

# United Kingdom

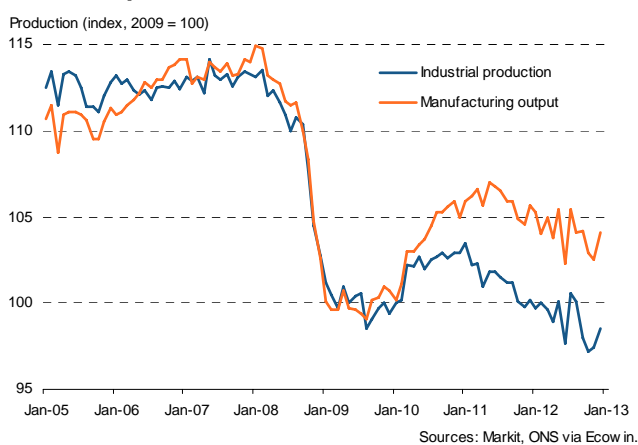
## Signs of economic upturn as production and exports rise in December

- Official data show industrial production rising 1.1% in December
- Exports up by 1.9%, led by 3.0% increase in goods exports
- Data provide better news after a dismal Q4

Manufacturing and trade showed signs of renewed life in December, adding to indications that the UK economy gathered momentum at the end of last year. The improving trends in output and exports mean there is a reduced risk that the country slid into a triple-dip recession, but this of course depends on the momentum being sustained during the first quarter, which is by no means assured.

Industrial production rose 1.1% in December, according to the Office for National Statistics, driven by a 1.6% increase in manufacturing output. The data were better than economists had been expecting, especially in the case of manufacturing, where a mere 0.8% rise had been anticipated. However, over the fourth quarter as a whole, industrial production slumped 1.9%, its biggest fall since the first quarter of 2009.

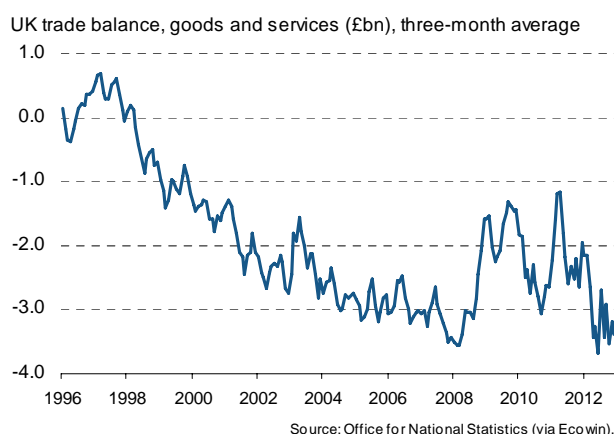
### Industrial production



The quarterly decline was larger than the 1.8% deterioration pencilled in for the initial fourth quarter GDP estimate, which showed the economy contracting 0.3%, but is not in itself large enough to cause a downward revision to GDP.

The increase in production was in part fueled by rising exports. Overseas sales of goods and services rose 1.9% in December, the largest rise for seven months. Goods exports jumped an impressive 3.0%. At the same time, imports increased by just 0.9%, meaning the trade deficit narrowed from £3.577bn to £3.201bn (the goods deficit fell from £9.275bn in November to £8.897bn). However, the deficit remains stubbornly high by historical standards and provides little indication that the UK is successfully rebalancing towards being an export-oriented economy.

### Trade deficit (trend)



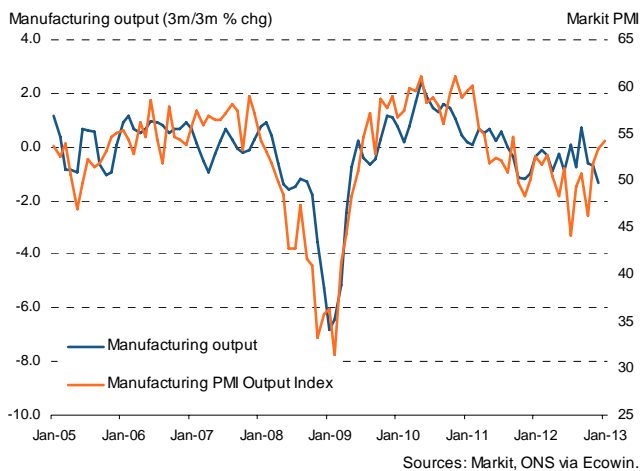
Although the steepness of the overall decline in production in the fourth quarter is a disappointment, the December data are encouraging, especially as further growth is likely in January. Purchasing managers reported that manufacturing output rose for the third month running in January, growing at the fastest rate for 16 months. Exports remained a drag on order book growth, however, suggesting December's surge in the official numbers may prove short-lived, highlighting the ongoing dearth of demand from the eurozone, which is the UK's largest trading partner. However, the business surveys point to an easing in the rate of contraction in the eurozone, as well as firmer demand further afield, including emerging markets, the middle east and the US. We would therefore expect to see UK exporters benefitting from this improvement in demand in coming months, which will support further industrial production growth.

## Policy on hold

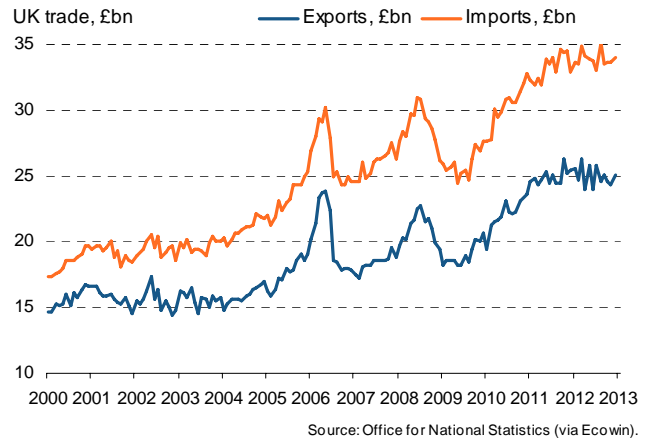
As far as policy is concerned, the healthier-looking flow of economic data in recent weeks means the Monetary Policy Committee will probably maintain its wait-and-see stance as far as additional quantitative easing is concerned, in particular waiting for more information on how the economy performed in the first quarter. The expectation has been that the Funding for Lending Scheme and recent improvement global economic conditions should help lift the UK economy's growth trajectory as we move through 2013, and today's data add weight to this view.

The country is not out of the woods as far as a slide back into recession is concerned, however. Consumer spending remains under pressure from low wage growth and high inflation, and threats to the global economic outlook persist, especially in relation to political tensions driving a renewed escalation of the eurozone crisis.

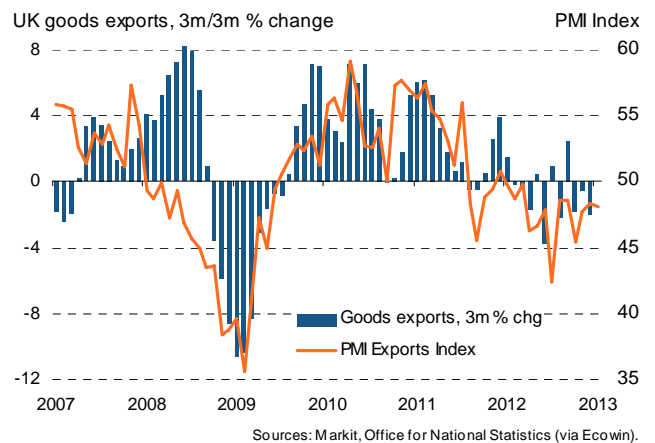
## Manufacturing output



## Imports and exports



## UK goods exports



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