

United Kingdom

Supply chain shift signalled as export downturn led by component suppliers

- **UK goods exports fall at steepest rate since 2014**
- **Largest export decline seen among intermediate goods, comprising inputs to overseas companies**
- **Intermediate goods producers also report higher price rises**

The UK Manufacturing PMI survey showed exports falling at the steepest rate for nearly four years in August. As in recent months, the main area of weakness was the export of inputs to other manufacturers abroad, suggesting that foreign companies may be sourcing less from the UK.

Renewed export decline

The IHS Markit/CIPS Manufacturing PMI came in below expectations in August partly due to a renewed fall in exports. Companies reported export orders dropping for the first time since April 2016, with the monthly decline the largest since October 2014.

While the export deterioration came alongside a broader easing of global trade growth to a near two-year low (the [global PMI](#) showed new exports near-stagnant again in August), the UK decline was also notable in being one of the largest of all countries surveyed.

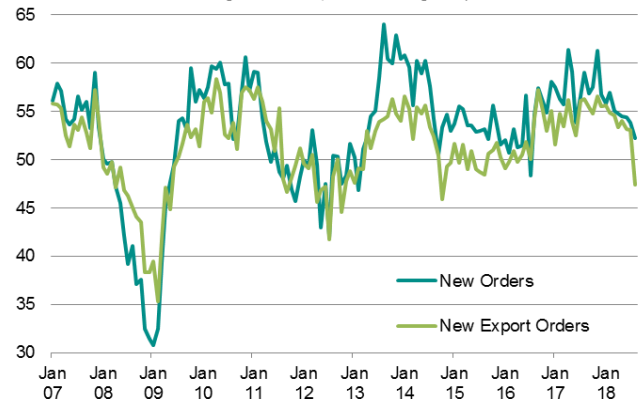
However, a trade-weighted PMI Output Index covering the UK's main trading partners also showed that, although the global demand environment has cooled in recent months, the UK's export climate remains favourable, in part thanks to still-robust growth in the rest of the European Union, especially the eurozone, which accounts for almost one half of UK exports, according to [official data](#). The UK PMI Export Climate Index registered 54.1 in August, down from 57.1 at the start of the year but still above its long-run average (over the past 20 years this index has averaged 53.7).

The decline was also somewhat surprising given the on-going weakness of sterling during the month, which would in theory have helped UK exporters in terms of competitive pricing in overseas markets.

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UK manufacturing order books

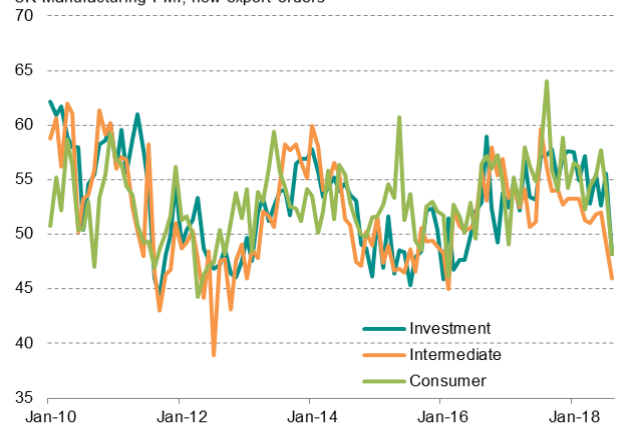
IHS Markit/CIPS Manufacturing PMI indices, 50 = no change on prior month



Source: IHS Markit, CIPS.

UK exports by type of product shipped

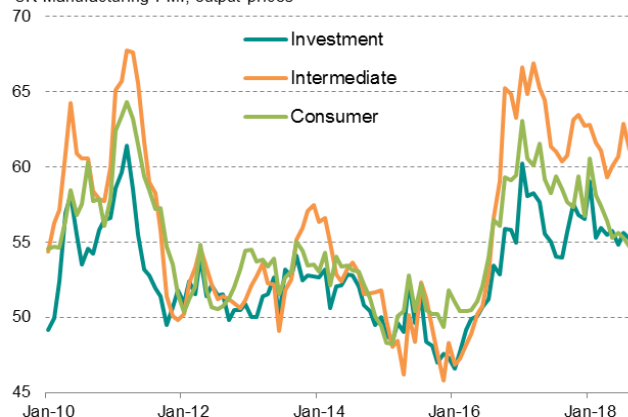
UK Manufacturing PMI, new export orders



Source: IHS Markit, CIPS.

