Office for National Statistics

Article

Short-term indicators economic commentary: Mar 2017

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

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1 . Main points

- Today’s (10 March 2017) data show that UK economic activity remained broadly flat in January 2017. However, this followed 2 months of strong growth across the headline industries at the end of 2016.

- While production output fell slightly in January (negative 0.4%), 3 month on 3 month growth in manufacturing hit a 7-year high (2.1%); the monthly fall in production was driven by a contraction in manufacturing activity, particularly in the volatile pharmaceuticals industry.

- The overall trade deficit remained virtually flat at £2.0 billion in January, with export and import values growing by 0.8% and 0.6% respectively.

- Construction output fell by 0.4% in January, driven by falls in both total repair and maintenance (negative 1.3%) and total new housing (negative 2.1%).

2 . Introduction and statistician’s comment

The three bulletins published alongside this article present new information on economic conditions in January 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 January and services output data for December – that complete the set of short-term economic activity indicators – have already been published.

The new estimates indicate that activity across the headline industries remained broadly flat in January, following 2 months of strong growth at the end of 2016 – as shown in Figure 1. Production activity recorded a slight fall in January (negative 0.4%), following consecutive rises in November and December (2.3% and 0.9% respectively). The monthly fall was driven by a decrease in manufacturing output (negative 0.9%), particularly in the volatile pharmaceuticals industry. While the overall trade deficit in goods and services remained largely unchanged in January (£2.0 billion), the deficit narrowed by £4.7 billion to £6.4 billion between the 3 months to January (Nov to Jan) and the 3 months to October (Aug to Oct). Finally, construction output fell by 0.4% in January driven by falls in both total repair and maintenance, and total new housing. However, this followed 2 months of consecutive strong growth in construction in November and December (0.8% and 1.8% respectively).

Output in the services industries continued to expand in Quarter 4 (Oct to Dec) 2016 (up 0.8%), although growth slowed between November and December. In addition, January data for retail sales showed that sales volumes continued to contract in the new year, recording their third consecutive monthly fall in January (negative 0.3%) and the first negative 3 month on 3 month growth rate (negative 0.4%) since December 2013.

The new January data follows the second estimate of gross domestic product (GDP) released on 22 February, which showed that the UK economy grew by 0.7% in Quarter 4 2016 and 1.8% in 2016 overall.

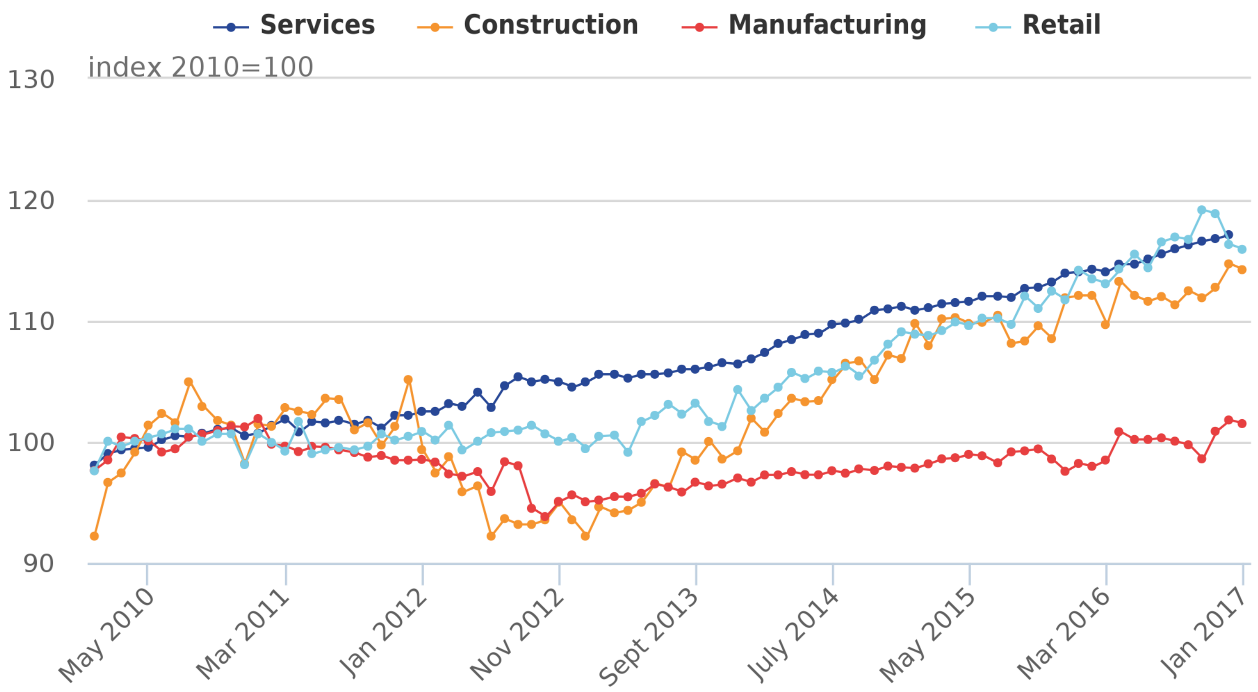
Commenting on today's short-term indicator figures, senior ONS statistician Kate Davies said:

