

United Kingdom

Manufacturers enjoy second-best calendar quarter for 15 years

- **Manufacturing output up 1.4% in first quarter**
- **Construction sector output growth revised higher to 0.6% in first three months of the year**
- **Exports meanwhile down 3.7%**

The UK manufacturing sector enjoyed its second-best calendar quarter of growth for fifteen years at the start of the year, with production up 1.4% on the closing quarter of 2013. Construction meanwhile also grew twice as fast as previously thought in the first quarter, up 0.6%. Marring the picture was a marked fall in exports in the first quarter, though we take the recent trade data with a pinch of salt.

Manufacturing output increased by 0.5% in March and the wider measure of industrial production fell by 0.1%, according to the Office for National Statistics.

The increase beat expectations of a 0.3% rise in manufacturing output and a 0.2% fall in industrial production, according to a poll by Reuters.

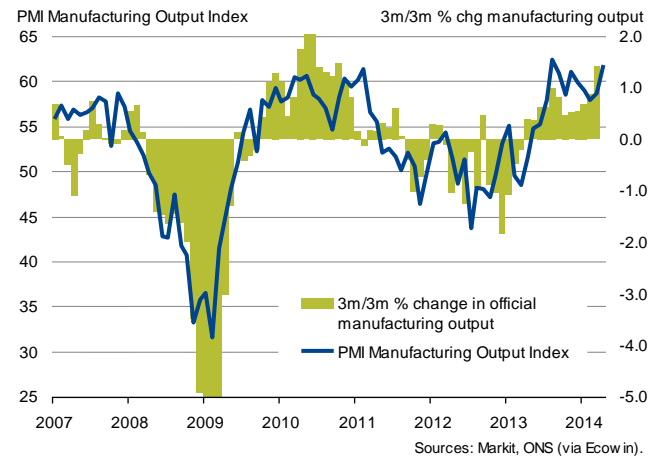
The ONS had also estimated a 0.2% fall in industrial production for March in its preliminary estimate of first quarter GDP. However, the better-than-expected outcome for March failed to prevent the ONS from revising down its estimate of industrial production growth in the first three months of the year to 0.7% compared to an initial 0.8%.

Construction higher than estimated

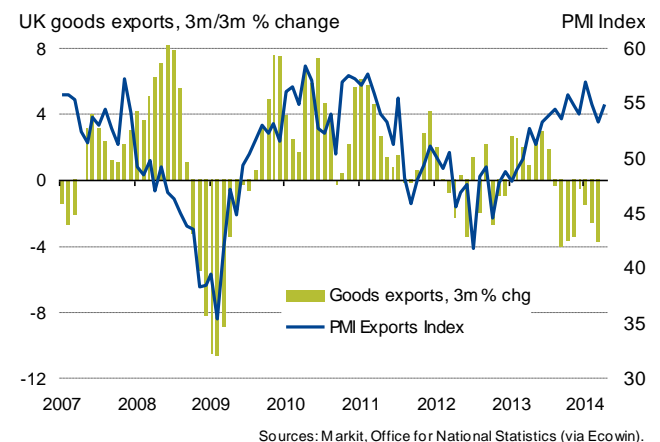
However, in another release, the ONS revised up its estimate of construction output in the first quarter from 0.3% to 0.6%, which may offset the weaker industrial production gain and leave first quarter GDP growth unchanged at 0.8%.

Prospects also look good for April, boding well for both manufacturing and construction sectors to provide further strong contributions to economic growth in the second quarter. The [Markit/CIPS PMI](#) signalled the largest monthly increase in manufacturing output since last August, and one of the biggest increases ever recorded by the survey. Order book growth also accelerated, as did export growth, as manufacturers appear to have coped well with the stronger pound.

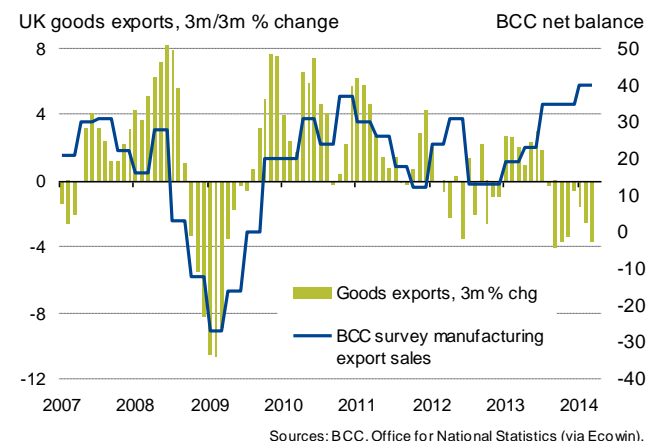
UK manufacturing output



Goods exports v PMI survey



Goods exports v BCC survey



In [construction](#), the PMI survey also signalled a strong increase in activity in April, albeit the smallest rise for six months. The PMI is nevertheless running far above official data in terms of construction industry performance, suggesting the official data may be understating growth.

Export puzzle

The export data also remain a major puzzle, with the official data running well behind the growth rates indicated by surveys such as the PMI and the British Chamber of Commerce. The latter has registered near record export growth in the first quarter, while the PMI has also signalled historically strong growth over the past year, with companies often attributing better sales due to strengthening demand in core export markets such as the eurozone.

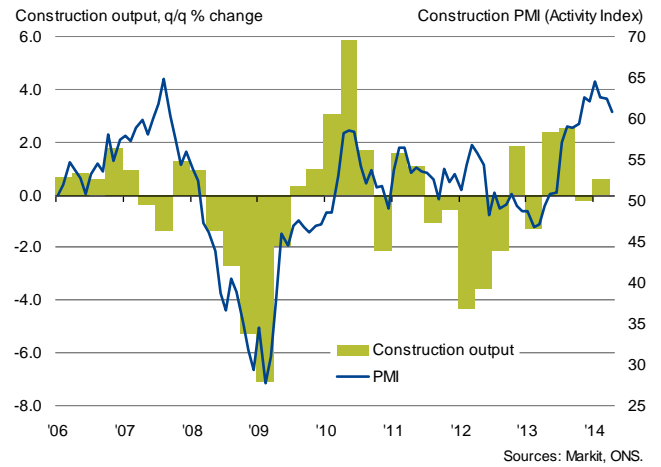
According to the ONS, however, exports of goods fell 3.7% in the first three months of the year, despite a 4.9% rise in March. The fall was the largest since last October. Imports of goods meanwhile fell 2.8% in the same three month period.

The suspicion is that the official data have been seriously understating the success that manufacturers have had in export sales in recent months, and that the underlying picture from the surveys is one of UK manufacturing enjoying robust sales growth at home and abroad as a result of increasing demand as well as widespread concerted efforts to raise productivity and competitiveness.

Wage growth picks up

Today's data will do little to affect the policy stance at the Bank of England. Policymakers will continue to tolerate the strong recoveries being seen in sectors such as manufacturing and construction without hiking interest rates, providing inflation remains low. Wages will most likely be the key trigger for a rate rise, and today's [recruitment industry survey](#) showing wage pressures building at the fastest rate since 2007 will ring some alarm bells at Threadneedle Street. However, more will be revealed in this respect next week with the publication of the Bank's updated inflation forecasts.

Construction output



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