

## United Kingdom

### Manufacturing output suffers steep fall in October

- **Industrial production drops 0.1% in October after buoyant rise in September**
- **Manufacturing output falls 0.7%**
- **Surveys point to subdued growth in Q4**

A sharp drop in manufacturing output in October is a timely reminder that policymakers cannot be complacent about the UK's recent run of strong growth persisting into the New Year. Expectations of when UK interest rate may start rising will most likely be pushed back with the news that the manufacturing economy is struggling once again, and that the economic upturn remains all too dependent on domestic spending.

#### Factories in lower gear

Industrial production fell 0.1% in October, following a 0.7% increase in September, according to the Office for National Statistics. Manufacturing suffered an even sharper downturn, with output slumping 0.7%, led down by a 4.5% drop in production of electrical goods.

The monthly data are volatile, and the three-month growth rate is a more reliable indicator of the underlying trend. With manufacturing output up 0.5% in the three months to October, the sector is clearly still growing, but it's also evident that the pace of expansion has moved sharply lower since earlier in the year. The three-month growth rate of factory output peaked at 1.7% in April.

#### Survey improvement

Some improvement in November is signalled by the survey data, but the manufacturing sector is still moving in a much lower gear than earlier in the year. The Markit/CIPS Manufacturing PMI remained well down on the highs seen in the spring, and any growth in the sector is dependent on orders from domestic customers. Export orders continued to fall slightly in November, suggesting overseas trade is acting as an ongoing drag on the UK goods-producing sector.

The data therefore add to the signs that the pace of economic growth has slowed in the fourth quarter. The

available data point to GDP rising by 0.6%, compared to a 0.7% rise in the third quarter, which would mean the economy grew by 3.0% in 2014, its best year since 2006.

However, with growth largely dependent on the domestic economy, and consumer spending in particular, there is no guarantee that the UK's recent robust economic performance will continue into the New Year.

#### UK Manufacturing Output



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