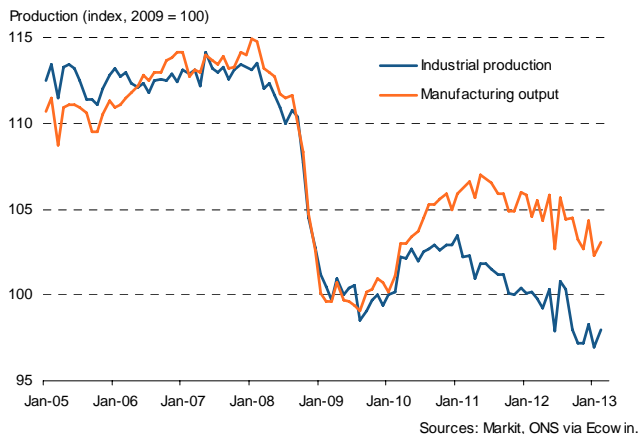


# United Kingdom

## Mixed signals as industrial production rebounds in February, but exports fall

- **Industrial production and manufacturing output rebound after steep falls in January**
- **Trade deficit widens as exports fall**
- **Data raise likelihood of modest UK economic expansion in Q1**

### Production levels



Industrial production rebounded in February after having suffered a shock fall in January, greatly reducing the likelihood of the UK sliding back into its third recession since the financial crisis struck. However, any upturn in the first quarter is still likely to have been modest at best. The trade deficit was larger than expected, rising to one of the highest on record, highlighting how weak overseas demand is continuing to hold back economic growth in the UK, and survey data suggest the trend could weaken again in March.

The data available so far suggest the economy grew 0.1-0.2% in the first quarter, having contracted 0.3% in the fourth quarter.

### Production rises, but exports fall

Industrial production rose 1.0% in February after a steeper than previously thought 1.3% decline in January. Manufacturing output rose 0.8% following a 1.9% weather-related slump in January, revised from –1.5%. Meanwhile, the trade deficit rose to £3.64bn, one of the highest seen since comparable data were

first available in 1993 (though the highest is £4.61bn), and the deficit in goods rose from £8.17bn to £9.42bn.

Exports fell for a second successive month, down 1.1% in February, though exports are down a mere 0.5% over the latest three months compared with a 2.0% decline in the fourth quarter. Goods exports fell 2.1% in February, down for the second month in a row, but exports of services rose 0.6%, up for the first time in six months.

Analysts had been expecting industrial production and manufacturing output to have risen by 0.3%, while the trade deficit in goods was anticipated at £8.55bn, according to Reuters.

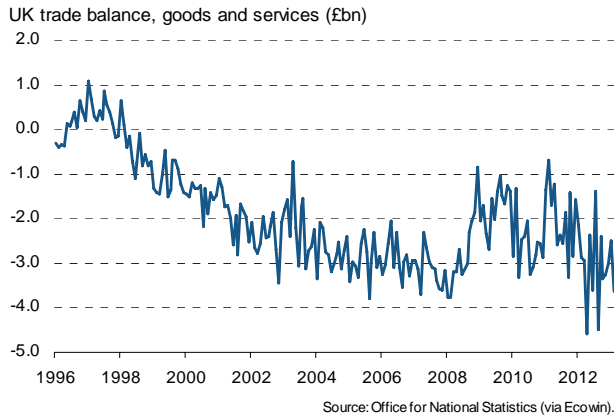
### Further weakness in March, but better Q2

Looking at manufacturing over the latest three month period, which removes some of the volatility in the monthly data and gives a better idea of the true underlying trend in the goods-producing sector, output fell 0.2% in the three months to February, representing a big improvement on the 1.4% decline seen in the final quarter of last year, and was the weakest rate of contraction for five months.

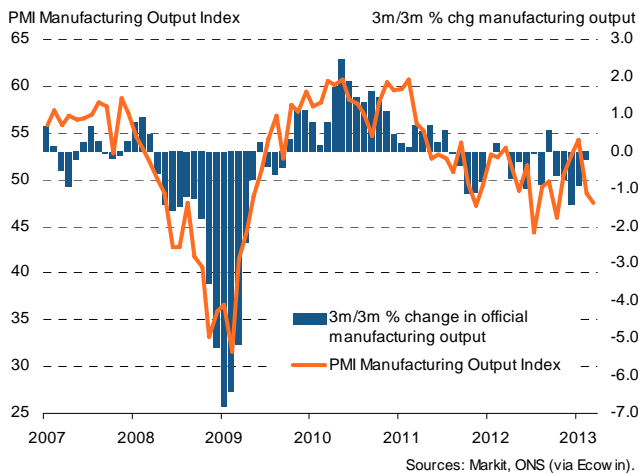
However, a renewed weakening is likely to have been seen in March: the Markit/CIPS Manufacturing PMI rose slightly in March, but nevertheless signalled a deterioration in production, order books and exports. An upturn in the service sector PMI offset this deterioration in manufacturing and a similar decline in construction, helping the UK avoid a slide back into recession in the first quarter, although any growth is likely to have been marginal at best.

Prospects look better for the second quarter, as at least some of the weakness seen in the first quarter can be attributed to adverse weather, and both business and consumer confidence have lifted in recent months. Economic growth should therefore accelerate in the second quarter, although the ongoing crisis in the eurozone will inevitably continue to dampen export growth and limit the overall pace of expansion.

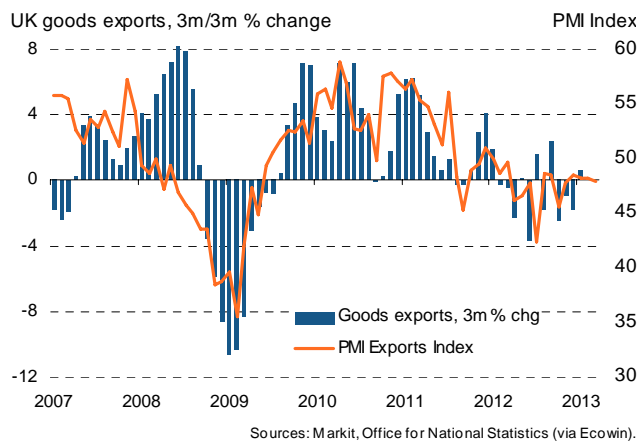
**Trade deficit**



**Manufacturing output**



**Goods exports**



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