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UPTURN IN UK INDUSTRIAL CONTINUES IN JULY

Berenberg Macro Flash

July, 2016	Industrial, mom %	Manufacturing, mom %
Actual	0.1%	-0.9%
Previous	0.0%	-0.2%
Consensus	-0.2%	-0.3%
Berenberg	0.1%	-0.2%

The ONS industrial production report for July provides the first glimpse of economic data that will be included in the Q3 GDP estimate (preliminary). While industrial production makes up just 16% of GDP, the few tenths of a percentage point that a strong quarter can add to overall growth could prove significant in the coming quarters as the UK absorbs the shock of the Brexit vote.

Industrial output expanded in July by 0.1% on a monthly basis (exp. -0.2%) and by 1.0% on a 3M/3M basis. While output dipped by 0.9% mom in the largest sub-sector, manufacturing, on a 3M/3M basis, output increased by 0.5%. We would caution on attributing the manufacturing dip to Brexit. As the ONS point out in the report 'since July 2015, manufacturing...has been volatile with no obvious underlying pattern'. There was a broad-based expansion across all other sub-sectors. This included strong expansions in mining & quarrying (+4.7% mom) and oil and gas (+5.6% mom).

On a trade-weighted basis, sterling has depreciated by 15% from its most recent peak in November 2015, with most of the decline coming after the June 23 Brexit referendum. The economic expansions in the UK's key trading partners, the US and EU, to which two-thirds of all UK exports go, have continued at a satisfactory pace since the Brexit vote. And against the dollar and the euro, sterling has declined by 10% and 9%, respectively, since June 23. Healthy external demand in conjunction with the depreciation of sterling should help underpin a continued modest expansion in the UK's export-oriented industrial sector.

The manufacturing PMI report for August signalled continued growth in domestic and foreign orders during the month, the latter supported by the weaker sterling. This suggests that the upswing continued through the middle of the third quarter.

All in all, today's data continue the on-going trend of UK post-Brexit coming in a little better than expected. This suits our above-consensus calls that the UK economy will expand by 0.2% per quarter in Q3 and Q4, and by 1.9% for 2016. In 2017 we forecast growth of 1.3%.

Please see '[No doom, some gloom: UK after the Brexit vote](#)' for our most recent assessment of the performance of the UK since the Brexit vote.



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MACRO NEWS

% change	JUL	JUN	MAY	APR	MAR	FEB
Industrial prod., yoy	2.1	1.4	1.2	2.2	0.1	0.1
Industrial prod., mom	0.1	0.0	-0.7	2.3	0.5	-0.1
Manu. prod., yoy	0.8	0.6	1.1	1.1	-1.7	-1.5
Manu. prod., mom	-0.9	-0.2	-0.7	2.3	0.1	-0.8

Source: ONS

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