"Taking the last three months together, construction and manufacturing both grew strongly, with a considerable narrowing in Britain’s trade deficit. However, both manufacturing and construction were broadly flat on the month with the trade balance little changed.

"Construction orders fell back a little overall in second half of 2016, albeit after strong growth in the first half of the year."

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

UK



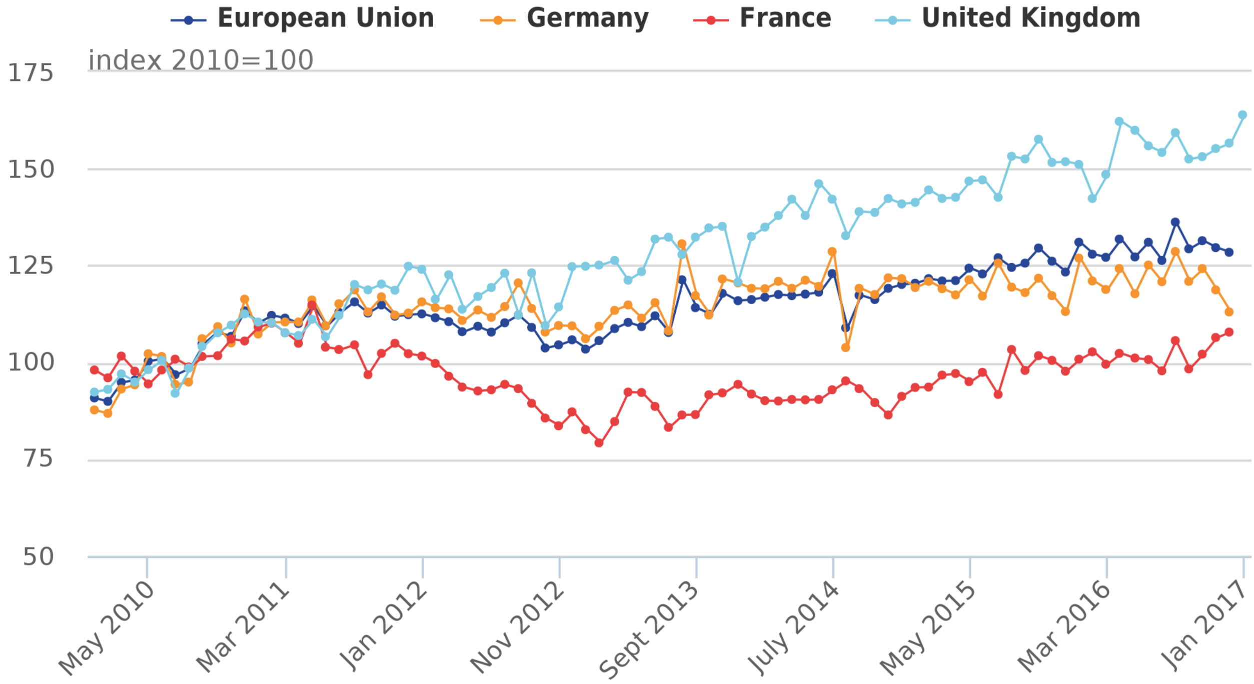
Source: Office for National Statistics

3 . Production

Production output fell by 0.4% in January 2017 following 2 months of strong growth in November and December 2016. The monthly fall was driven by a 0.9% decrease in manufacturing output, partly offset by growth in both the mining and quarrying, and energy industries. While output in both total production and manufacturing fell in January, the longer-term picture is one of growth, particularly for manufacturing. In the most recent 3 months (Nov 2016 to Jan 2017), manufacturing output grew by 2.1% compared with the previous 3 months, the highest rate since May 2010.

[Previous analysis] has shown that growth in manufacturing output since the economic downturn (Quarter 1 (Jan to Mar) 2008 to Quarter 2 (Apr to June) 2009) has been predominantly led by capital goods. Compared with Quarter 2 2009, the production of capital goods increased by 30.7% in the 3 months to January 2017, with the manufacture of motor vehicles, trailers and semi-trailers driving growth – contributing 16.3 percentage points to overall capital goods growth. In the same period, this industry (which comprises 7.2% of the manufacturing sector) contributed 4.6 percentage points to the total manufacturing growth of 10.1%. Figure 2 also shows that the UK motor vehicle manufacturing industry has largely outperformed motor vehicle production in Germany, France and the EU as a whole in terms of growth since the downturn.

Figure 2: Motor vehicle production in the UK, EU, Germany and France, Jan 2010 to Jan 2017, chained volume measures

