

Round up

PMI slips lower from last month

The UK manufacturing Purchasing Managers Index (PMI), a barometer for the health of the manufacturing sector, has dropped to 48.9 in November. This is a slight worsening of the previous month's score of 49.6 in October. These repeated sub-50 scores indicate the continued downturn of UK manufacturing.

Stockpiling activities did not reach the same levels in approach of the October Brexit date as they did in the run up to the March date earlier this year. Regardless, many manufacturers were precluded from stockpiling in this instance as warehouse space has been particularly sparse, as many retailers had pre-booked space in anticipation of the Christmas boom. Destocking activity has resumed as firms begin winding down the stocks they had built up, yet again, in anticipation of a now postponed October Brexit date.

Manufacturing
PMI was

48.9

in November

Domestic orders negative on balance for two consecutive quarters

UK Orders on
negative balance of

-5%

according to our
research

Our recently published Manufacturing Outlook report for the 4th quarter of this year shows the second consecutive quarter of negative balance for UK orders. This is particularly unusual, as under normal economic conditions domestic orders are typically less volatile than export orders. However, Brexit and other political and trade uncertainties have distorted the natural order of the business cycle, with several stockpiling highs followed by stock clearing lows this year, and as such, UK orders now appear to be almost as volatile as export orders.

This Christmas boost was enough to allow the UK economy to narrowly avoid recession, with the economy growing by 0.3% overall this quarter. It had shrunk in the second quarter when stockpiles were unwound after the first Brexit date of March 29th. Two consecutive quarters of contraction would have signalled a recession. Although, while the overall economy has seen marginal growth, the manufacturing sector has failed to grow as boosts in certain sectors were balanced out by falls in others.

CPI down by 0.2%

The latest ONS figures show that the Consumer Prices Index (CPI) for October 2019 has dropped from 1.7% in September to 1.5% in October. CPIH, the measure which includes owner occupier's housing costs was also reported at 1.7% for October.

The largest downwards contribution to the CPIH in October was housing and household services, predominately responsible for the overall decline of CPIH between September and October. Recreation and culture, Furniture and household goods, and Food and non-alcoholic beverages were the other significant negative contributors. On the other hand, the largest positive contributor this month was the Clothing and footwear segment.

CPI reported at

1.5%

in October

Manufacturing jobs remain under siege

Job losses are in
their

8th

consecutive month

According to IHS Markit, manufacturing job losses are in their 8th consecutive month, but even more worryingly, the rate of loss is at its steepest since September 2012. This will come as unwelcome news, particularly for those who are employed in the sector, as the persistent economic and political uncertainty continues to wreak havoc for the sector.

Our own research has this year recorded the highest level of hiring and pay freezes for the manufacturing sector on record.

Economist's Comment

Another decline, albeit marginal, in this month's PMI will be a yet another tiresome reminder for those in the industry who are all too well aware of the struggles it has been facing over the past year. Indeed, 2019 has been a particularly tumultuous year for manufacturing, as the first two quarters of the year saw stockpiling activities reach their highest level ever recorded anywhere in the G7 in anticipation of our original EU exit date of March 29th. Since then, output and order performance have suffered as a result as the early stockpiles have been gradually winding down.

Our newly published research, Manufacturing Outlook 2019 Q4, shows that total orders have managed to remain just positive by virtue of good export performance. The negative performance of domestic orders over the past two quarters signals the vulnerabilities being felt across the international markets. Due to UK manufacturers' deep integration in global supply chains, macro-economic events such as the US-China trade war, a slowing Eurozone and the global growth slowdown all have their own inevitable impact on UK based manufacturing demand.

Some relief has been offered to the metal manufacturing sector this month, as the infamously troubled British Steel looks to have found an investor to keep the business from going under. Initially, there were talks with the Turkish Army's pension fund, although hopes started to fade after these negotiations blew past their agreed exclusivity period. A Chinese real-estate investment firm, Jingye, came to the fore with a £70 million offer which looks set to keep the power on and the furnaces alight. Although this deal is subject to regulatory checks, and as such, remains unconfirmed, the news alone has been enough to boost the prospects of the sector. Our recently published research shows that this quarter the Basic Metals sector has seen a serious improvement from its position in the previous quarter. This boost was also felt in connected industries, such as the Metal Products subsector, which has seen its own output recover into positive territory from the third quarter's negative results.

Although domestic prices are up, manufacturer's margins have remained under pressure. A tight domestic labour market has continued to push wages up, by 2.7% between June and September this year, adding to the cost of doing business and cutting into firm's profit margins.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q3	0.3%	q-on-q	↑
UK Manufacturing PMI (Index)	2019 Nov	48.9	index	↓
UK Services PMI (Index)	2019 Nov	49.3	index	↓
Eurozone Manufacturing PMI (Index)	2019 Nov	46.9	index	↑
Make UK Annual GDP Forecast	2019 Q4	1.3%	y-on-y	↑
Make UK Pay Settlements	2019 Jun	2.6%	3m-on-3m	↔
Average earnings – manufacturing	2019 Nov	2.7%	3m-on-3m	↑
Average earnings – whole economy	2019 Nov	3.6%	3m-on-3m	↓
UK ILO Unemployment rate	2019 Nov	3.8%	%	↓
CPI inflation	2019 Nov	1.5%	y-on-y	↓
RPI inflation	2019 Nov	2.1%	y-on-y	↓
UK Consumer Confidence Index	2019 Nov	-14	index	↔
Index of Production	2019 Nov	-0.3%	m-on-m	↑
Index of Manufacturing	2019 Nov	-0.4%	m-on-m	↑
UK Trade - Goods balance (£billion)	2019 Nov	-12.5	level	↓
Business Investment growth	2019 Q3	0%	q-on-q	↑
Manufacturing Investment growth	2019 Q2	-15%	q-on-q	↔
UK Debt to GDP level	2018 Q4	86.7%	GDP %	↔
UK Current Account Balance % of GDP	2019 Q3	-4.3%	GDP %	↑

Sources: ONS, Markit, GfK NOP and Make UK

For more information: <https://www.makeuk.org/insights/publications/> and https://twitter.com/MakeUK_