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Western European Indicators and Insights

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UK: Manufacturing growing again?

Coming in above expectations even more clearly this time around, the headline manufacturing PMI for January moved back into clear expansion territory for the first time since the middle of last year. Indeed, the headline index rose 2.4 points (to 52.1), slightly more than the jump of the previous month, thereby extending the recovery from the slump seen in October which brought about the lowest reading since June 2009. Even so, the index is still some nine points since its peak last February.

Notably, the January data suggested that the manufacturing sector saw its output expand at the fastest pace since last March while new orders rose and payrolls stabilized. Cost pressures continued to ease, as average input prices fell for the third straight month. Companies reported an increased willingness of clients to spend, including export demand recovering.

These clearly better PMI readings chime with other alternatively-sourced survey data (such as those from the CBI). However, caution is still warranted as the improvement in output still seems to be based on working through backlogs, a process which cannot last.

More improved survey data may be in the offing ahead of the MPC verdict on February 9, all of which may work towards the BoE enlarging its asset purchases only modestly and with some divisions possibly re-emerging within the MPC, even though survey results such as these highlight on-going disinflation trends.