

United Kingdom

Industrial production suffers steepest downward trend since April 2009

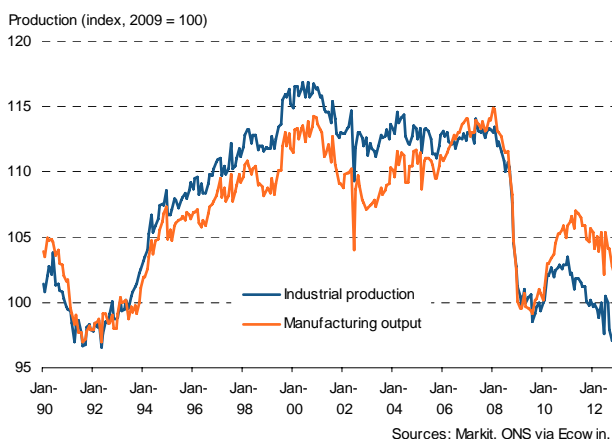
- Industrial production up just 0.3% over the month; down 1.9% in latest three months
- Manufacturing output fall offsets rebound in oil and gas production
- Data add to prospect of GDP fall in fourth quarter

Industrial production data for November add to the likelihood of the UK economy having contracted in the final quarter of last year. There are signs that the situation in manufacturing improved in December, but a deteriorating trend in the far larger service sector and forecasts of heavy snow for January have raised the possibility that the economy could contract in the first quarter, meaning the country may slide back into a triple-dip recession.

A rebound in production had been expected after a steep fall in October, but manufacturing output fell 0.3% in November, causing the wider measure of industrial production to increase by just 0.3%. Analysts had been expecting a 0.5% increase in manufacturing output and a 0.8% increase in total industrial production.

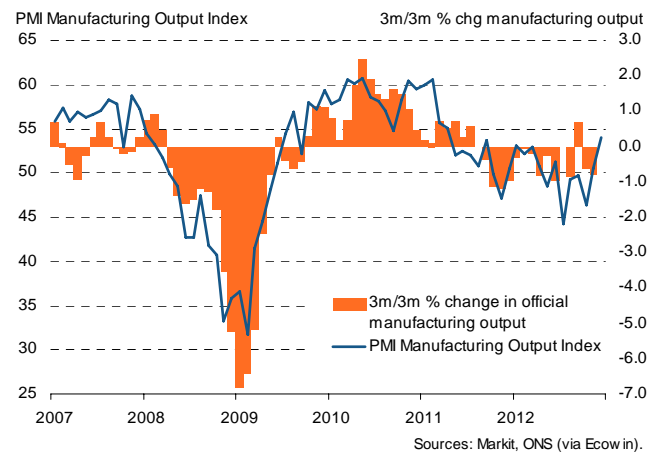
The 1.9% fall in industrial production in the three months to November was the largest since April 2009. Manufacturing output fell a more modest, though still worryingly large, 0.8% over this period.

Industrial production (level)



Despite being buoyed by an 11.3% rebound in oil and gas production following rig maintenance closures in October, industrial production is still running 1.2% below the worst point seen during the 2008-9 financial crisis, having lost all of the growth seen in the initial recovery (though manufacturing is still 3.3% higher).

Manufacturing output and the PMI

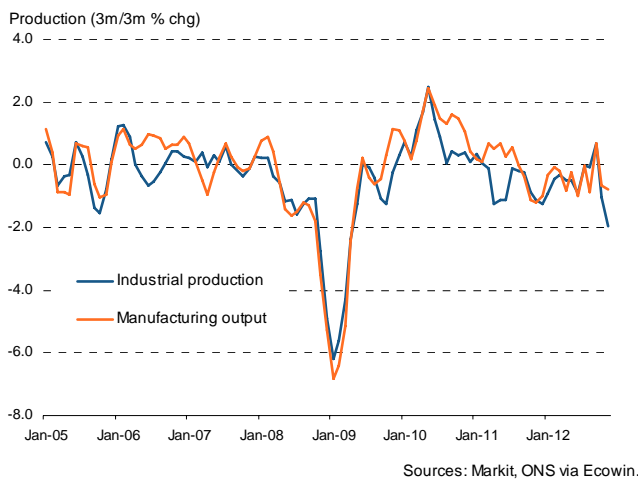
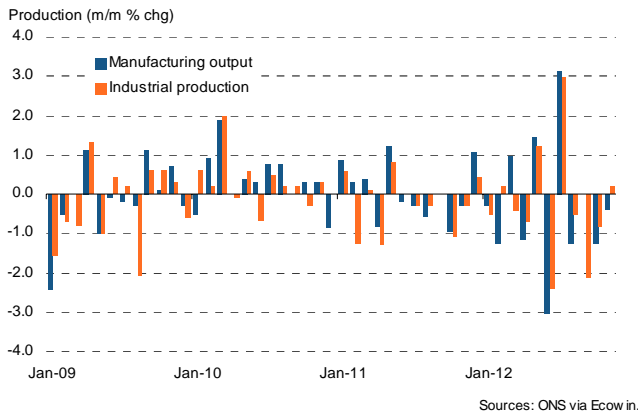


There are better prospects for goods production in December, with the [manufacturing PMI hitting a 15-month high](#). Improved demand in export markets is also starting to help boost manufacturing, reflecting faster economic growth in emerging markets and the US. Weak demand from the Eurozone remains the main concern, though even here the rate of economic decline is showing signs of easing, so the drag on UK exports should lessen as the year proceeds, providing there are no further set-backs to the region's debt crisis.

Domestic demand should also start to revive as the impact of the Funding for Lending Scheme (FLS) helps increase the availability of credit to home buyers and businesses. However, with the [services PMI signalling the first decline for two years](#) in December, there is little sign yet that the FLS is having a large enough impact to offset other headwinds in the economy, which include high inflation, widespread job insecurity and high debt. Other data released today also showed construction output dropping 3.4% in November.

Altogether, the available data point to the UK economy having contracted slightly in the fourth quarter. Forecasts of heavy snow are also real concern for the economy in January, and may tip the balance between the economy eking out modest growth or contracting again in the first quarter.

Industrial production (growth rates)



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