

# United Kingdom

## Industry sees largest quarterly production rise since 2010 despite weak August

- **Production falls in August, but underlying trend remains strongest since 2010**
- **Exports disappoint, an increase to EU countries offset by falling sales elsewhere**

A surprise fall in industrial production in August is likely to have been a temporary blip in an otherwise strengthening manufacturing economy. The underlying trend in production growth is in fact still the strongest since mid-2010, and we expect a continual improvement in coming months.

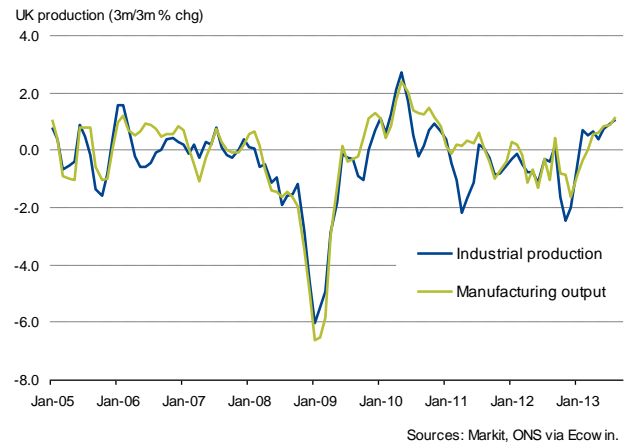
UK industrial production fell sharply in August, according to the Office for National Statistics, dropping 1.1%. Manufacturing output was down 1.2%. Analysts had been expecting a 0.4% increase in both industrial production and manufacturing output.

The official data contrast with the survey evidence, which has been comprehensively upbeat in recent months, and once again leave us scratching our heads wondering where the government statisticians have got these numbers from. The Markit/CIPS PMI survey showed that manufacturing output and new orders were growing at the fastest rate for 19 years in August, with only a slight let-up in the pace of growth in September. The British Chambers of Commerce survey meanwhile also showed factory output growing at the fastest pace since the early 1990s.

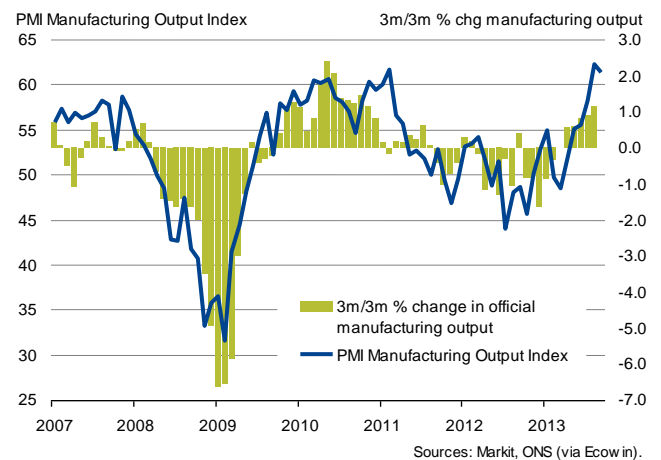
However, the monthly data are volatile and can be difficult to interpret, especially during disrupted summer months. The ONS accepted that seasonal adjustment was possibly affected by the strong impact from the Olympics last year, which is likely to have led to some of the weakness. We would therefore expect to see either some revisions to these August numbers in coming months or a firm rebound in September. The strong order book growth recorded by the survey data also sets the scene for further substantial growth of production in the final months of the year.

Importantly, we note that, even with the latest fall in production, manufacturing output in the three months to August grew 1.2%, which compares with 0.8% in the

### Industrial production



### Manufacturing and the PMI



### Goods exports



three months to June and a flat picture in the first quarter. That was the strongest period of growth since November 2010. The wider measure of industrial production was up 1.1% in the latest three months, signalling the best underlying trend since June 2010.

### Trade woes

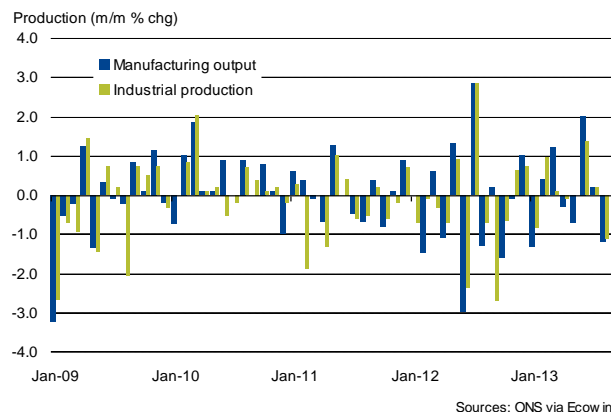
One of the undisputed big disappointments remains the UK's lacklustre export performance, especially in the face of the pound's 20% depreciation since the financial crisis struck. Exports fell 1.2% in the three months to August, registering the first three-month fall since December. However, with the eurozone – our major trading partner – pulling out of recession, this picture is starting to change, with exports of goods to the EU up 0.7% in the three months to August. Exports to other countries fell 3.0% over the same period, highlighting weak demand in many markets further afield, notable emerging markets such as China and India.

The IMF expects all eurozone member states (except Cyprus) to return to growth in 2014, which should help bolster the UK's overseas trade and make up for some of the ongoing weakness in emerging markets.

### Policy concern

The danger is that the ONS are miscalculating the growth of the UK economy at the moment. As these numbers feed into the GDP data, we may get a misleadingly low initial estimate of third quarter economic growth compared to the 1.0-1.2% expansion signalled by the survey data, which could lead to policy errors; a story that we have seen played out many times in the past.

### Volatile official data



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