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Western European Indicators and Insights

April 5, 2012

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UK: Manufacturing suffers clear setback.

Weather distortions evident, But Q1 GDP bounce still on the cards

Surprising all, February manufacturing output slumped 1.0% M/M, accentuating the downwardly revised figure of the previous month, now showing a drop of 0.3%. These falls largely unwound the 1.1% December surge, albeit the latter figure being the only positive outcome since the distorted jump recorded last May. Perhaps of more note, the further drop in February was broad-based.

Notably, however, oil and utility production were very positive, especially the latter; results that meant that overall industrial production recovered by 0.4% in M/M terms, unwinding much of the 0.6% drop seen in the previous month.

Clearly the swings in the overall production data reflect the impact of swings in the weather, with a cold snap probably having undermined factory sector activity, this effect possibly accentuated by a seasonal adjustment that tried to address the complication caused by the leap day. In contrast, the cold snap helped utility output recover from the depressed readings of the previous quarter caused by unusually warm weather at that juncture.

Regardless, these (apparently flattish) official manufacturing production numbers stand in clearer contrast to the ever more upbeat survey updates for the sector. Most likely some of this divergence will (at least partly) be repaired by a recovery in March official data, albeit with a less upbeat picture regarding manufacturing still evident, thereby very much complicating an interpretation of the economy for policy-makers. Even so, the recovery in official production readings so far this year (ie in both overall industry and services) corroborate a picture of GDP having bounced in Q1 after the 0.3% Q/Q Q4 decline.