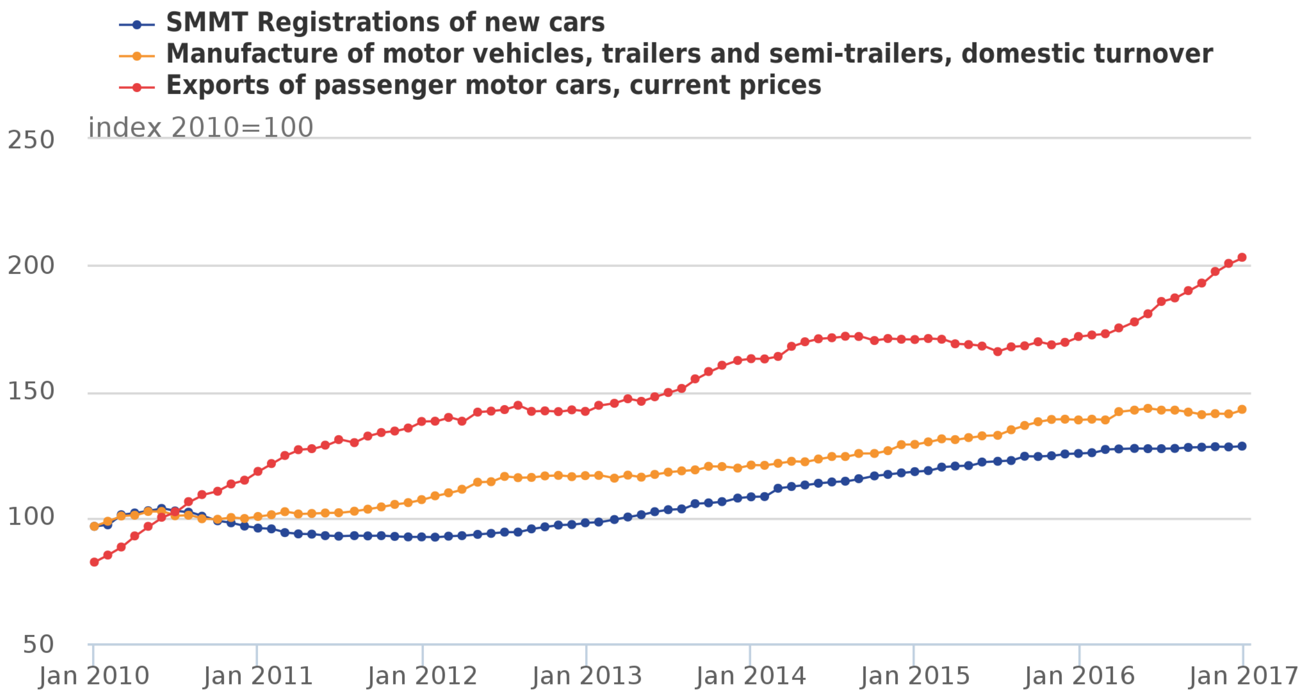


Source: Office for National Statistics and Eurostat

Figure 3 shows manufacturing output and export turnover of the motor vehicle industry on a 12 month rolling average basis. The upward trend in the production of motor vehicles is strongly corroborated by data from the Society of Motor Manufacturers and Traders (SMMT), which shows registrations of new vehicles in the UK trending up since 2012. However, rolling 12 month average growth in motor vehicles production slowed in the second half of 2016.

Figure 3: UK motor vehicle production, exports and new car registrations, Jan 2010 to Jan 2017

Rolling 12 month moving average



Source: Office for National Statistics and Society of Motor Manufacturers and Traders

Figure 3 also shows that the export value of UK motor vehicles started to grow more rapidly towards the end of 2015 after a period of relatively flat growth since June 2014. This outpaced domestic sales growth, resulting in the industry experiencing a rise in the export sales share (from 41.8% in August 2015 to 56.4% in December 2016), though it dropped back in January 2017. One of the factors contributing to this rise in export sales share could be the recent depreciation of sterling.

4 . Trade

The latest trade data reveals that the overall trade deficit remained unchanged at £2.0 billion in January 2017, with total export and import values recording slight increases of 0.8% and 0.6% respectively. While goods exports to the EU grew at a slightly stronger rate (2.1%) compared with non-EU countries (1.1%), imports from the EU also grew by 1.3%, leaving the EU goods trade balance virtually unchanged as well. While there was little movement in trade balances in the month of January, the trade deficit narrowed by £4.7 billion to £6.4 billion between the 3 months to January 2017 (Nov to Jan) and the 3 months to October 2016 (Aug to Oct).

