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.

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