Office for National Statistics

Article

Short-term indicators economic commentary: June 2017

A summary of the short-term indicators published in early June 2017.

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1 . Main points

- Today’s (9 June 2017) data indicate that UK economic activity varied across the headline industries in April 2017, following slow growth in Quarter 1 (Jan to Mar) 2017.

- Following high levels of production in the 3 months to January 2017, total production output fell by 1.2% in the 3 months to April 2017; this reflected a 5.8% contraction in energy supply and a 0.7% contraction in manufacturing.

- The total trade deficit (goods and services) widened by £1.7 billion to £8.6 billion in the 3 months to April 2017 compared with the 3 months to January 2017; this was primarily due to a large increase in the value of imports in March 2017.

- Construction output fell by 0.6% between the 3 months to January 2017 and the 3 months to April 2017, the first fall in the 3-month on 3-month growth rate since September 2016.

- While there has been no revision to production output for Quarter 1 2017, there has been an upward revision of 0.9 percentage points to growth in total construction output – from 0.2% to 1.1%; the potential upward impact of this revision to the previously published gross domestic product is 0.05 percentage points.

2 . Summary

The underlying pattern, for both production and construction, appears to be one of contraction in February to April 2017 compared with the previous 3 months. Warmer than average temperatures, resulting in reduced energy supply, and a fall in private housing new work were the main contributors.

Imports drove the trade balance movements in the February to April period, increasing by £1.9 billion compared with the previous 3 months. This was primarily due to increased imports in March. With exports increasing by only £0.3 billion, the trade deficit widened in the most recent 3 months by £1.7 billion to £8.6 billion. The trade balance narrowed by £1.8 billion between March and April 2017, as import values fell back to the levels seen in February 2017.

3 . Introduction

The three bulletins published alongside this article present new information on economic conditions in April 2017, with data available for output in the production and construction industries, as well as the trade balance. It should be noted that retail sales data for April and services output data for March – that complete the set of short-term economic activity indicators – have already been published. Further services output data will follow for April on 30 June.

The new estimates indicate that performance in economic activity varied across the headline industries in April – while production activity returned to growth in the most recent month, this growth coincided with a fall in construction output and followed a slowdown in the services industry in March (Figure 1).

The expansion in production activity in April reflects output increases in both manufacturing and energy supply sectors, partly offset by falls in the mining and quarrying, and water and waste management sectors. This is the first month of positive growth for both production and manufacturing following 3 consecutive months of decline. However, construction output fell by 1.6% in April, reflecting falls across all components except infrastructure (up 5.7%).

Meanwhile the trade balance saw an improvement in April, with the overall trade deficit (goods and services) narrowing by £1.8 billion to £2.1 billion. This was due mainly to imports contracting by 3.5% following growth of 5.0% in March, with exports remaining virtually unchanged on the month. Imports also drove trade balance movements on a 3-month on 3-month basis, increasing by £1.9 billion in the most recent 3 months (Feb to Apr) compared with the previous 3 months (Nov to Jan). With exports increasing by only £0.3 billion, the trade deficit saw a widening of £1.7 billion to £8.6 billion.

The new April data follow the second estimate of GDP for Quarter 1 (Jan to Mar) 2017 (released on 25 May), which indicated that the UK economy grew by 0.2% in the quarter – more subdued than in recent periods as household spending in consumer-focused industries slowed. Services data (also released on 25 May) showed that growth in total services output slowed to 0.2% in Quarter 1 2017, primarily due to contractions in retail trade and accommodation services within the distribution, hotels and restaurants sector (down 1.4% and 5.1% respectively). However, the latest retail trade figures indicate that retail sales volumes rose by 2.3% in the month of April and 0.3% on a 3-month on 3-month basis. This was the first positive growth for retail sales volumes on a 3-month on 3-month basis since December 2016.

