

Snap | 11 June 2018

UNITED KINGDOM

UK manufacturing: sharp fall casts doubt over economic recovery

An unexpected decline in production, combined with a sharp widening in the trade balance, suggests the economy may not be rebounding quite as fast as the Bank of England hopes



Source: iStockphoto

The latest disappointing collection of UK production and trade data will come as a serious blow to the Bank of England, who have been pinning hopes on the economy rebounding through the second quarter. Manufacturing output shrank by 1.4% in April, the sharpest monthly fall since 2012, a trend which also saw the trade deficit widen to £5.3 billion.

Given how sharp the fall was, it's easy to try and pin it down to some kind of temporary aberration. But that doesn't appear to be the case – the ONS noted that the weakness was “widespread” across sectors. Remember too that April was supposed to be the month where production rebounded following the snow-related disruptions seen in March.

As always, it's worth noting that manufacturing only accounts for roughly 10% of economic output. Bank of England policymakers will likely have a much firmer eye on the service sector, which according to last week's PMI, is performing a little better.

But nonetheless, Monday's disappointing data will cast doubt over whether the economy will

fully rebound from the weaker growth outcome seen in the first quarter. Away from manufacturing, we are also concerned about the retail sector, which is continuing to struggle amid lower demand, higher wage costs and rising business rates.

While our feeling is that policymakers want to lift rates again over coming months given the better wage growth trend, these growth risks mean a summer rate hike is far from guaranteed. If the economy continues to show only limited signs of recovery, then the Bank may well opt to remain on hold in August. As a few BoE voters have said recently, the cost of waiting to raise rates is not especially high.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.