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Western European Economic Indicators and Insights

September 3, 2012

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UK: Manufacturing Contraction Much Less Sharp?

Survey Becoming Very Volatile!

Coming in very much above expectations this time around, the headline manufacturing PMI bounced clearly in August. Indeed, the headline index jumped 4.3 points to 49.5, thereby more than unwinding the July slump which had resulted in the lowest reading since May 2009. *The August survey suggested that orders weakness abated, helped by less onerous domestic conditions.* But external weakness was also less evident.

Meanwhile, average input prices fell further, albeit less clearly due to higher energy costs. In contrast, selling prices continued to rise, as companies moved to protect their margins and catch up with the strong input cost increases seen earlier in the year.

DE View: *These numbers are showing increasing degrees of month-to-month volatility in recent months, with the last four months alone seeing two large rises and two large falls, and with the average swing almost four points.* Surely such volatility undermines the message of the survey numbers, especially as they have been poor at foreshadowing actual activity. Indeed, for the likes of the BoE, several things imply that the manufacturing PMI figures will be put to one side, not least the fact that alternatively-sourced factory sector survey data paint a far less downbeat picture.

In addition, the MPC will want to give time for the added stimulus launched in the last few months to have an impact.