While today's new data contain no revision to production output for Quarter 1 2017 (to one decimal place), there has been an upward revision of 0.9 percentage points to growth in total construction output – from 0.2% to 1.1%. The potential upward impact of this revision to the previously published gross domestic product (GDP) is 0.05 percentage points. However, this is only one potential contribution to future revisions to GDP. Routine additional data yet to be received for the services sector, the largest component within the output approach of GDP, will also contribute to any future revisions.

Figure 1: Summary of short-term indicators, Jan 2010 to Apr 2017, 2010=100, chained volume measures, seasonally adjusted

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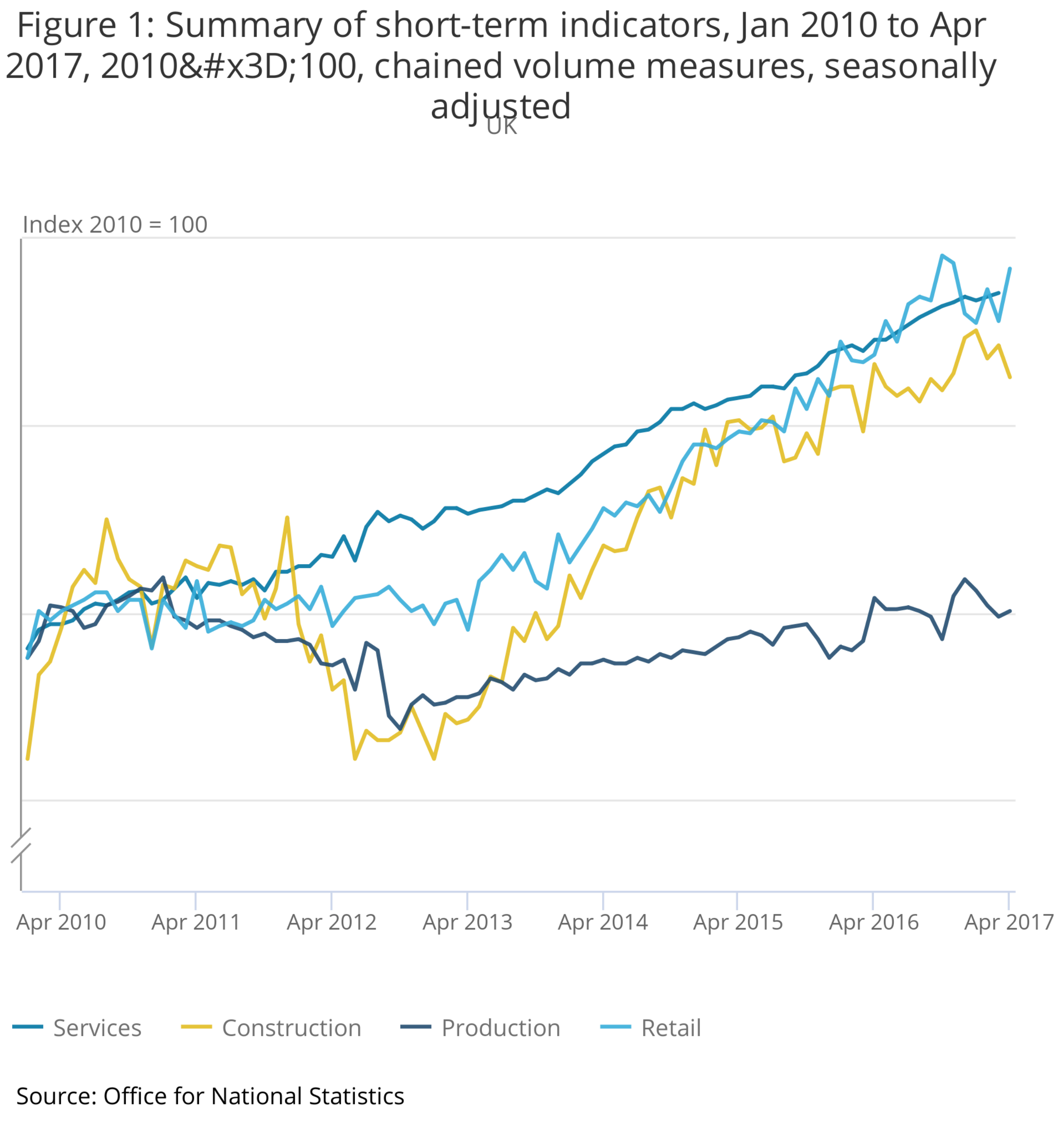

