Economic Monthly Brief
May 2019

Insights into the month's economic news

Round up

Economic activity and PMI slowing but remain positive

Economic activity remained positive in the three months to February when UK GDP grew by 0.3%. The service sector continues to be the main contributor with growth of 0.4% while computer programming expanded by a whopping 2.6% in the three month period.

Looking at the other main sectors, construction reported a bad performance contracting by 0.6% despite a 0.4% growth month on month in February. On the other hand, production grew by 0.2% thanks to manufacturing rising by 0.4% in the last three months.

Looking at the most recent PMI, manufacturing moved from the 55.1 of March to 53.1 in April. After narrowly avoiding the no-deal cliff-edge twice - at the end of March and in mid-April - companies reduced their stockpiling activities and their output due to feeble customer demand from overseas.

GDP grew by

0.3%

between December and February

Stockpiling activities pushed up manufacturing output in January and February

Manufacturing output grew by

0.9%

in February

After a long period of declining manufacturing activity which lasted for most of 2018, the first two months of 2019 saw a sharp pick-up in activities with manufacturing growing by 1.1% in January and by 0.9% in February, respectively. However, this very good result appears to be the result of stockpiling, with companies preparing for a potential no-deal Brexit which could have happened on 29th March.

Looking at subsectors, electronics continues to build on its great 2018, electricals continues its recovery after a very difficult year, and both food & drink and pharmaceuticals – sectors deeply involved in the stockpiling phenomenon – showed a very good result in the first two months of the year.

Consumer prices below the BoE target at the start of 2019

For the first time since the last quarter of 2016, consumer prices grew less than the 2% Bank of England target. In the first quarter of 2019, the annual growth was equal to 1.9% - a result that surprised analysts with most forecasts having expected slightly higher growth.

The 1.9% result, down from the 2.5% of 18q3 and 2.3% of 18q4, is particularly connected to the slowdown of transport prices since the sharp acceleration in the summer months (+6.1% in August) and also electricity and gas prices which decelerated reflecting the new Ofgem price caps.

Annual CPI growth was

1.9%

in Q1 2019

Consumer confidence stable in negative territory

Consumer confidence was stable at

-13

in April

For the third month in a row, the Gfk consumer confidence indicator remained stable at -13. This negative result is once again deeply affected by consumer apprehensions about the general economic situation despite this being just slightly better than the one reported a month ago – a possible reflection of the Brexit delay which has helped avoid a no-deal situation for now at least. Notably, consumers also reported a lower motivation towards savings which dipped by 8-points in the month.

Economist's Comment

After swerving to avoid falling over the no-deal cliff-edge twice in the last two months, businesses felt relief in April. However, a lot still needs to be done to make sure that this situation will not repeat itself at Halloween, the date the next Brexit deadline has been set by the European Council.

A reflection of the effects of the Brexit uncertainty can be seen in the latest data with the UK economy continuing to grow at a slow pace and a manufacturing sector temporarily boosted by stockpiling activities in the first two months of the year, but now facing a crude reality of falling orders and potential job losses. Particularly concerning are the latest PMI data release suggesting international firms are reshaping their supply chain to divest themselves of their reliance on UK producers. If this is widespread it would mean enormous damage to the UK manufacturing sector.

Even though the PMI index remains in positive territory, the slowdown in stockpiling activity showed the difficult reality that the sector is facing despite official data pointing towards a Europe doing a little bit better than expected in the first months of 2019.

Once again, we recognise that solving the Brexit situation as soon as possible will be crucial for the manufacturing sector with companies tired of waiting for a solution. They are eager to restart their investment and future expansion plans but need clarity on future trade relations first.

The upcoming European Elections on 23rd May will be the next crucial event in the political calendar with parties potentially facing a split electorate. Hopefully, the elections will give a push to parliament and government to work towards a resolution which, three years on from the EU-referendum vote, does not yet appear to be any closer.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2018 Q4	0.2%	q-on-q	↓
UK Manufacturing PMI (Index)	2019 Apr	53.1	index	↓
UK Services PMI (Index)	2019 Apr	50.4	index	↑
Eurozone Manufacturing PMI (Index)	2019 Apr	47.9	index	↑
Make UK Annual GDP Forecast	2019	1.1%	y-on-y	↓
Make UK Pay Settlements	2019 Mar	2.5%	3m-on-3m	↔
Average earnings – manufacturing	2019 Feb	2.0%	3m-on-3m	↑
Average earnings – whole economy	2019 Feb	3.4%	3m-on-3m	↓
UK ILO Unemployment rate	2019 Feb	3.9%	%	↔
CPI inflation	2019 Mar	1.9%	y-on-y	↔
RPI inflation	2019 Mar	2.4%	y-on-y	↓
UK Consumer Confidence Index	2019 Apr	-13	index	↔
Index of Production	2019 Feb	0.6%	m-on-m	↓
Index of Manufacturing	2019 Feb	0.9%	m-on-m	↓
UK Trade - Goods balance (£billion)	2019 Feb	-14.1	level	↑
Business Investment growth	2018 Q4	-0.9%	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_