing community as higher fuel prices, and the threat of war, increase the cost of deliveries. How long the higher prices last depends on the speed at which oil-exporting countries respond by ramping up production to benefit from greater revenues. Eventually supply should return to normal levels and the price of oil should revert to its 2019 mean value (around $58).

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q2	-0.2%	q-on-q	↓
UK Manufacturing PMI (Index)	2019 Jul	48.0	index	↔
UK Services PMI (Index)	2019 Jul	51.4	index	↑
Eurozone Manufacturing PMI (Index)	2019 Jul	46.5	index	↓
Make UK Annual GDP Forecast	2019	1.1%	y-on-y	↓
Make UK Pay Settlements	2019 May	2.6%	3m-on-3m	↔
Average earnings – manufacturing	2019 Jun	2.4%	3m-on-3m	↔
Average earnings – whole economy	2019 Jun	3.9%	3m-on-3m	↑
UK ILO Unemployment rate	2019 Jun	3.9%	%	↔
CPI inflation	2019 Jul	2.1%	y-on-y	↑
RPI inflation	2019 Jul	2.8%	y-on-y	↓
UK Consumer Confidence Index	2019 Jul	-11	index	↑
Index of Production	2019 Jun	-0.1%	m-on-m	↓
Index of Manufacturing	2019 Jun	-0.2%	m-on-m	↓
UK Trade - Goods balance (£billion)	2019 Jun	-7.1	level	↑
Business Investment growth	2019 Q2	-0.5%	q-on-q	↓
Manufacturing Investment growth	2019 Q1	-0.4%	q-on-q	↑
UK Debt to GDP level	2018 Q4	86.7%	GDP %	↑
UK Current Account Balance % of GDP	2019Q1	-5.6%	GDP %	↓

Sources: ONS, Markit, GfK NOP and Make UK