

Round up

Manufacturing pay stands still

Across the whole economy, average earnings growth indicates how the accruals of GDP are shared amongst the labour market. Most recent ONS data shows, average manufacturing pay (3-month average) growth was 2.4% in July. In the same timeframe economy wide earnings growth was 3.8%. Manufacturing pay has continuously lagged behind, with the gap seemingly growing larger over time, even if manufacturers on average pay their workers 13% more than the average national wage. As a reference point, in 2018 the 3-month average gap in pay growth between manufacturing and the whole economy was approximately 0.5%. This gap is now close to 1.5% on average in 2019.

Manufacturing
average earning
growth at

2.4%

Yet, pay growth in both areas pointed towards an improvement in living standards, as inflation has, until now, remained close to 2%. This partly reflects a tight labour market as the unemployment rate continues to stand at a low 3.8%. However, overall job vacancies fell to 812,000 recently, except in manufacturing which, despite latest data seeing vacancies remain unchanged at 54,000, is overall below the levels seen in January (61,000). This signals a possible loosening of the labour market which may stall average wage growth in the future.

PMI rising due to last minute stock piling

Manufacturing
PMI was

48.3

in September

The UK manufacturing PMI saw a marginal rise from August's 47.4 to 48.3 in September. This could be seen as a sign of optimism from a particular perspective but does not indicate whether it is the beginning of a recovery in manufacturing. Levels of output, new orders, exports and employment fell further. The biggest decline originated from investment goods, as domestic and foreign suppliers hold back buying capital goods amidst global political uncertainties, which include, but are not limited to, Brexit.

Stockpiling activities are resuming as a last minute attempt to shield from the uncertain outcome of Brexit later this month. Although stockpiling is not taking place to the degree observed earlier this year, it is the primary driver of a rise in the PMI in September.

IOP positive at the beginning of Q3

The index of production measures output in a number of industries, including manufacturing. Overall production in July increased by 0.1%, thanks to a rise in manufacturing production which saw an increase of 0.3%. Upon closer inspection of the manufacturing production index, the largest contributions to manufacturing output originated from a growth in pharmaceutical products (3.8%) and electronics (2%). On the other end, chemicals saw the biggest decline in output (-3.1%), as of July.

Index of
Manufacturing
Production up by

0.3%

European PMI falls deeper into contractions

Eurozone PMI fell
to

45.7

in September

After a meagre pick up in activities across the Eurozone in August, manufacturing activities dipped further into contractionary zones, reporting a PMI of 45.7 in September. Investment goods and intermediate goods both deteriorated for producers. Moreover, consumer goods recorded a PMI reading below 50 for the first time since November 2013.

As mentioned in previous bulletins, Germany continues to lead the front lines in poor performance of Eurozone manufacturing reaching a 123-month low of 41.7. The only countries that remain in expansion are Greece, Netherlands and France. However, Greece has experienced a slowdown in growth too.

Economist's Comment

This month has the opportunity to outshine a number of recent newsworthy events as we approach ever closer to leaving the EU. However, whether we secure a deal or an extension is unpredictable due to the current political climate. One thing is for certain, avoiding a no-deal remains a priority for UK businesses. HMRC conservatively estimated that businesses will be hit with an annual £15 billion bill just from filling in customs forms through UK/EU trade. The expected result is higher friction costs for UK manufacturers, leading to trade disruptions that affect firms integrated in both the UK and EU supply-chain. These losses would not be shared equally, as almost half of all UK exports travel to the EU whilst in reverse less than 20% of EU exports travel to the UK.

The PMI remains below the 50-mark, indicating continued weak performance in the manufacturing sector. The data highlighted a rise in stockpiling as manufacturers are once again panic buying in an attempt to mitigate the costs of Brexit. Nevertheless, the weakness in manufacturing performance is not unique to the UK as the Eurozone continues to signal comparably worse results, driven mainly by Germany's automotive sector.

Outside of any domestic causes of uncertainty, global trade tensions continue to damage business. However, September saw both the US and China releasing tariff exemption lists, in an indication that the two juggernauts are willing to resolve trade issues. These include the US exempting Chinese goods in chemicals, textiles, mechanical and electrical equipment and steel, whilst the Chinese allowed exemptions to a number of agricultural products from the US. Although this is far from the ideal scenario, a higher probability of a trade deal reached between the US and China would be welcoming news to manufacturers across the EU. Last month, we saw oil prices hit by a 13% increase in price following damages to Saudi production facilities which had the potential to disturb the cost of goods, resulting in higher inflation. However, Saudi production facilities were able to tap into its inventories and restore supply to normal levels within weeks resulting in a decline in the Brent oil price to approximately \$58 per barrel (as Make UK forecasts predicted).

Data summary

| | Period | Figure | Reference | Trend |
|-------------------------------------|-----------|--------|-----------|-------|
| UK GDP growth | 2019 Q2 | -0.2% | q-on-q | ↓ |
| UK Manufacturing PMI (Index) | 2019 Sept | 48.3 | index | ↑ |
| UK Services PMI (Index) | 2019 Sept | 49.5 | index | ↓ |
| Eurozone Manufacturing PMI (Index) | 2019 Sept | 45.7 | 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 Jul | 2.4% | 3m-on-3m | ↔ |
| Average earnings – whole economy | 2019 Jul | 3.8% | 3m-on-3m | ↓ |
| UK ILO Unemployment rate | 2019 Jul | 3.8% | % | ↓ |
| CPI inflation | 2019 Aug | 1.7% | y-on-y | ↓ |
| RPI inflation | 2019 Aug | 2.6% | y-on-y | ↓ |
| UK Consumer Confidence Index | 2019 Sept | -12 | index | ↑ |
| Index of Production | 2019 Jul | 0.1% | m-on-m | ↑ |
| Index of Manufacturing | 2019 Jul | 0.3% | m-on-m | ↑ |
| UK Trade - Goods balance (£billion) | 2019 Jul | -9.1 | level | ↓ |
| Business Investment growth | 2019 Q2 | -0.5% | q-on-q | ↓ |
| Manufacturing Investment growth | 2019 Q2 | -0.2% | q-on-q | ↓ |
| UK Debt to GDP level | 2018 Q4 | 86.7% | GDP % | ↑ |
| UK Current Account Balance % of GDP | 2019Q2 | -4.6 | GDP % | ↑ |

Sources: ONS, Markit, GfK NOP and Make UK

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