Source: Office for National Statistics

Notes:

1. Services data have been published in the Index of Services bulletin up to March 2017.

4 . Production

Total production real output rose by 0.2% in April 2017, following 3 consecutive month-on-month falls of 0.5% in March, 0.8% in February and 0.5% in January. Manufacturing output – which accounts for 70% of total production – contributed 0.2 percentage points towards the monthly rise while the energy sector (electricity, gas, steam and air conditioning) contributed 0.3 percentage points. These increases were partly offset by a 0.6% fall in mining and quarrying and a 1.4% fall in water and waste management, which collectively contributed negative 0.2 percentage points towards growth in total production output. The monthly rise in energy production was in spite of relatively warm temperatures in April, which may be attributable to the increasing trend towards gas instead of coal as a means of electricity generation (as shown in previous analysis).

Following high levels of production output in the 3 months to January 2017, particularly in December 2016, the 3 months to April saw output fall by 1.2% – the largest 3-month on 3-month fall since the 3 months to February 2016, when it also fell by 1.2%. This reflected a 5.8% contraction in energy supply and a 0.7% contraction in manufacturing, which contributed 0.6 and 0.5 percentage points respectively towards the fall in total production. While this was the first 3-month on 3-month decrease in manufacturing activity since October 2016, the main driver of the fall was the volatile pharmaceuticals sector, which saw an 11.9% contraction.

Comparing the most recent 3 months to the same 3 months a year ago, manufacturing was the largest contributor to total production growth of 1.0%, contributing 1.2 percentage points with a rise of 1.7%. Within manufacturing, transport equipment made the largest contribution to growth in total production, contributing 0.5 percentage points. Almost all other manufacturing components were also up 3-months on 3-months a year ago, with the important exception of pharmaceutical products, which saw an 8.3% fall and contributed negative 0.5 percentage points to total production growth.

Figure 2 shows the index of total production and the index of manufacturing since April 1997. While the two indices tracked broadly in line with each other prior to the financial crisis, manufacturing growth has since outpaced that of total production to be 10.2% above its crisis trough in August 2009 whilst total production has grown by 5.3% since August 2009.

While neither production nor manufacturing have recovered to their pre-crisis levels, recent levels of manufacturing remain relatively high compared with the post-crisis period. In comparison, total production, while rising steadily since late 2012, has yet to surpass its post-crisis peak in January 2011. The divergence between manufacturing and total production is partly attributable to two large falls in total production in February 2011 (negative 2.1%) and September 2012 (negative 3.6%). In February 2011, extraction of oil and gas fell by 12.4%, contributing 1.7 percentage points towards the fall in total production, while in September 2012, maintenance at a number of oil and gas extraction sites caused a monthly output fall of 26.4%, contributing a downward 3.0 percentage points towards the fall in total production.

Figure 2: Index of total production versus index of manufacturing, Apr 1997 to Apr 2017, Jan 2010=100

