

UK manufacturing

March manufacturing rebound echoes PMI data

- **Output surged 2.3% higher in March, according to official data.**
- **PMI signals recovery strengthened at start of Q2.**
- **Broadening base to aid sustainability.**
- **Signs of better business investment.**

March data from the Office for National Statistics signalled that the government's measurement of UK manufacturing performance is at last beginning to catch up with the upbeat picture painted by PMI data.

The latest official data show that improving global market conditions and a weaker sterling exchange rate boosted export volumes and underpinned a broad-based recovery in the sector, along with the ongoing support of inventory rebuilding. April PMI data¹ meanwhile show that the sector carried this robust start into Q2, despite uncertainties regarding the election for UK manufacturers.

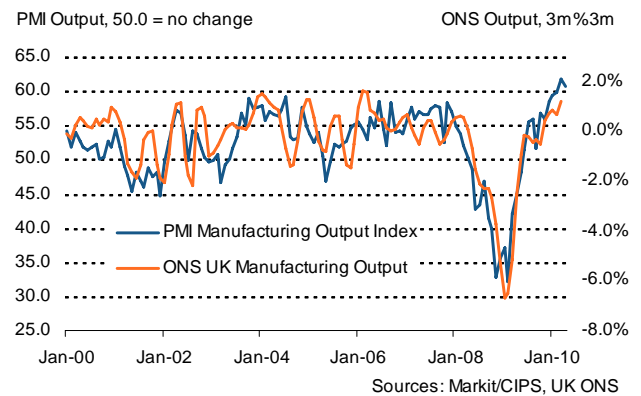
UK manufacturing takes off in Q1

The official measure of manufacturing production showed a 2.3% gain in March, the fastest since July 2002 and well above the consensus forecast of 0.3%. The 3m/3m rate of increase – which in March compares output over Q4 2009 to that over Q1 2010 – rose to a four-year high of 1.2%. The ONS has already indicated that this will add around 0.1% to its Q1 GDP growth estimate, currently at 0.2%.

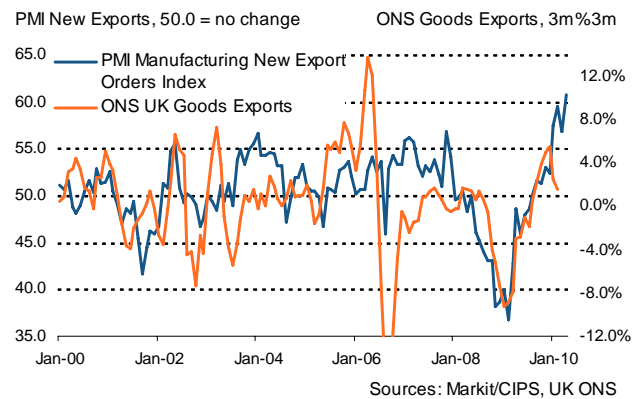
The March ONS release brings the data more into line with Markit/CIPS PMI data. Recent months have seen the PMI signal some of the strongest gains in UK manufacturing output during the past 15 years. The April PMI Manufacturing Output Index was consistent with official growth rising to around 2.0% 3m/3m, driven by robust gains in new orders and aided by survey record growth in export orders.

¹<http://www.markiteconomics.com/MarkitFiles/Pages/ViewPressRelease.aspx?ID=6411>

UK manufacturing rebounded strongly in Q1



Strong export growth underpins recovery



Boding well for the sustainability of the recovery is that it is coming from an increasingly broad base. The ONS reported that of the 13 sectors covered by their survey, output rose in all but one between February and March.

Meanwhile, April PMI data point to continued growth of production at consumer, intermediate and investment goods producers. Growth was strongest at intermediate (partly reflecting inventory rebuilding by other manufacturers) and investment goods producers, suggesting that the recovery was filtering through to business-to-business and capital spending.

PMI data also show that production is rising sharply not only at large firms – those most likely to benefit from an export bounce – but also at the more

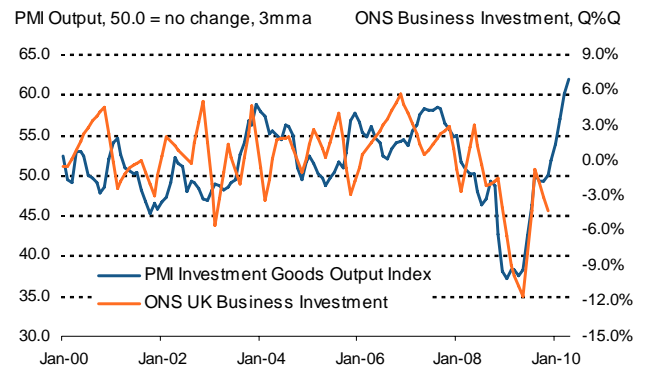
domestic-facing small and medium sized producers, suggesting that the domestic market is also recovering.

However, lingering concerns about the peripheral debt crisis in the euro area may yet weigh on the export-led revival – the Eurozone being the destination for 50% of the UK’s goods exports – especially while markets are still waiting to see if the outcome from the election will result in a decisive and stable government.

ONS March data release: Headline Statistics

Key Statistic:	%	
	Actual	Consensus
March data:		
Manufacturing Production (y/y)	+ 3.3	+ 0.3
Manufacturing Production (3m/3m)	+ 1.2	n/a
Manufacturing Production (m/m)	+ 2.3	+ 0.3
Manufacturing Production (peak-to-current)	- 10.9	
Manufacturing Production (peak-to-trough)	- 15.4	
Manufacturing Production (trough-to-current)	+ 5.3	

PMI data point to recovery in investment spending



Sources: Markit/CIPS, UK ONS

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