Economic Monthly Brief
March 2019
Insights into the month's economic news

Round up

Economic activity slowing down

The UK economy hit the brakes in the last month of the year with GDP contracting by 0.4% in December after the good 0.3% expansion in November. Even though the numbers may include some seasonal adjustment distortions related to the more and more pronounced impact of "Black Friday", it is quite clear that economic activity slowed down.

Overall, Q4 growth was 0.2% down from 0.6% of Q3, meaning that the UK expanded by 1.4% in 2018 which is the slowest growth since 2012. The big loser of the year was business investment which saw four quarters of contraction in a row for the first time since the Great Recession of 2008.

The trade picture was also weak with exports growing only by 0.2% in 2018 after the 5.6% expansion experienced in 2017.

GDP grew by
0.2%
in Q4

Manufacturing output down and stockpiling activity at all time high

Manufacturing was down
0.9%
in Q4

The manufacturing sector ended 2018 with a 0.9% expansion, however this result hides a less than great situation. The sector contracted for three of the four quarters of 2018 and the last six months have seen six monthly contractions in a row. Particularly bad is the situation of the motor vehicles sector which contracted by 5% in the last quarter of the year and by 1.8% in 2018 as a whole. The sector is the key customer for several other manufacturing subsectors such as metal products, and for some local areas and regions.

On a brighter note, the electronics sector concluded the year with a whopping 12.4% expansion which accounted for two thirds of manufacturing growth, despite the sector representing only 5% of total UK manufacturing.

Inflation below the Bank of England target

For the first time since January 2017, consumer price annual growth was below the 2% Bank of England target. The slowdown in price growth is related to both the end of the sterling devaluation pass-through effect, and to the oil price reduction that took place in Q4 2018.

The fast wage growth that the market is experiencing (regular wages show an annual increase of 3.4% in the last quarter of 2018) might put some pressure on inflation, however, the main concern for the Bank of England remains Brexit and the effect a no-deal scenario might have on sterling and supply of goods coming from abroad.

Consumer prices annual growth was
1.8%
in January

US top GDP performer in terms of GDP growth in 2018

G7 countries grew on average by
1.5%
in 2018

After the delay related to the 35-days government shutdown, the Q4 GDP release confirmed that the US grew by 2.9% in 2018. This was the fastest growth amongst G7 countries. Last year first place was achieved by Canada, which ended up second this year. The weakest performer of 2018 was Japan which grew by 0.7%.

All the G7 countries, except the US, grew slower than a year ago with an average (not weighted) 2018 growth hovering around 1.5% from the 2.2% of 2017.

Economist's Comment

Time is running out and once again we are here to comment another monthly briefing without a clear situation about Brexit and our future relations with our main trade partner.

The consequences of the uncertainty surrounding this situation are quite clear when looking at our latest *Manufacturing Outlook* results, at other survey results such as PMI, as well as at official data released earlier this month.

The big news coming from our latest release shows a picture where a big chunk of current output is actually related to stockpiling activities rather than actual demand coming from customers. We are not the only one showing this result, indeed the latest PMI report for February showed stockpiling activities at the highest level ever recorded in the UK and in any G7 country.

The fear of uncertainty is also evident in our export order numbers which have not recovered since being halved in Q4 and they are expected to trend downwards even more in the next release. Companies are holding off orders at the moment since they are not sure if their orders will be able to cross the border freely or if they might be stuck at ports.

The situation clearly hit European orders as a reflection of this not business-friendly situation and also of a slowdown of continental Europe's economic activity. Moreover, orders from Asia are also down, with official stats pointing at how China has less appetite for imports of manufactured goods compared to what it had in 2017.

Worryingly, manufacturing is already paying for the situation, with the sector down by 0.9% in the last quarter of the year as a reflection of an extremely weak situation for business investment in the domestic market and a potential disruptive trade situation.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2018 Q4	0.2%	q-on-q	↓
UK Manufacturing PMI (Index)	2019 Feb	52.0	index	↓
UK Services PMI (Index)	2019 Feb	51.3	index	↑
Eurozone Manufacturing PMI (Index)	2019 Feb	49.2	index	↓
Make UK Annual GDP Forecast	2019	1.1%	y-on-y	↓
Make UK Pay Settlements	2019 Jan	2.5%	3m-on-3m	↓
Average earnings – manufacturing	2018 Dec	1.9%	3m-on-3m	↓
Average earnings – whole economy	2018 Dec	3.4%	3m-on-3m	↔
UK ILO Unemployment rate	2018 Dec	4.0%	%	↔
CPI inflation	2019 Jan	1.8%	y-on-y	↓
RPI inflation	2019 Jan	2.5%	y-on-y	↓
UK Consumer Confidence Index	2019 Feb	-13	index	↑
Index of Production	2018 Dec	-0.5%	m-on-m	↓
Index of Manufacturing	2018 Dec	-0.7%	m-on-m	↓
UK Trade - Goods balance (£billion)	2018 Dec	-12.1	level	↑
Business Investment growth	2018 Q4	-1.4%	q-on-q	↓
Manufacturing Investment growth	2018 Q3	4.5%	q-on-q	↑
UK Debt to GDP level	2017/8	85.4%	GDP %	↓
UK Current Account Balance % of GDP	2017	-3.3%	GDP %	↑

Sources: ONS, Markit, GfK NOP and Make UK

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