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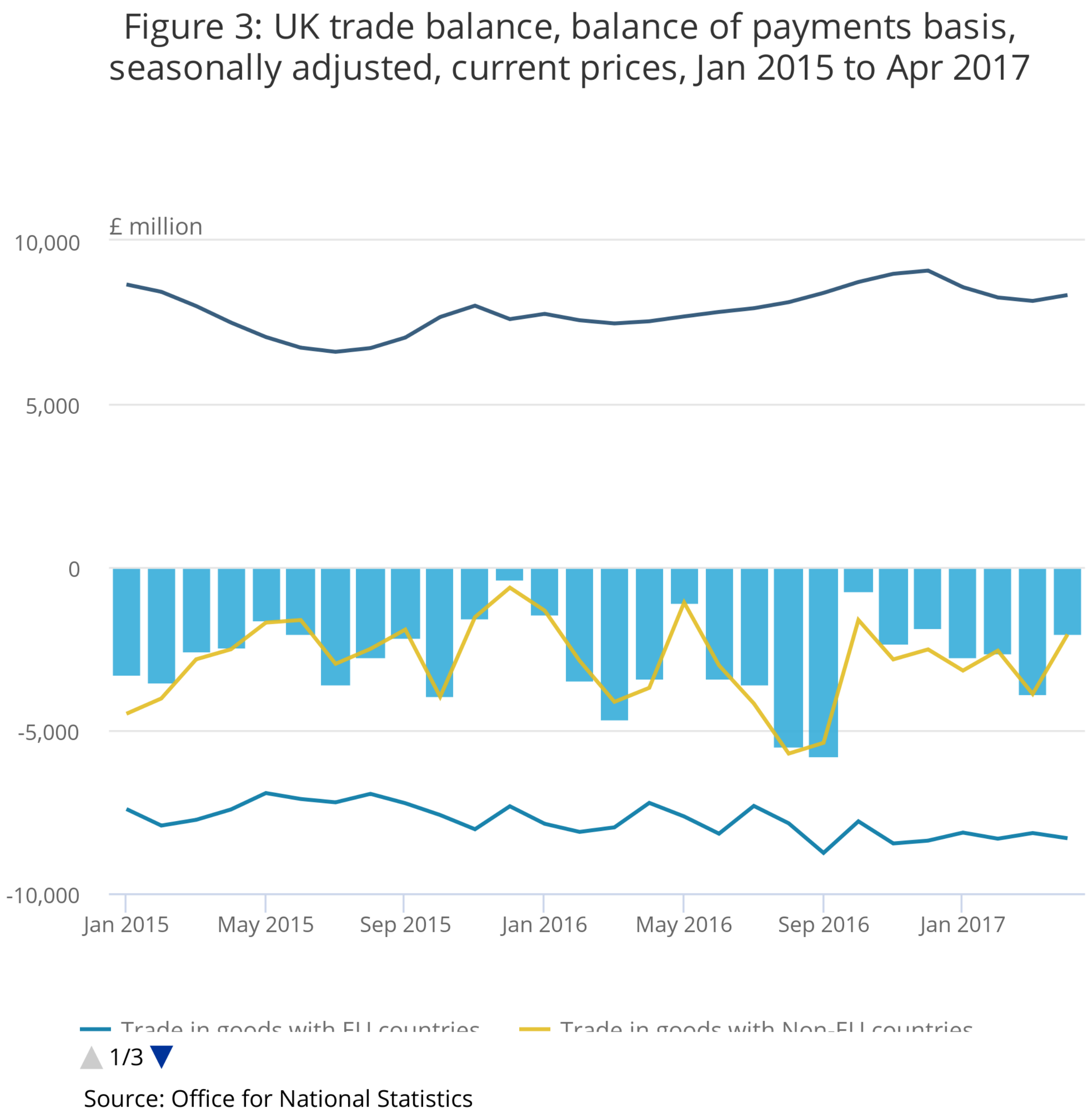
Source: Office for National Statistics

5 . Trade

The latest trade data show that the total trade deficit narrowed by £1.8 billion in April 2017 compared with March 2017 (Figure 3), with import values falling by 3.5% and export values remaining broadly flat (negative 0.1%). Looking at a longer-term picture, the total trade deficit widened in the most recent 3 months (Feb to Apr), from £6.9 billion in the 3 months ending January 2017 (Nov to Jan) to £8.6 billion.

