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Markit Economic Research

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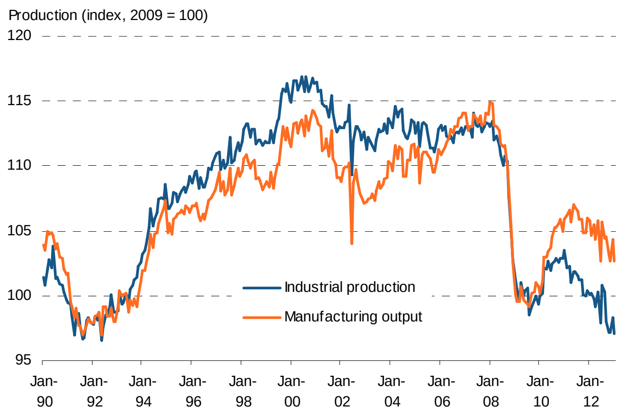
United Kingdom

Industrial production slide adds to 'triple-dip' recession worries

- **Industrial production falls 1.2% in January, reflecting slide in manufacturing output**
- **Exports fall sharply, though signs of firmer overseas demand appear**
- **Data add to worries that GDP will contract in Q1**

Industrial production



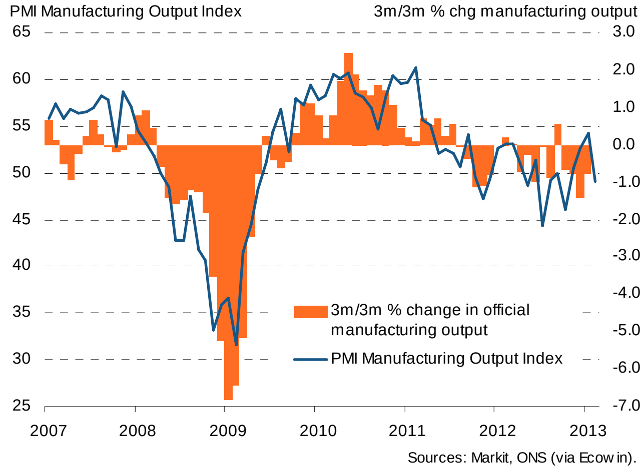
Industrial production suffered a shock fall in January, led down by a steep drop in oil and gas extraction and a slump in manufacturing output. At the same time, goods exports fell sharply.

The decline takes production to its lowest since May 1992 and will pile more pressure on the Bank of England to inject more stimulus into the economy at its next policy meeting, and puts more political pressure on the Chancellor to accept that more needs to be done to boost growth in next week's Budget.

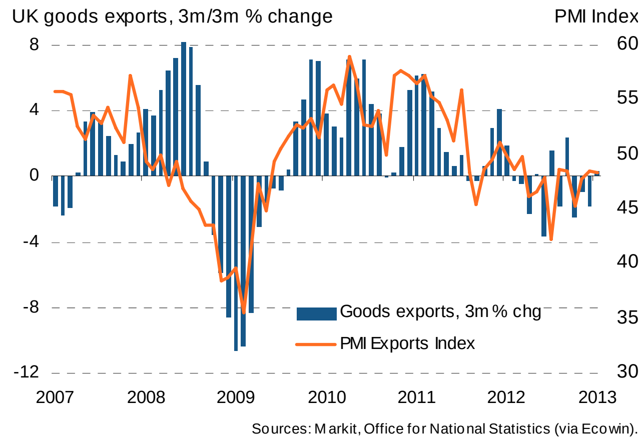
With such a weak start to the year, the economy is facing an increased risk of falling into a 'triple-dip' recession and the much-vaunted rebalancing remains elusive.

Looking at the available official and survey data for January, we estimate that the UK economy contracted at a quarterly rate of 0.1% compared with -0.3% in the fourth quarter.

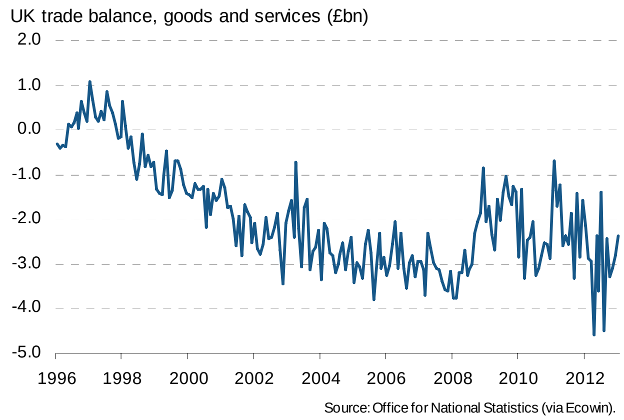
Manufacturing output



Manufactured goods exports



Trade deficit



Production slump

Industrial production fell 1.2% in January, according to the Office for National Statistics (ONS), its largest fall since last June. Some of the decline was attributable to a 4.3% downturn in oil and gas extraction, linked to North Sea rig maintenance, but the particularly worrying aspect of the deterioration was a 1.5% slide in manufacturing output.

Analysts polled by Reuters had been expecting a 0.1% increase in industrial production and a flat reading for manufacturing output. Some downside risks to these forecasts have always been likely, given the adverse weather seen in the latter part of that month. However, worryingly, the ONS reported that the snow had little impact on the numbers.

'Triple-dip' worries intensify

The weakness is likely to have persisted into February, for which the PMI survey indicated a fall in manufacturing output, which was partly the result of a further drop in export orders. However, the survey responses clearly indicated that lower production in February was often linked to business being disrupted by the severe weather at the end of January and start of February, while the dip in exports was in many cases attributed to the Chinese New Year holidays, which appear to be having an increasingly disruptive influence on global trade flows.

The survey data therefore provide some grounds for hope that the weakness of the manufacturing sector at the start of the year was linked to temporary factors, and that some bounce-back could take place towards the end of the first quarter.

However, whether another recession can be avoided is largely dependent on the far-larger service sector, which is seeing reasonable growth compared to late last year. Although not a strong expansion, the uplift in services should be just large enough to offset the weakness in manufacturing as things stand at the moment.

Trade boost?

Looking further ahead, there are signs that global economic growth has picked up compared to late last year, when it slumped to a three year low. UK manufacturers are well placed to take advantage of this increase in demand, especially with the pound's depreciation having provided a competitive boost. Some evidence of this can already be seen. Official trade data showed exports falling 2.3% in January, led down by a 3.5% drop in goods exports, but the more reliable underlying trend showed goods exports up 0.4% in the three months to January compared to the previous three months, which is the best performance since last September.

Growth has strengthened in the US, Japan has pulled out of its recession and even the eurozone is showing signs of stabilising, led by robust-looking expansion in Germany. Emerging markets, notably key sources of rising demand for UK-produced goods such as China, Brazil and India, have also seen improved economic performance compared to late last year.

The data also showed the UK trade deficit falling to a six-month low of £2.4bn in January that still points to little progress in reducing the deficit since the 2008-9 crisis.

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