



**BERENBERG**

PARTNERSHIP SINCE 1590

## MACRO NEWS

09/03/16

Kallum Pickering, Senior Economist | [Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com) | +44 20 3465 2672

### UK UPDATE: MANUFACTURING WEAKNESS NOT A SERIOUS RISK

#### Berenberg Macro Flash

##### Industrial, mom %, January

Actual	0.3
Previous	-1.1
Consensus	0.4
Berenberg	0.5

**Industrial output turns positive after a two month dip but it won't last:** Industrial output grew by 0.3% yoy in January after contracting by 1.1% in December and 0.8% in November. Growth was slightly below expectations and comparing January to the Q4, industrial output contracted by 0.8%. Manufacturing output, which makes up over two-thirds of industrial output, was stronger than expected. Output increased on a monthly basis by 0.7% versus expectations of 0.2% growth. Comparing January to Q4, output increased by 0.3%. Going forward, we expect manufacturing and industrial output to contract again. Indeed, early indications suggest that demand declined sharply in February as the financial market rout intensified. February UK manufacturing PMI data disappointed, citing weakening external demand and China's trade data pointed to a sharper than expected drop in global trade flows. Declines in sterling might provide a modest boost but weakening global demand will take a greater toll and we expect industrial output to decline in the first quarter.

**Manufacturing recessions can drag but they rarely point to serious risks in the economy.** UK manufacturing output is volatile. As Chart 1 shows, the sector can go deep into deep and extended recession without taking the rest of the economy with it. In the early 2000's manufacturing output declined on an annual basis for ten consecutive quarters and the economy managed an average annual rate of growth of 2.9%. Again, early in the 2010's, the sector sank for seven quarters in a row while the economy grew at an average rate of 1.5% yoy. Chances are this is another one of those episodes. Declines in manufacturing will probably put a dent in near-term growth but UK fundamentals are robust. Unemployment is low, wages are growing modestly, there is a big tailwind from cheap oil and monetary policy is highly accommodative. Together, these factors point to strong domestic demand. This highlights the second argument shown in Chart 1, GDP mostly tracks services not manufacturing. Almost 80% of GDP is domestic oriented services. A dip in this sector – think 2008 – can spell disaster. Currently, domestic fundamentals point to stable gains in demand and data confirms that the services sector is doing fairly well. So long as the economy doesn't take a severe body blow like a Brexit or a global recession, we expect GDP growth to continue at a robust pace through 2016 (1.9% yoy) driven by domestic growth with only a small slip below trend in the first half of the year as global headwinds blow.



## MACRO NEWS

**Chart 1: When manufacturing drops there's a 1 in 5 chance of a recession**



Source: ONS. yoy %. Red shaded areas indicate when manufacturing output contracts

### Industrial

% change	JAN	DEC	NOV	OCT	SEP	AUG
Industrial prod., yoy	0.2	-0.2	0.9	1.6	1.3	1.6
Industrial prod., mom	0.3	-1.1	-0.8	0.2	0.0	0.9
Manu. prod., yoy	-0.1	-1.7	-1.2	-0.2	-0.5	-1.1
Manu. prod., mom	0.7	-0.3	-0.3	-0.4	1.0	0.3

Source: ONS

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com)