The narrowing of the overall trade balance on the month was driven by the value of imports returning to levels seen in January and February 2017, prior to a peak in March. The main contributions to the fall in imports came from mechanical machinery, oil and cars; this follows increases in imports of these commodities in March 2017. Import values fell more markedly for goods traded with non-EU countries (down 7.7%) compared with EU countries (down 1.7%). Coupled with a 2.6% increase in export values to non-EU countries, April saw a narrowing of the non-EU goods balance of £1.8 billion to a deficit of £2.1 billion (Figure 3). Meanwhile, export values to EU countries fell by 3.8% in April, contributing to a £0.2 billion widening of the EU goods deficit to £8.3 billion.

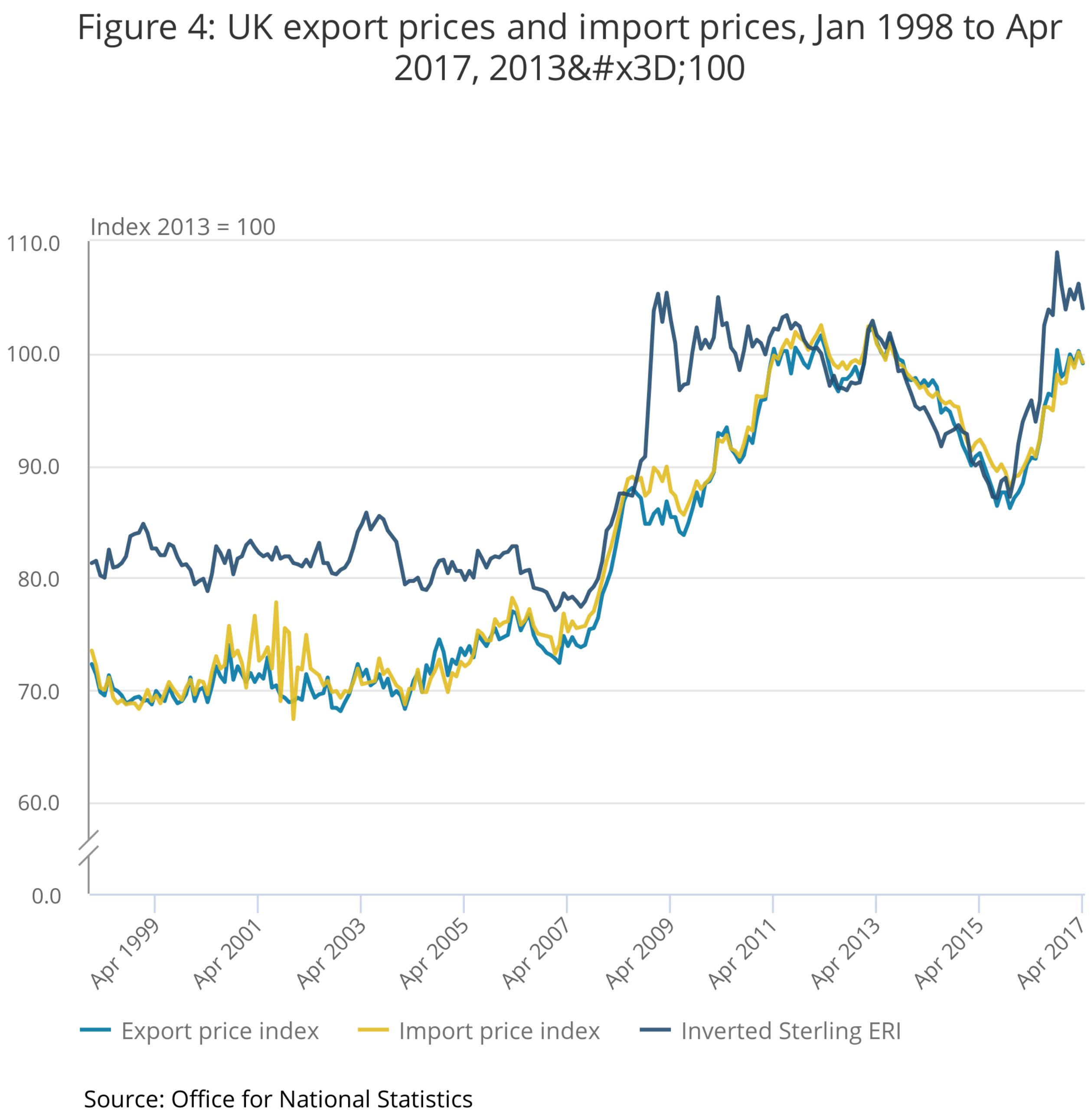
Figure 3: UK trade balance, balance of payments basis, seasonally adjusted, current prices, Jan 2015 to Apr 2017



