

# United Kingdom

## Industrial production rebounds from August lull, but trend has weakened

- Industrial production up 0.6% in September after 0.1% drop in August
- Factory output growth picks up to 0.4%
- Despite the rebound, pace of growth remains slower compared to earlier in the year

The UK industrial sector rebounded in September after a disappointing August, but the pace of expansion has slowed discernibly since earlier in the year.

### Production rebounds, but trend slows

Industrial production rose 0.6% in September, rebounding after falling 0.1% in August, according to the Office for National Statistics. The increase reflected a 0.4% rise in manufacturing output, which recovered after a disappointingly modest 0.1% rise in August.

The data mean industrial production rose 0.2% in the third quarter, identical to the performance seen in the second quarter but far weaker than the 0.9% rise enjoyed in the first three months of the year. Factory output growth is also clearly trending down, having increased 0.4% in the third quarter compared to a 0.5% rise in the second quarter and a 1.5% growth spurt in the opening quarter of the year.

The official data and the surveys therefore both indicate that manufacturing has shifted down a gear compared to earlier in the year. The Markit/CIPS Manufacturing PMI had indicated a slump in manufacturing output growth to a 17-month low in September. Encouragingly, the PMI has also indicated a revival of growth in October. However, the pace of expansion remains well below that seen earlier in the year.

The slowdown appears to be due primarily to weaker export demand, with the PMI showing the largest fall in exports since the start of last year. The deteriorating export picture is in turn a reflection of sluggish economic growth in key export markets such as the eurozone alongside the appreciation of sterling compared to earlier in the year, which has made UK goods more expensive in many overseas markets.

### UK Manufacturing Output



There are also some signs of demand for goods easing in the domestic market, most notably due to slower growth in the construction sector, especially the housing market.

### Delayed rate rise?

Policymakers have already assumed some moderation in the pace of economic growth compared to the first half of the year, justifying the case for interest rates to remain on hold until next year. However, the increased speed with which the economy slowed in October, with the manufacturing, services and construction PMI data collectively suggesting the [pace of growth slowed to a 16-month low](#), alongside still-muted wage growth and worries about the possibility of another downturn in the euro area, suggests that any first rate hike is likely to be delayed until the second half of 2015.

### Economy still growing at robust pace

Although the ONS had assumed a 0.6% rise in September's industrial production in the first estimate of third quarter GDP, at 0.2% the overall growth of production in the third quarter was revised down from 0.5% due to revisions to July and August production figures. However, the ONS reported that the updated figures would have minimal impact on the 0.7% growth estimate for the economy in the third quarter. The economy is therefore still growing at a fair clip, albeit with a darkened outlook compared to earlier in the year.

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