

United Kingdom

Industrial sector shows reassuring growth in March

- Industrial production +0.7% m/m in March
- Manufacturing output +1.1% m/m
- Industry revival likely to discourage further policy stimulus from Bank of England

UK factories stepped up a gear in March, boosting production for a second successive month. With surveys indicating that growth gained further momentum at the start of the second quarter, the encouraging data reduce the likelihood of policymakers seeing any immediate need to add more stimulus to the economy.

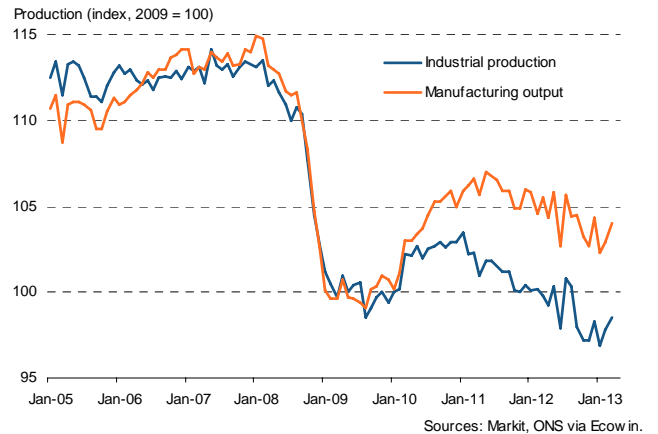
Industrial production rose 0.7% in March, driven by a 1.1% jump in manufacturing output. Analysts had been expecting industrial production and manufacturing output to have risen by just 0.2% and 0.3% respectively, according to Reuters.

The better-than-anticipated data mean UK factories enjoyed the first back-to-back monthly increases in production since the first quarter of 2011, suggesting that the goods-producing sector is finding its feet again and is starting to help drive a wider economic recovery.

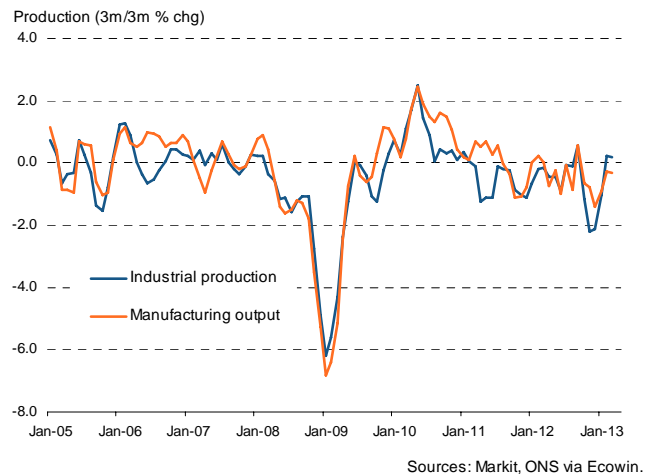
The Markit/CIPS Manufacturing PMI also points to a reassuringly strong start to the second quarter. Not only did the April PMI indicate the fastest growth of output since January, but the survey also showed UK exports enjoying the strongest rate of increase since mid-2011. At the same time, growth also picked up in the service sector, pushing the all-sector PMI to an eight-month high in April.

The robust data are likely to further discourage the Bank of England from further stimulus. Policymakers will have been reassured by the surprisingly strong 0.3% GDP increase in the first quarter and the indications of growth having been sustained at the start of the second quarter. It is also likely that the Bank will prefer to await further information on the impact of the Funding for Lending Scheme, which is already showing promising results and is likely to have

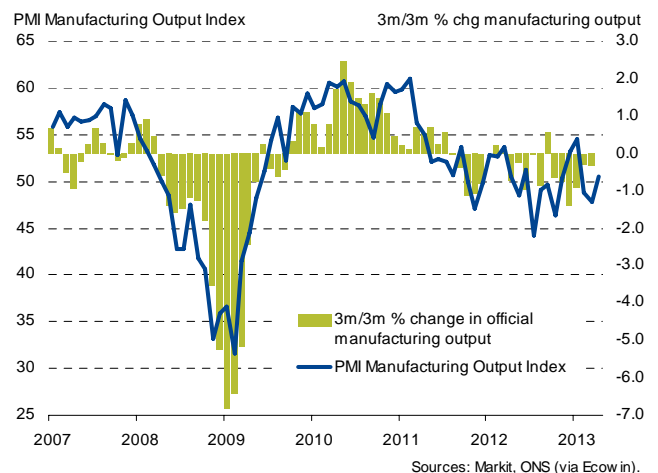
Production levels



Production growth rates



Manufacturing output and the PMI



a bigger impact on the economy than any further quantitative easing.

The ONS reported that the production data for March would not in itself cause any revision to the first quarter GDP estimate of 0.3%. Over the first quarter as a whole, industrial production rose 0.2%, representing a huge improvement on the 2.1% decline seen in the fourth quarter. Manufacturing output fell 0.3% in the first quarter, however, despite the increases seen in February and March, but exerted far less of a drag on the economy than the 1.4% decline seen in the fourth quarter.

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