

Round up

PMI improves but maintains contraction

The UK manufacturing PMI has risen to 49.6 in October, up from last month's result of 48.3. While October's score does mark a 6-month high for the index, it remains below 50, indicating a continued contraction for the manufacturing sector. Downturns in output, new orders and employment have all contributed to this result, and this month's PMI would be even lower if it was not for stockpiling activities that began in the run-up to the October 31st Brexit deadline.

Manufacturing
PMI was
49.6
in October

Stockpiling did not reach the same levels that were observed in the first quarter of 2019, which caused a significant artificial boom in the PMI at the time. Seemingly never-ending uncertainties surrounding Brexit, now compounded by electoral uncertainty too, has weighed heavily on the manufacturing sector. Businesses have scaled back output due to a lack of new orders, particularly from the domestic market.

The Index of Manufacturing remains below par

Output down by

1.1%

in IoM figures

The Index of Manufacturing remains below its pre-economic downturn peak. This month's figures published by the Office for National Statistics (ONS) show that output from the manufacturing sector is down by 1.1% in the 3 months ending August 2019, compared to the previous 3 months. This is the fourth consecutive decline in The Index of Manufacturing, a downward trend that now spans a 12 month period.

The majority of manufacturing sub-sectors contributed negatively to this result, with 11 of the 13 subsectors turning out a poor performance. Food, beverages and tobacco led the decline falling by 2%, having a significant impact on the IoM as the food & drink sub-sector is the largest. Computer, electronic and optical products followed, falling by 3.5%. The transport equipment sector combats the decline with a rise of 5.8% predominately fuelled by growth in the motor vehicles sector that occurred in June 2019.

CPI unchanged from August

The latest ONS figures show that the Consumer Prices Index (CPI) for September 2019 remains unchanged from August at 1.7%. Although the aggregate figure remains the same, there was some internal movement in the composition of the CPI.

CPI reported at
1.7%
in September

The largest downward contributions came from motor fuels, second-hand cars and electricity, gas and other fuels. These were offset by upward trends in furniture, household appliances, hotel stays, recreation and culture items.

Manufacturing jobs under attack

Job losses are in
their

7th

consecutive month

October marks the seventh consecutive month where job losses have been observed in the manufacturing industry. Furthermore, the rate of decline has been at its fastest for the past decade. Poor sales and low confidence both heavily contributed to the loss of these jobs, and prevented the replacement of leavers and redundancies.

Hiring freezes have been taking place as manufacturers are uncertain of their outlook. Sparse order books and diminishing capital reserves have left manufacturers with a low propensity to invest in either new staff or capital, resulting in the loss of staff in attempts to balance the books. Many businesses cite the uncertainty caused by Brexit delays as the reason for their lack of investments.

Economist's Comment

This month's PMI result being in contractionary territory yet again will be of little surprise for those in the manufacturing industry. Although a result of 49.6 would indicate only a minor contraction (50+ is expansion), the reality of this month's PMI is more damning than it seems on the surface. High input purchasing and the build-up of safety stocks have offset the negative effects on orders, output and employment, running up inventory reserves to a 6 month high.

These positive offsetting effects on the PMI are not only temporary, but they are also happening for the wrong reasons. In the run-up to the October 31st Brexit deadline, as was similar to the activity observed before the previous Brexit 'deadline' in the first quarter, manufacturers were panic buying inputs and undertaking huge stockpiles as a means of insuring their business' continuance in case of a supply chain failure. If we were to discount the artificial boost to PMI from these stockpiling activities, the result would be assuredly worse, and sadly a truer to life representation of the situation UK manufacturing is currently facing.

Some relief was offered to manufacturers in the form of diminished price pressures. Input prices stayed unchanged for the month, the first time that they haven't increased in over three and a half years. Manufacturers have had to battle with rising input costs as the Sterling's performance has faltered.

Business confidence is at a 3 month high, however, it remains at some of the lowest levels since confidence data records began in 2012. Unfortunately, as is becoming a trend at the moment, we are not particularly surprised by this owing to the seemingly endless turmoil Brexit uncertainty is wreaking on the sector.

Business investment is in a particularly poor state, as it is not only capital investment has been paralysed but now also labour investment has been put on ice. Jobs are being lost in the industry at their fastest rate in the past decade while hiring freezes have been put in place, indicating that manufacturers are desperately trying to cut costs, and fast. With yet another extension of the Brexit deadline, businesses have learned that a conclusion to their uncertainty is likely quite a way off. Their paralysis is evident in their lack of business spending and the sector is longing to get back to normal business patterns.

Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2019 Q2	-0.2%	q-on-q	↓
UK Manufacturing PMI (Index)	2019 Oct	49.6	index	↑
UK Services PMI (Index)	2019 Oct	49.5	index	↓
Eurozone Manufacturing PMI (Index)	2019 Oct	45.9	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 Oct	2.5%	3m-on-3m	↑
Average earnings – whole economy	2019 Oct	3.8%	3m-on-3m	↔
UK ILO Unemployment rate	2019 Oct	3.9%	%	↑
CPI inflation	2019 Oct	1.7%	y-on-y	↔
RPI inflation	2019 Oct	2.4%	y-on-y	↓
UK Consumer Confidence Index	2019 Oct	-14	index	↓
Index of Production	2019 Aug	-0.6%	m-on-m	↓
Index of Manufacturing	2019 Aug	-0.7%	m-on-m	↓
UK Trade - Goods balance (£billion)	2019 Aug	-9.8	level	↓
Business Investment growth	2019 Q2	-0.4%	q-on-q	↔
Manufacturing Investment growth	2019 Q2	-22.5%	q-on-q	↓
UK Debt to GDP level	2018 Q4	86.7%	GDP %	↔
UK Current Account Balance % of GDP	2019 Q2	-4.6%	GDP %	↔

Sources: ONS, Markit, GfK NOP and Make UK

For more information: <https://www.makeuk.org/insights/publications/> and https://twitter.com/MakeUK_