Source: Office for National Statistics

Trade prices continue to move with recent sterling movements. Goods export and import prices fell by 1.1% and 0.9% respectively in April compared with March, coinciding with sterling appreciating by 2.2% against a basket of currencies (Figure 4). Lower trade prices in April also coincided with broadly flat growth of 0.1% in the total input price index (the prices manufacturers are charged for intermediate inputs used in the production process) and a 0.4% increase in the output price (the prices charged for finished manufactured goods) in April.

Figure 4: UK export prices and import prices, Jan 1998 to Apr 2017, 2013=100

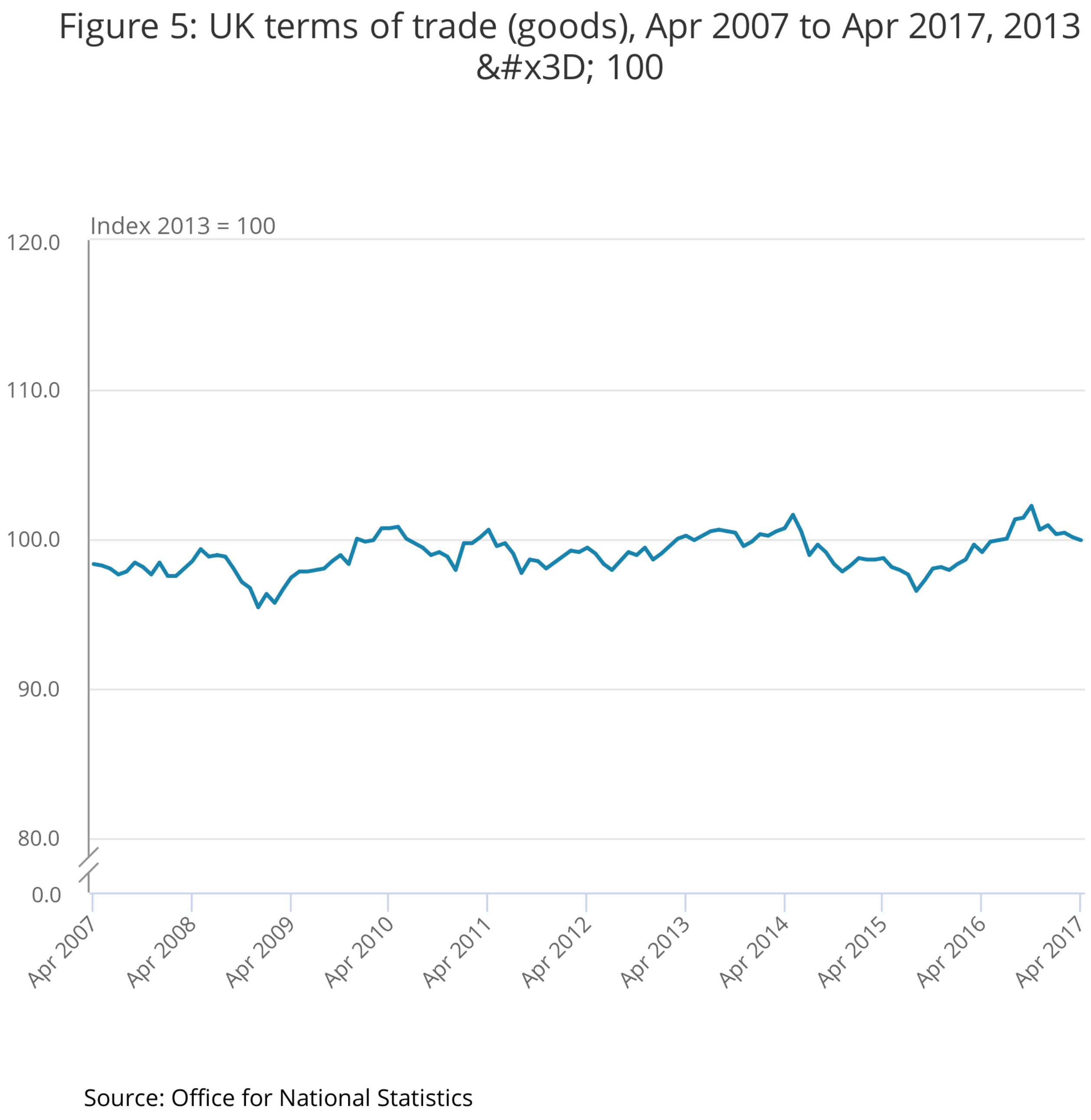


Source: Office for National Statistics

Looking over a longer period, the value of sterling remains 7.7% lower compared with April 2016. Over this period, goods export and import prices have risen by 9.3% and 8.4% respectively, leading to an improvement in the UK terms of trade. The terms of trade (measured as the price of exports relative to the price of imports) represents the amount of imports that the UK can buy for a unit of its exports. An improvement in the terms of trade, holding all else equal, indicates an increase in the purchasing power of UK consumers.

While the UK terms of trade have improved compared with a year ago, they have been generally declining since their recent peak in October 2016 and in the most recent month, fell below 100 for the first time since June 2016 – a decline of 2.3% since October 2016 (Figure 5). This recent deterioration in the terms of trade is due to a 1.2% fall in the price of UK exports (with the price of exports to non-EU countries falling more than the price of exports to EU countries), while the price the UK pays for its imports rose by 1.1% over the same period (with the price of imports from EU countries