Economic Monthly Brief
June 2019

Insights into the month's economic news

Round up

Economic activity expanded in Q1

GDP in the first quarter of 2019 grew by a positive 0.5% after the slowdown (+0.2%) reported in the last quarter of 2018. The overall result was a mix of very divergent performances and a lot of peculiar numbers and one-off effects. The reason behind these peculiarities is mostly related to the initial Brexit deadline of March 29th.

Companies pushed forward their inventories and traders rushed to avoid any potential trade delay or extra tariffs in the event of a no deal Brexit. The stockpiling boost was brought to life in the trade and inventories numbers and on manufacturing production data which jumped by 2.2% in the first quarter.

Consumption also contributed strongly to GDP growth with consumer spending growing by 0.7% in Q1 also thanks to what appeared to be some precautionary spending on item such as pharmaceutical products, toiletries, food and alcohol.

GDP grew by

0.5%

In Q1 2019

Stockpiling activities pushed manufacturing high, but PMI is in negative territory

Manufacturing output grew by

2.2%

in Q1 2019

As highlighted in the previous paragraph, manufacturing had its best quarter for decades. However, this incredible performance was largely the result of stockpiling activity in preparation for the potential Brexit cliff-edge on 29th March. This gave rocket-boosters to several subsectors, particularly those that are highly regulated, for example pharmaceutical (+9.5% in Q1) and chemicals (+3.5%), but also those not usually subject to spikes in performance such as food & drink which grew by 2.7%.

That said, the boost did not benefit every subsector. A clear example was the automotive sector which continued its decline amid Brexit turbulence, global trade wars and declining car registrations. Many automotive firms also moved to 3 and 4 day weeks in anticipation of March 29th related disruptions.

We expect the stockpiling effect to fade away in the next quarter and the latest PMI data for May appears to confirm this with UK manufacturing in negative territory for the first time since the EU exit referendum.

Consumer prices slightly up and wages slowing down

After the first quarter of the year with consumer prices below the 2% Bank of England target, the April reading saw CPI growing by 2.1% thanks to some seasonal effects, such as this year's late Easter, which boosted air fares as well as energy companies reacting to Ofgem caps which heavily affected Q1 numbers.

While CPI picked-up a little, regular wages growth in the three months of March slowed down to 3.3% after the peak registered in January (+3.5%).

Annual CPI growth was

2.1%

in April

European PMI struggle to pick-up

Eurozone PMI was

47.7

in May

After the stockpiling period and artificially high PMI manufacturing results, the UK moved closer to what the other major economies in the EU have already experienced. The eurozone PMI was in negative territory for the fourth month in a row with Germany and Italy in particular pain. News headlines continue to underline how manufacturing output and orders are down, with automotive and industrial goods in a particularly weak period.

However, despite the feeble manufacturing results, composite Eurozone PMI continues to be in positive territory thanks to the service sector which, in spite of slow growth, is still reporting some expansion.

Economist's Comment

We are living a very interesting and in some ways confusing time in terms of data commentary. The UK has just had the best quarter in terms of manufacturing output in decades but we are forced to point out the weaknesses of the manufacturing sector and pencil in a forecast for only a marginal growth in 2019 and 2020.

As we have pointed out so many times in recent months, companies boosted their inventories and accelerated orders and deliveries, with output growing but not demand.

The latest PMI report appears to confirm our concerns. This was the first result not affected by the March and April stockpiling activities boost and it shows manufacturing PMI plunging to negative territory for the first time since 2016. As also detected by our latest *Manufacturing Outlook* export demand was very weak from both Asia and Europe with manufacturers struggling to get new orders, customers seemingly redirecting their supply chain away from reliance on UK suppliers, and the never-ending Brexit process.

In our latest *Manufacturing Outlook,* we revised up our manufacturing output forecast due to the larger than expected boost that stockpiling activities gave in Q1, but we revised down our forecast for 2020. At the sub-sectorial level, marginal growth in 2019 is actually hiding an expected slowdown for the motor vehicles and mechanical equipment sectors, not to mention metals which is suffering from several issues including the British Steel crisis.

These struggles for UK manufacturing could be made worse by growing trade wars and geopolitical instability as well as domestic political changes, following the PM's resignation and the need for her replacement to resolve the ongoing Brexit impasse.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q1	0.5%	q-on-q	↑
UK Manufacturing PMI (Index)	2019 May	49.4	index	↓
UK Services PMI (Index)	2019 May	51.0	index	↑
Eurozone Manufacturing PMI (Index)	2019 May	47.7	index	↓
Make UK Annual GDP Forecast	2019	1.2%	y-on-y	↑
Make UK Pay Settlements	2019 Apr	2.6%	3m-on-3m	↑
Average earnings – manufacturing	2019 Mar	2.2%	3m-on-3m	↑
Average earnings – whole economy	2019 Mar	3.2%	3m-on-3m	↓
UK ILO Unemployment rate	2019 Mar	3.9%	%	↓
CPI inflation	2019 Apr	2.1%	y-on-y	↑
RPI inflation	2019 Apr	3.0%	y-on-y	↑
UK Consumer Confidence Index	2019 May	-10	index	↑
Index of Production	2019 Mar	0.7%	m-on-m	↑
Index of Manufacturing	2019 Mar	0.9%	m-on-m	↔
UK Trade - Goods balance (£billion)	2019 Mar	-13.6	level	↑
Business Investment growth	2018 Q1	0.5%	q-on-q	↑
Manufacturing Investment growth	2018 Q4	-3.4%	q-on-q	↓
UK Debt to GDP level	2017/8	85.3%	GDP %	↓
UK Current Account Balance % of GDP	2018	-3.9%	GDP %	↓

Sources: ONS, Markit, GfK NOP and Make UK

For more information: https://www.makeuk.org/Insights/Reports and https://twitter.com/MakeUK_