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UK: FEBRUARY INDUSTRIAL OUTPUT POINTS TO STABLE GAINS IN Q1

Berenberg Macro Flash

Feb 2018, (mom %)	Industrial	Manufacturing
Actual	0.1	-0.2
Previous	1.3	0.1
Consensus	0.4	0.2

UK industrial output moved broadly sideways in February: Helped by above-trend growth in global demand and a competitive sterling exchange rate, the UK industrial sector is enjoying a healthy, albeit somewhat volatile, expansion that started in early 2016. Although the headline monthly growth rate for February came in a little below expectations (0.1% actual vs 0.4% expected) it followed on from a solid 1.3% uptick in January after a soft December. Manufacturing output – the largest industrial sub-sector - declined 0.2% mom in February. This was the first decline in monthly manufacturing output since March 2017. The Office of National Statistics which publishes UK economic data noted that despite the unusually bad weather in February, their surveys did not report any major snow-related disruption.

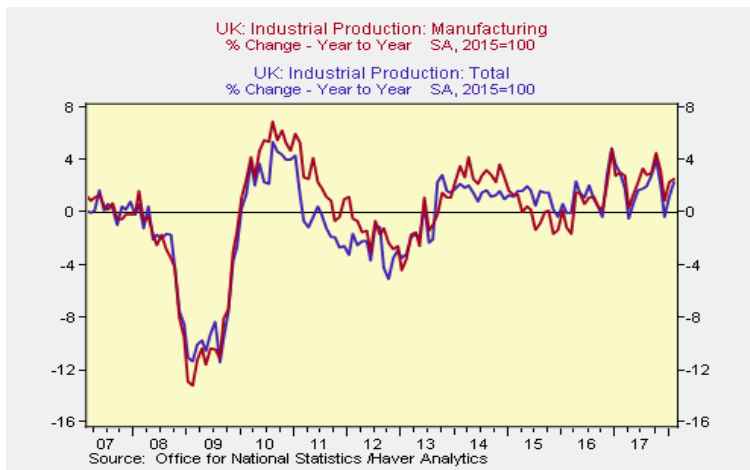
Industrial production growth probably remained stable in Q1: Looking through the monthly volatility gives a better impression of how the UK's second largest sector performed at the start of 2018. Comparing the January and February average to Q4: industrial production expanded 0.6% while manufacturing output was up 0.3%. On an annual basis, industrial output expanded by 2.2% while manufacturing output expanded by 2.5% - chart 1. Reflecting the cyclical upturn in the global economy and stable gains at home, capital goods production and output of consumer durables are also enjoying a good run – chart 2. If headline industrial output remains stable in March, the sector is likely to add around 0.1pt to a likely quarterly growth rate in headline GDP of 0.3%.

Risk of trade wars clouds the outlook for continued strong industrial growth: Following up on his 2016 campaign threats, US President Donald Trump has now stoked the worst trade tensions in decades. Understandably, markets and businesses are nervous. Although global economic fundamentals are in good shape - [Economic fundamentals remain healthy despite heightened risks](#) - the risk of a full-blown trade war presents the most serious risk to a continued strong global upswing. Although the current planned US and China tariffs would only have a small measurable effect on global output and inflation, the risk that the hit to confidence weighs on production and investment is significant. The sentiment of industrial producers in Europe has already softened due to the trade-wars risks while output and orders have softened too. While part of this is probably weather-related, we need to watch out for a protracted confidence effect if the current tit-for-tat between the US – and mainly – China doesn't de-escalate soon. Also see - [Assessing the trade war risk: the European angle.](#)



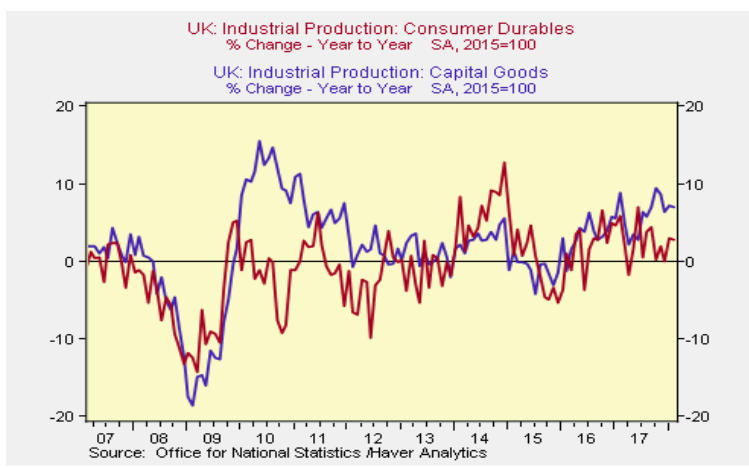
MACRO NEWS

Chart 1: UK Industrial Production: Manufacturing



Source: ONS, Haver Analytics.

Chart 2: UK Industrial Production: Industrial



Source: ONS, Haver Analytics.



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MACRO NEWS

% change	FEB	JAN	DEC	NOV
Industrial prod., mom	0.1	1.3	-1.2	0.3
Industrial prod., 3m/3m	-0.1	0.3	0.4	1.0
Industrial prod., yoy	2.2	1.2	-0.4	2.1
Manu. prod., mom	-0.2	0.0	0.4	0.2
Manu. prod., 3m/3m	0.6	1.0	1.3	1.3
Manu. prod., yoy	2.5	2.2	0.9	3.2

Source: ONS

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