rising more than the price of imports from non-EU countries). Overall, the UK's terms of trade with both EU and non-EU countries have also declined since October 2016 – both by 2.1%. A similar pattern emerges looking at the UK's terms of trade excluding oil and erratics, with the index falling by 2.5% since its peak in October 2016.

Figure 5: UK terms of trade (goods), Apr 2007 to Apr 2017, 2013 = 100



Source: Office for National Statistics

6 . Construction

Construction output fell by 1.6% in the month of April 2017, following growth of 0.7% in March (revised up from negative 0.7%). The largest contribution to the April fall came from private new housing (down by 6.9%), reversing the large growth in the sector seen in March. Looking over the longer-term, construction output fell by 0.6% on both a 3-month on 3-month basis and a month-on-year basis in April.

Despite this month’s decline in total new housing output (which includes public and private housing), today’s (9 June 2017) release of construction new orders data for Quarter 1 (Jan to Mar) 2017 suggest there is underlying strength in this sector. New orders measure the value of new (legally binding) contracts for future construction work and are widely regarded as a leading indicator of construction output volumes. Figure 6 shows that new housing output appears to be most correlated with a 2 quarter lag in new housing orders. Strong growth of 22.4% in new housing orders in Quarter 1 2017 (compared with Quarter 1 2016) suggests that new housing output may also strengthen in Quarter 3 (July to Sept) 2017 (assuming that the relationship continues to hold). This strength in new housing orders has been largely driven by the private housing sector, which saw a 35.5% increase in Quarter 1 2017 compared with a year ago – the strongest quarter on previous year growth since Quarter 2 (Apr to June) 2013.

