

Round up

Monthly GDP sharply contract in April

The first monthly GDP release, including data for the period after the first Brexit deadline (29th March), showed the artificial boost stockpiling activities gave to the UK, with the economy growing by 0.5% in Q1.

In April, the services sector remained flat, but industrial activities contracted very sharply with production down by 2.7% and construction down by 0.4% after the 1.9% contraction in March.

The particularly bad results for April together along with worrying PMI results in May and June are all pointing towards a very weak – and probably negative – result for the second quarter of the year in the context of weakness and instability also coming from around the globe.

GDP was down by

0.4%

In April

PMI manufacturing down for the third month in a row

Manufacturing PMI was

48.0

in June

After the artificial boost resulting from stockpiling activities in the first quarter of the year, which saw amazing quarterly growth of more than 2%, manufacturing started to contract again showing negative results in both official and survey data.

April ONS data saw manufacturing down by almost 4% in a month with motor vehicles production down by a whopping 24% due, in part, to the decision of a few important producers in the sector to move their annual shutdown period forward from August to April.

PMI data also contracted for the third month in a row with the June release at 48.0, its lowest since February 2013.

Business investment in manufacturing still contracting

According to the latest ONS data, UK business investment remained extremely weak this month with investment across the whole economy growing by a meagre 0.4% after four quarters of deep contraction. The situation for the manufacturing sector is no different, with business investment down by 4.6% in the year and down 0.3% in the quarter.

The latest negative results came despite the pick-up in investment in new buildings, which, as in a mirroring of the trend we saw at the end of 2018, appears to be related to companies preparing to stockpile inputs and finished goods ahead of the next Brexit deadline in October.

Annual business investment in manufacturing is down

4.6%

European PMI struggling to pick-up

Eurozone PMI was

47.6

in June

The UK is not the only country in Europe whose manufacturing sector is struggling. Eurozone PMI continues to be in negative territory reporting an index at a three-month low of 47.6. The two major European economies of Germany and Italy have both been struggling for months with Germany still at 45 despite its 4-month high. Political uncertainty, trade wars, and the industry specific difficulties reported by key sectors, such as automotive, are deeply impacting manufacturing performance. Despite this, the services sector is still performing fairly well.

Looking at the next few months, the weak intermediate goods market in Europe and the UK are a hint that future output is not expected to improve anytime soon.

Economist's Comment

Economic reality has started to knock on the UK's door. After a period of data distorted by precautionary stockpiling activities ahead of the March and April Brexit deadline, the latest official data and the more up to date survey data are telling us that the UK economy is likely to have experienced negative growth in the second quarter of the year.

Manufacturing activities have sharply contracted in April and PMI data are pointing towards a further contraction with very important sectors such as automotive showing numbers in deep red, something which has not been seen for years. Official April data also saw a contraction in the vast majority of manufacturing subsectors, confirming that what we predicted in terms of stockpiling activities in our latest *Manufacturing Outlook* was correct. Companies have taken their feet off the accelerator and many have actually hit the brake quite heavily.

If this was not enough, according to the June PMI one of manufacturing's main clients – the construction sector – fell at the steepest rate since the financial crisis, which points to political uncertainty as the main reason behind a shrinking order book.

These grim data all point toward a difficult mid-year and the situation won't be helped by the ongoing political uncertainty in the UK as the Conservative Party chose the next Prime Minister, whose first crucial task will be solving the seemingly unsolvable Brexit conundrum.

As we have highlighted in recent months, political uncertainty around Brexit are not the only issue that the UK economy and the export-oriented manufacturing sector have to deal with. Geopolitical tensions between the US and Iran; the US-China trade war; a general eurozone slowdown, may all be having an effect on UK business confidence with clear consequences for future investment plans as the data has already plainly shown for a while.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q1	0.5%	q-on-q	↑
UK Manufacturing PMI (Index)	2019 Jun	48.0	index	↓
UK Services PMI (Index)	2019 Jun	50.2	index	↓
Eurozone Manufacturing PMI (Index)	2019 Jun	47.6	index	↓
Make UK Annual GDP Forecast	2019	1.2%	y-on-y	↑
Make UK Pay Settlements	2019 May	2.6%	3m-on-3m	↔
Average earnings – manufacturing	2019 Apr	2.2%	3m-on-3m	↔
Average earnings – whole economy	2019 Apr	3.4%	3m-on-3m	↑
UK ILO Unemployment rate	2019 Apr	3.8%	%	↓
CPI inflation	2019 May	2.0%	y-on-y	↓
RPI inflation	2019 May	3.0%	y-on-y	↔
UK Consumer Confidence Index	2019 Jun	-13	index	↓
Index of Production	2019 Apr	-2.7%	m-on-m	↓
Index of Manufacturing	2019 Apr	-3.9%	m-on-m	↓
UK Trade - Goods balance (£billion)	2019 Apr	-12.1	level	↑
Business Investment growth	2019 Q1	0.4%	q-on-q	↑
Manufacturing Investment growth	2019 Q1	-0.3%	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, IHS/Markit, GfK NOP and Make UK