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Western European Economic Indicators and Insights

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UK: Manufacturing Storms Back!

Q3 GDP Recovery Very Much on the Cards

Surprising to the upside very clear, July manufacturing output jumped 3.2% M/M, more than unwinding the little-revised slump of 2.9% seen in the previous month. The data clearly showed a stronger-than-expected recovery from the downwardly-distorted June figure, the latter hit by poor weather and the working day lost due to the Jubilee celebrations. Indeed, the M/M rise was the largest since July 2002, ie a month when a recovery from Jubilee celebrations occurred.

How Clear is the Underlying Weakness

All of which will make the interpretation of the key manufacturing backdrop all the harder to discern. *A weak undertone remains in place, however, as highlighted by factory sector surveys*, albeit with official factory sector numbers showing less pronounced weakness than what have been very volatile readings of late among the differently sourced versions of manufacturing surveys. Overall industrial production recovered similarly in July (actually by 2.9%) as bounces were seen across utilities and oil extraction.

Less Weak Q2 GDP?

Regardless, *the production data suggest some clear recovery in current-quarter GDP as the July industrial output numbers are already some 1.6% above the Q2 average*, albeit an advantage that may be pared back through the rest of Q3. Even so, the 0.5% Q/Q drop in Q2 was mainly a result of the distortions noted above. Q3 numbers will benefit not only from the unwinding of those distortions but also *the added boost from the Olympics where the sales of tickets alone is expected to add 0.2 percentage point to growth.*

DE View: Q3 GDP is likely to bounce back between 0.3% and 0.5% in Q/Q terms. Such a result would merely serve to unwind the accentuated drop seen in Q2 rather than suggesting any improvement from the essentially flat tone seen in the UK economy over the last two years. Even so, such a Q3 recovery may raise the bar in terms of persuading the BoE to added to current asset purchase program, especially if there are signs that its Funding for Lending Scheme is having any success.