Figure 6: New housing construction output and housing new construction orders (2 quarter lag), quarter on previous year growth, chained volume measures, Quarter 1 (Jan to Mar) 1998 to Quarter 3 (Jul to Aug) 2017

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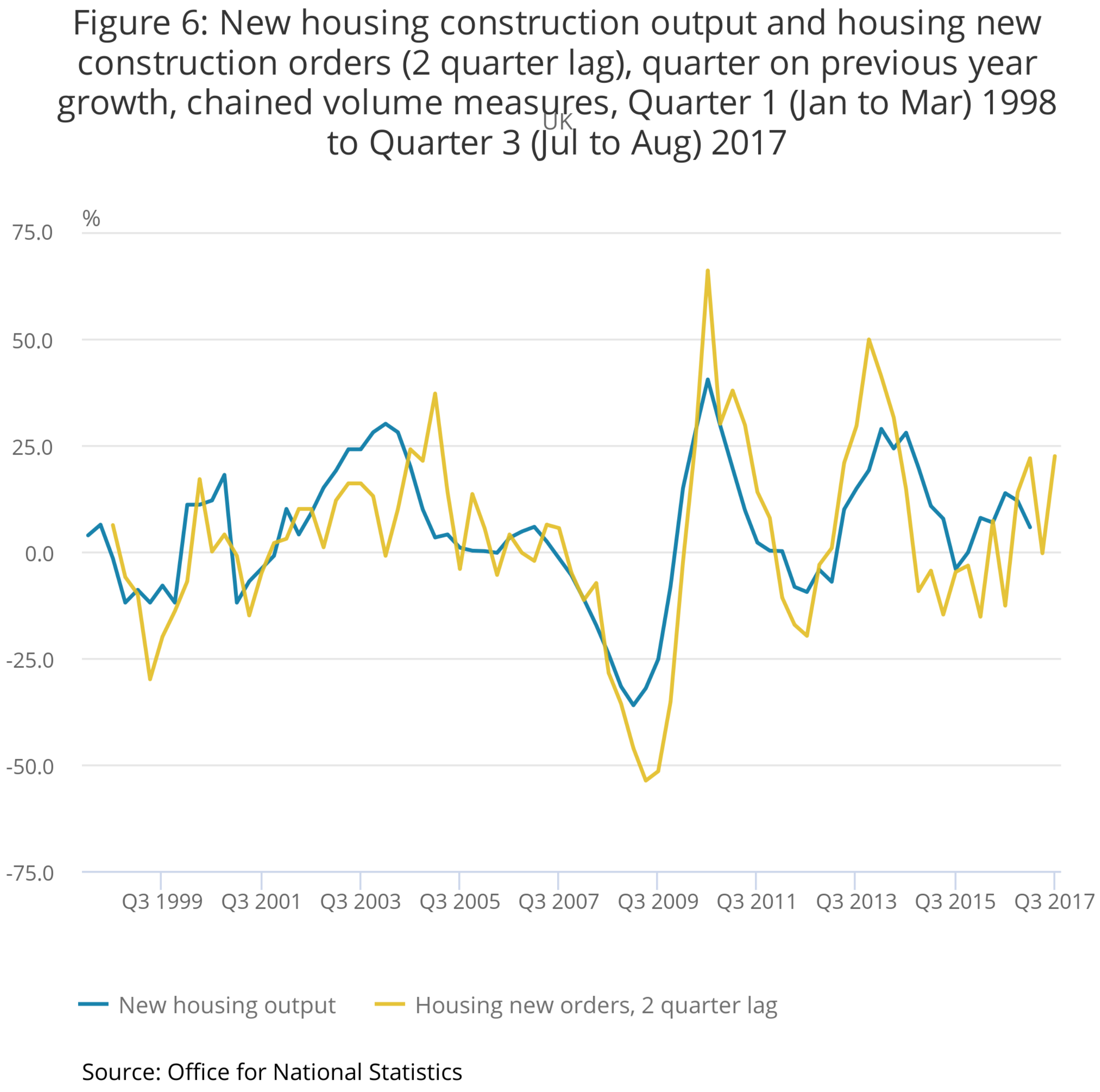

Source: Office for National Statistics

Today’s construction new orders release also publishes a regional breakdown of new orders. In value, non-seasonally adjusted terms, London continues to receive the largest share of both total new orders and housing new orders, accounting for 22% of both total new orders and new housing orders in Quarter 1 2017.