The recent strength in UK motor vehicle production described in the previous section is also reflected in the recent trade figures. The latest data shows that passenger motor vehicles were the UK’s second highest exported commodity behind mechanical machinery in 2016. The value of cars exported by the UK increased by 14.8% in the year to January 2017 with export growth stronger to non-EU countries (17.9%) compared with the EU (10.0%).

Trade prices continue to be heavily influenced by recent sterling movements. Goods export and import prices increased by 2.1% and 2.5% respectively in January compared with December, coinciding with sterling depreciating by 1.7% against a basket of currencies (Figure 4). Figure 4 also shows a close long-run relationship between export and import prices. Breaking down trade prices by products traded with EU and non-EU countries also reveals that a depreciation of sterling against the US dollar (compared with against the euro) has seen non-EU import prices rise at a faster rate than EU import prices. A 10.2% rise in non-EU import prices since June 2016 has coincided with a 13.1% sterling depreciation against the US dollar, while a 6.0% rise in EU import prices has coincided with an 8.2% sterling depreciation against the euro. Previous analysis suggests that the majority of EU trade is undertaken in both sterling and euros, while the majority of non-EU trade is undertaken in US dollars.

Figure 4: UK export prices and import prices, Jan 1998 to Jan 2017

Source: Office for National Statistics

5 . Construction

Construction output fell by 0.4% in January 2017, following consecutive rises in November and December 2016 (0.8% and 1.8% respectively). The largest contributions to the fall in January came from total repair and maintenance (down 1.3%) and total new housing (down 2.1%). Despite the monthly fall, output of total housing remains at historically high levels.