UK manufacturing output prices by type of good

UK Manufacturing PMI, output prices



Source: IHS Markit, CIPS.

Typically, periods when the UK PMI Export Orders Index has underperformed relative to the Export Climate Index have been times of a strong or appreciating exchange rate. The current phase of deteriorating exports amid both a robust export climate and favourable exchange rate is therefore unusual.

Intermediate goods exports see steepest downturn

One potential clue in the relative under-performance of UK exports is found in the detailed PMI data relating to the type of product shipped. We analyse trends according to whether each company produces consumer goods, investment goods (such as plant and machinery) or intermediary goods. The latter comprise inputs and components shipped to other companies for use in the production process. While all three sectors saw exports fall in August, it's the intermediary goods sector which has seen the steepest downturn in export orders in recent months, suffering a second consecutive monthly drop in overseas orders in August.

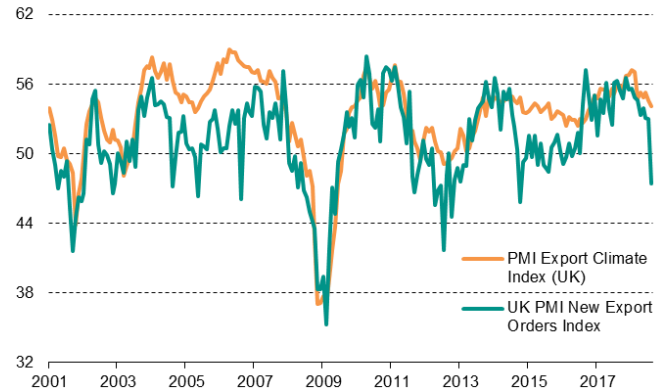
Intermediate goods producers have in fact now seen export orders continually underperform relative to consumer goods and investment goods producers since February 2017 with the exception of just once month (July 2017).

Anecdotal evidence from the latest survey indicated that the relatively poor performance of intermediate goods exports could at least in part reflect changing supply chains amid Brexit worries, with some overseas manufacturers sourcing inputs from other countries ahead of potential Brexit-related trade disruptions and tariffs.

However, the survey also shows that the intermediary goods sector has also reported the steepest rate of increase of selling prices of all three sectors continually since August 2016. For much of the past two years, the intermediary sector has also suffered the steepest rise in input costs. While these selling prices refer to charges levied at both domestic and export customers, it's possible that higher prices are also denting demand and order books.

UK export climate

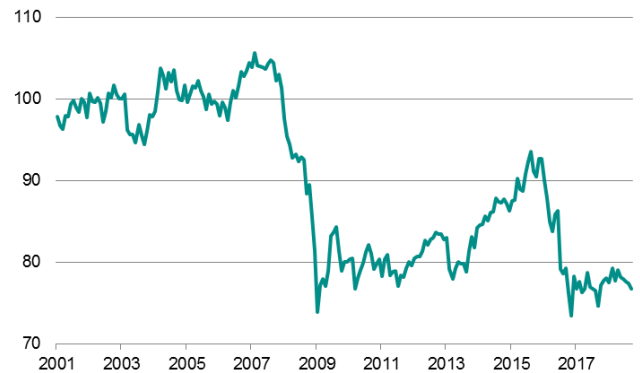
PMI Index (50 = no change on prior month)



Source: IHS Markit, CIPS.

Trade-weighted exchange rate

Sterling broad effective exchange rate

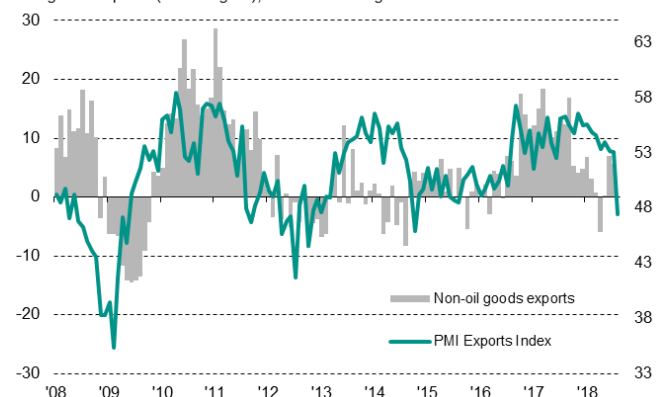


Source: Bank of England, Datastream.

UK PMI exports index v official trade data

UK goods exports (excluding oil), annual % change

PMI Index



Source: IHS Markit, CIPS, ONS.

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