



Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

TRADE AND INDUSTRIAL DATA HIGHLIGHT WEAKSPOTS IN UK ECONOMY

Berenberg Macro Flash

February, mom % Industrial Manufacturing

Actual	-0.3%	-1.1%
Previous	0.2%	0.5%
Consensus	0.1%	-0.2%
Berenberg	0.0%	-0.4%

Industrial weakness could present some downside risk to first quarter growth. Industrial output declined by 0.3% mom in February, against consensus expectations of a modest rise of 0.1%. Comparing the first two months of the year to the final quarter of 2015 shows industrial output declined by 1.0%. Is this a serious cause for concern for the wider economy? No. But it does suggest that risks to our outlook for first quarter growth of 0.4% are tilted to the downside. The export oriented industrial sector only makes up around 15% of GDP. As long as the domestic economy remains resilient, declines in this relatively small sector tend to inflict only minor damage to the headline rate. Data for manufacturing, the largest component of industrial output, declined by 1.1% mom versus expectations of -0.2%.

February, £	Trade balance
Actual	-4.8b
Previous	-5.2b
Consensus	-3.4b
Berenberg	-3.4b

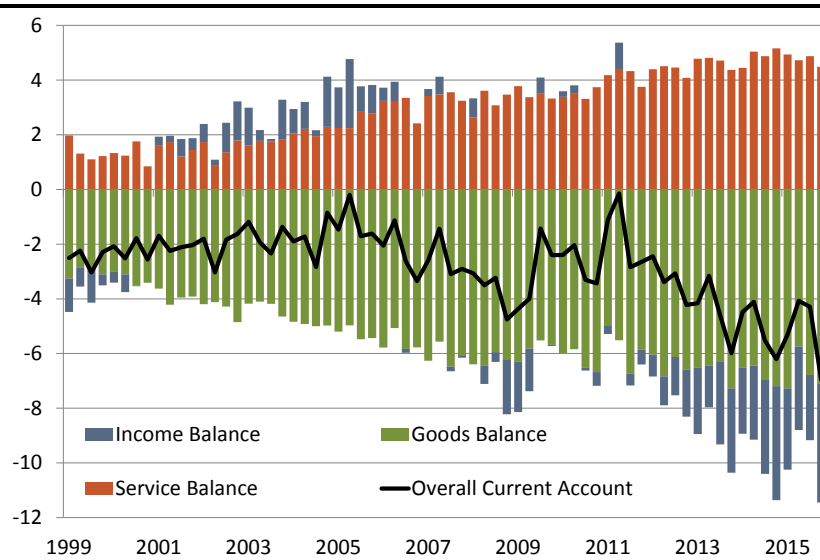
UK trade deficit more than £1 billion wider than expected after a sharp downward revision to January data. The UK's trade deficit was -£4.8bn in February, far above consensus expectations of -£3.4b. With January data getting a sharp downward revision to -£5.2b from the previous estimate of -£3.5b, this puts the UK on a concerning course to beat its record current account deficit (7% of GDP) in the final quarter of last year. In the three months to February, the UK's deficit to the rest of the EU reached a record £23.8bn. This was driven by a rise in imports of 1.1% and a fall in exports of 1.3%

Swelling trade deficit adds to UK current account troubles ahead of EU referendum. In recent years, the combination of weaker exports of goods to the EU alongside a fall in the returns the UK gets on its overseas investments has grown the UK's current account deficit from a modest problem to a serious one. In the final quarter of last year, the UK ran the largest current account deficit on record at 7% of GDP (see chart). The UK's current account deficit is the biggest in the G7 and, heading into the EU referendum on the 23 June, it is a growing cause for concern. We see the risk of a Brexit at 35%. If a Brexit does happen, there is a risk that if investors suddenly fear that, because of the negative economic effects of a Brexit, the UK can no longer meet its obligations later on without a massive devaluation, they might attempt to exit their sterling positions in a hurry. This gives way to our key Brexit tail risk. Although it remains a low probability event and is not our central forecast, we pay close attention to the risk of a sterling crisis. Please see our [report on the impact of a Brexit](#) for more information.



MACRO NEWS

UK current account as a % of total GDP



Source: ONS, Berenberg calculations. Balances shown as % GDP.

% change	FEB	JAN	DEC	NOV	OCT	SEP
Industrial production, yoy	-0.5	0.1	-0.2	0.9	1.6	1.3
Industrial production, mom	-0.3	0.1	-1.1	-0.8	0.2	0.0
Manu. production, yoy	-1.8	-0.1	-1.7	-1.2	-0.2	-0.5
Manu. production, mom	-1.1	0.5	-0.3	-0.3	-0.4	1.0

£ (bn)	FEB	JAN	DEC	NOV	OCT	SEP
Exports	42.1	41.7	41.7	41.9	42.5	43.3
Imports	46.9	46.9	45.3	46.5	46.5	44.5
Trade Balance	-4.8	-5.2	-3.6	-4.6	-4.0	-1.2

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.

Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
Kallum.pickering@berenberg.com