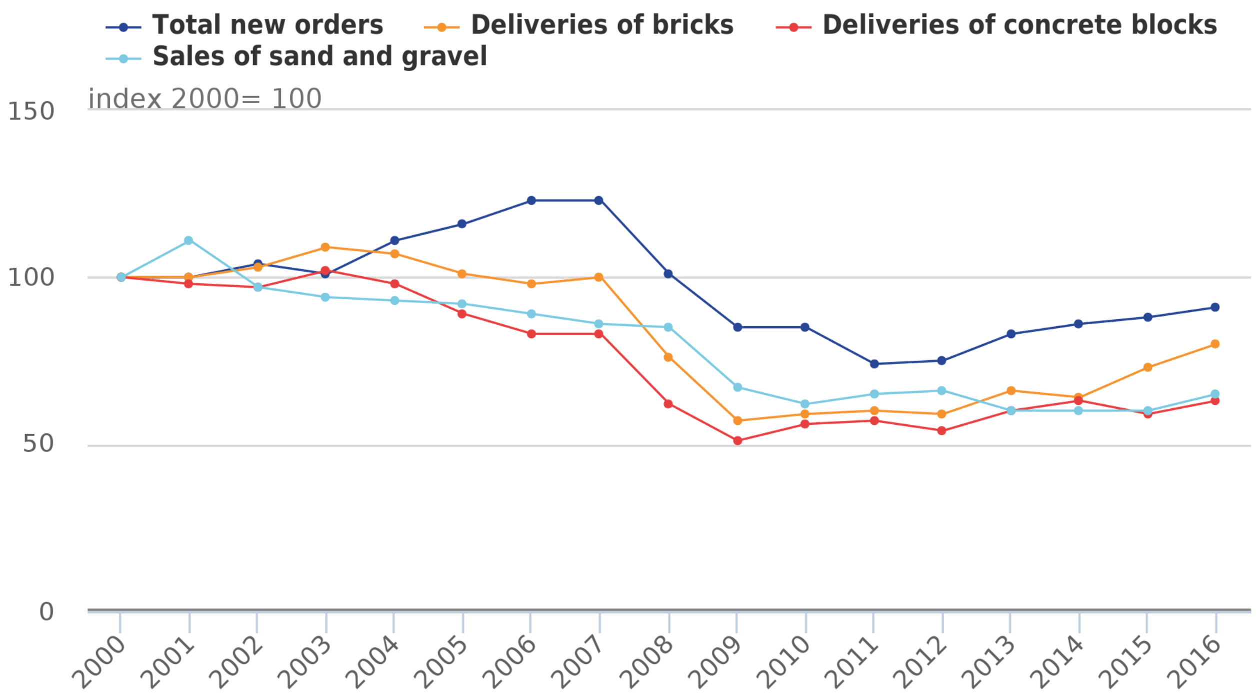
Quarter 4 (Oct to Dec) 2016 data for construction new orders are also released this month. New orders measure the value of new (legally binding) contracts for future construction work and are widely regarded as a leading indicator of construction output volumes.

The latest data shows a second consecutive quarter of decline in total new orders, recording a 2.8% fall in Quarter 4 2016. The fall in Quarter 4 reflected decreases in all sectors, except for public work. As quarter-on-quarter changes in new orders can be volatile, the most recent fall should not necessarily be interpreted as the beginning of a trend decline. New orders remain at a similar level to a year ago (Quarter 4 2015) and are up 2.9% in 2016 (on an annual basis).

Looking over a longer period, total new orders tends to be highly correlated with deliveries of building materials such as bricks, concrete blocks and sand and gravel, as shown in Figure 5.

Figure 5: Total new orders, sales of sand and gravel and deliveries of bricks and concrete blocks, 2000 to 2016

Great Britain



Source: Office for National Statistics and Department for Business, Energy and Industrial Strategy

Notes:

1. All figures are seasonally adjusted volume measures.

Seasonally adjusted deliveries of bricks and concrete blocks both rose in the final quarter of 2016, and the [RICS construction market survey] for the quarter also recorded broadly positive expectations for the sector. While movements in external indicators such as this will not necessarily match movements in ONS new orders data in the short-term (for example, the increase in brick and concrete block deliveries may be linked to the fulfilment of earlier orders), they do suggest that the drop in new orders in Quarter 4 2016 may not be indicative of a long-term trend.