

# United Kingdom

## Export upturn keeps recovery hopes alive

- **Export growth trend hits highest since late-2011**
- **Trade deficit widens as imports rise faster than exports**
- **Industrial production stagnates after surprise fall in manufacturing output in May**

Official data painted a mixed picture of the health of UK industry halfway through the second quarter. Industrial production was flat after a surprise fall in manufacturing output, but the underlying trend remained one of expansion. Furthermore, goods exports rose at the fastest trend rate since late-2011.

The official data therefore support the view from the business surveys, which also indicate that UK industry is benefitting from rising exports. The PMI survey, for example, showed the strongest export gain for almost two years in June and the largest increase in manufacturing output for over two years.

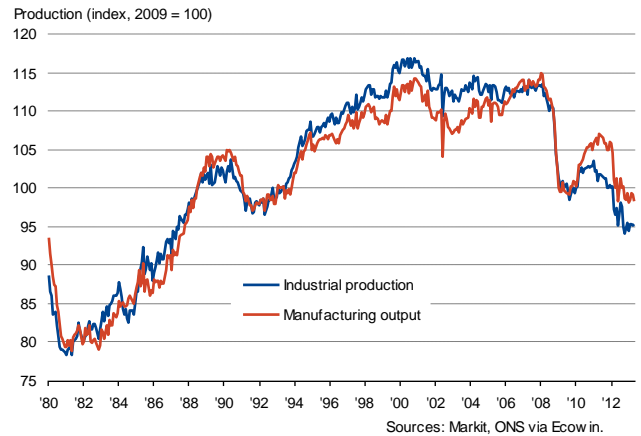
However, these data are also a reminder that the rate of growth in manufacturing remains constrained by relatively weak global demand and that, although exports are rising, the main stimulus to the economic recovery continues to come from the service sector and rising consumption.

As for GDP growth, these numbers will no doubt prompt some of the more optimistic analysts to downgrade lofty-looking projections for the second quarter, with some estimates for quarter-on-quarter growth having risen as high as 0.8% or more. We still believe, however, that the economy is likely to have grown by 0.5-0.6% in the three months to June, a reasonable though unexciting pace.

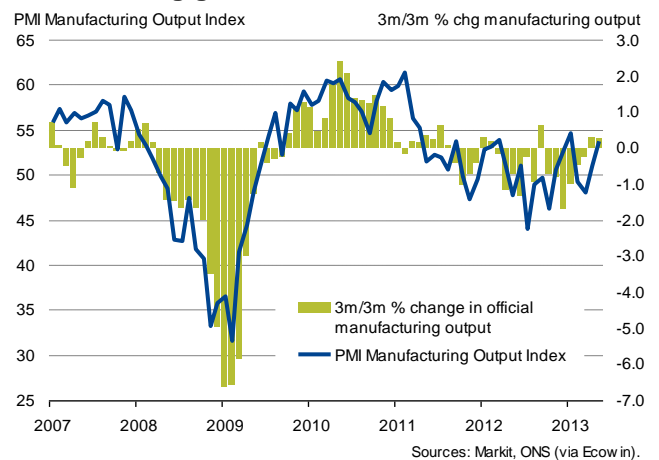
### Industrial stagnation

Industrial production was unchanged in May, defying expectations of a 0.2% increase. Manufacturing output fell 0.8%, the largest decline since January and likewise disappointing economists, who had on average anticipated a 0.3% increase.

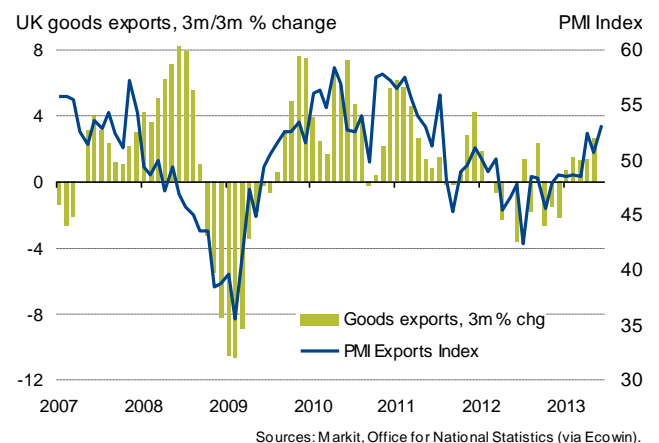
### Output growth trends



### Manufacturing growth trends



### Export growth trends



These are volatile numbers, however, so need to be treated with caution. For example, manufacturing output had surged 0.9% in March before falling 0.2% in April. Taking a look at the change over the latest three months, manufacturing output grew 0.3%. That equalled the rise seen in the three months to April, which was the best rate of expansion since July 2011 with the exception of September of last year.

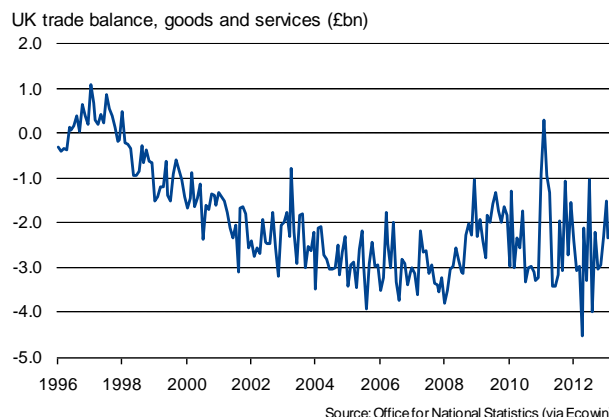
The three-month change in industrial production slowed to 0.2% in May, the worst since January. By contrast, the three-month rate was negative almost continually throughout 2011 and 2012.

### Export upturn

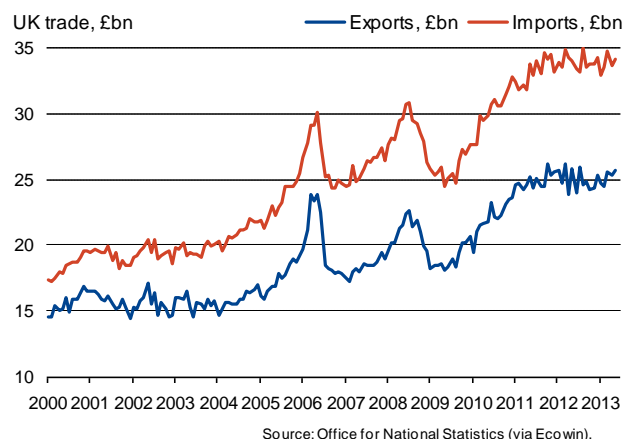
Separate data meanwhile showed that exports of goods and services rose 0.6% in May, fuelled by a 1.5% increase in shipments of goods. Over the latest three months - a better guide to the underlying trend than the volatile monthly numbers - total exports rose 1.9% compared to the previous three months, the strongest rise since last September. Even more encouraging was the 2.7% increase in goods exports over the latest three-month period, which was the best performance since December 2011. By comparison, exports were up just 1.3% in the first quarter.

The downside is that imports also rose, and at a faster rate than exports. That meant the trade deficit widened to £2.4bn in May, the highest since last November. Imports rose 1.4% in May and were up 2.3% in the latest three-month period, which represents the biggest increase since November 2011. However, while bad news for the trade balance, the increase in imports at least supports the notion that demand is starting to revive again in the UK.

### Trade balance



### Imports and exports



## Chris Williamson

### Chief Economist

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

[Click here](#) for more PMI and economic commentary.

For further information, please visit [www.markit.com](http://www.markit.com)