

United Kingdom

Manufacturing output slump contrasts with upbeat business surveys

- **Factory output drops 1.3% in May, industrial production down 0.7%**
- **Manufacturing +3.7% on year ago (+4.3% April)**
- **Factory output +1.1% in latest three months, but up only 0.3% in Q2 so far v Q1**

Britain's factories saw a surprise drop in output in May, which will add to arguments that the recovery remains too fragile for policymakers to be considering any tightening of policy. However, the weakness sits in stark contrast to buoyant business surveys, which show the sector to be in rude health.

The official statistics are also volatile, and the more stable three-month trend rate of growth in the official data remains historically strong at 1.1%, which is broadly in line with the PMI survey. Although down from 1.9% in the three months to April, this easing will not worry policy makers unduly, unless of course it is followed by a further slump in June.

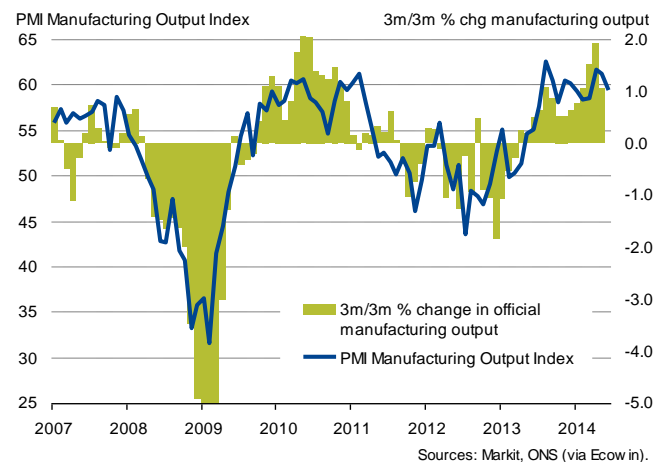
Output slumps while surveys boom

While surveys such as the [PMI](#), CBI and [British Chambers of Commerce](#) survey have signalled robust growth of factory output being sustained in the second quarter, data from the Office for National Statistics showed UK manufacturing output slumping 1.3% in May. Analysts polled by Reuters had been expecting a 0.4% increase.

The decline in May was the largest seen since January 2013 and also contrasted with rising production in prior months. The ONS offered no explanation for the surprise collapse in production, so we suspect the May downturn is a rogue number and the sector will rebound again in June.

The contrast of the weakness of the official data in May compared to the powerful upturn being signalled by recent manufacturing PMI survey data is striking. Although the survey showed a slight easing in the rate of growth of factory output in June, the PMI suggests the sector saw the strongest quarterly growth for two decades in the second quarter. The UK also enjoyed the [strongest improvement in manufacturing business conditions of all 27 countries for which PMI data were available in June](#).

UK manufacturing output



Policymaking puzzle

The [PMI surveys collectively suggest](#) that, with manufacturing growing strongly alongside buoyant construction and services sectors, the economy looks to have grown by 0.8% again in second quarter. However, the ONS data suggest that growth may come in weaker than this. So far in the second quarter, manufacturing is up just 0.3% on the first quarter. A strong rebound will be needed for June to bring the official data back into line with the survey signal of such robust growth being sustained in the second quarter.

Although policymakers will most likely be minded to 'look-through' the weakness in the volatile official data and focus instead on the more positive signals from the various business surveys, these data certainly add more confusion to the policy debate as to whether the Bank of England should start raising interest rates later this year rather than delaying until next year and risk a steeper series of rate hikes.

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