

# United Kingdom

## June upturn fails to change picture of struggling manufacturing sector

- **Manufacturing output falls 0.3% in Q2 despite 0.2% rise in June**
- **PMI surveys show drag on economy continued in July**
- **Oil and gas provides temporary boost to economy**

Manufacturing, hit by the strongest exchange rate since 2007, weak overseas demand and subdued business investment at home, is acting as a drag on the UK economy. The weakness of the sector presents policymakers with a difficult decision as to whether a surging service sector justifies hiking interest rates, or whether growth needs to be more balanced before the economy can safely withstand a tightening of monetary policy.

The output of the manufacturing sector fell 0.3% in the second quarter despite production rising 0.2% in June, according to the Office for National Statistics. However, the data are volatile (May had seen a 0.6% decline), so we shouldn't read too much into June's rise as to whether this represents the start a revival. In contrast, weak survey data in July suggest that the sector continued to struggle as it entered the third quarter. Having accurately anticipated the second quarter downturn, the Markit/CIPS PMI has since pulled up from June's 26-month low, but the July survey still signalled one of the worst manufacturing performances for two years. The subdued survey data suggest that the goods-producing sector will act as a drag on the economy again in the third quarter.

The wider measure of industrial production fell 0.4% in June after rising 0.3% in May, but increased 0.7% in the second quarter on the back of what looks likely to have been a temporary upturn in oil and gas production.

In a reminder of how disappointing the 'recoveries' have been in the industrial sectors, total industrial production and manufacturing output remain some 9.2% and 4.8% respectively below the economy's pre-recession peak seen at the start of 2008. The much-

vaunted UK manufacturing revival remains a distant policymakers' dream rather than a reality and the UK economy remains clearly reliant on the service sector as its primary source of growth.

### UK Manufacturing Output



### Disappointing recoveries



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