

Article

# Short-term indicators economic commentary: May 2017

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

Contact:  
Katrina Yu  
katrina.yu@ons.gsi.gov.uk  
+44 (0)2075 928694

Release date:  
11 May 2017

Next release:  
9 June 2017

## Table of contents

1. [Main points](#)
2. [Summary](#)
3. [Introduction](#)
4. [Production](#)
5. [Trade](#)
6. [Construction](#)

# 1 . Main points

- Today's (11 May 2017) data indicate that overall UK economic activity grew slowly in Quarter 1 (Jan to Mar) 2017, following growth at the end of 2016.
- Total production output rose by 0.1% in Quarter 1 2017, despite a 0.5% monthly fall in March.
- The total trade deficit (goods and services) widened both in Quarter 1 2017 and in the month of March. In Quarter 1 2017, the trade deficit widened by £5.7 billion to £10.5 billion, mainly due to a 3.3% rise in import values.
- Construction output rose by 0.2% in Quarter 1 2017, despite a 0.7% fall in March.

## 2 . Summary

Both construction and production sectors experienced small quarterly growth in Quarter 1 (Jan to Mar) 2017 despite monthly declines across the quarter. These small monthly declines followed high levels of output in December 2016.

In March, the construction sector was pulled down by falls in the output of housing repair and maintenance, and infrastructure, which were partially offset by new housing work. The largest downward impact on production came from electricity generation, due to warmer than average temperatures.

The trade deficit widened both in Quarter 1 2017 and in the month of March, mainly due to increased imports of oil, chemicals, mechanical machinery, and cars in March.

## 3 . Introduction

The [production](#) and [construction](#) bulletins published alongside this article present revised information regarding economic activity in March 2017 – which was previously based on forecasts and early responses to the Monthly Business Survey. In addition the latest [UK trade](#) data provide the first estimate of goods and services trade in March. [Retail sales data for March](#) and [services output data for February](#) – that complete the set of short-term economic activity indicators – have already been published.

The new estimates indicate that output across the headline industries grew slowly in Quarter 1 (Jan to Mar) 2017, despite consecutive falls in both production and construction activity in the first three months of 2017 – shown in Figure 1.

The monthly decrease in March for production (down 0.5%) reflects output falls in both manufacturing and energy supply sectors, partly offset by rises in the mining and quarrying and water and waste management sectors. Construction output also recorded a fall in March (down 0.7%), driven by falls of 1.8% in total repair and maintenance and 5.3% in infrastructure, while private housing rose by 3.2%. However, on a quarterly basis, activity in both production and construction industries expanded in Quarter 1 2017 by 0.1% and 0.2% respectively.

The overall trade deficit (goods and services) widened both in Quarter 1 2017 and in the month of March, primarily driven by an increase in imports of oil, chemicals, mechanical machinery and motor vehicles. The total trade deficit in Quarter 1 2017 widened by £5.7 billion to £10.5 billion.

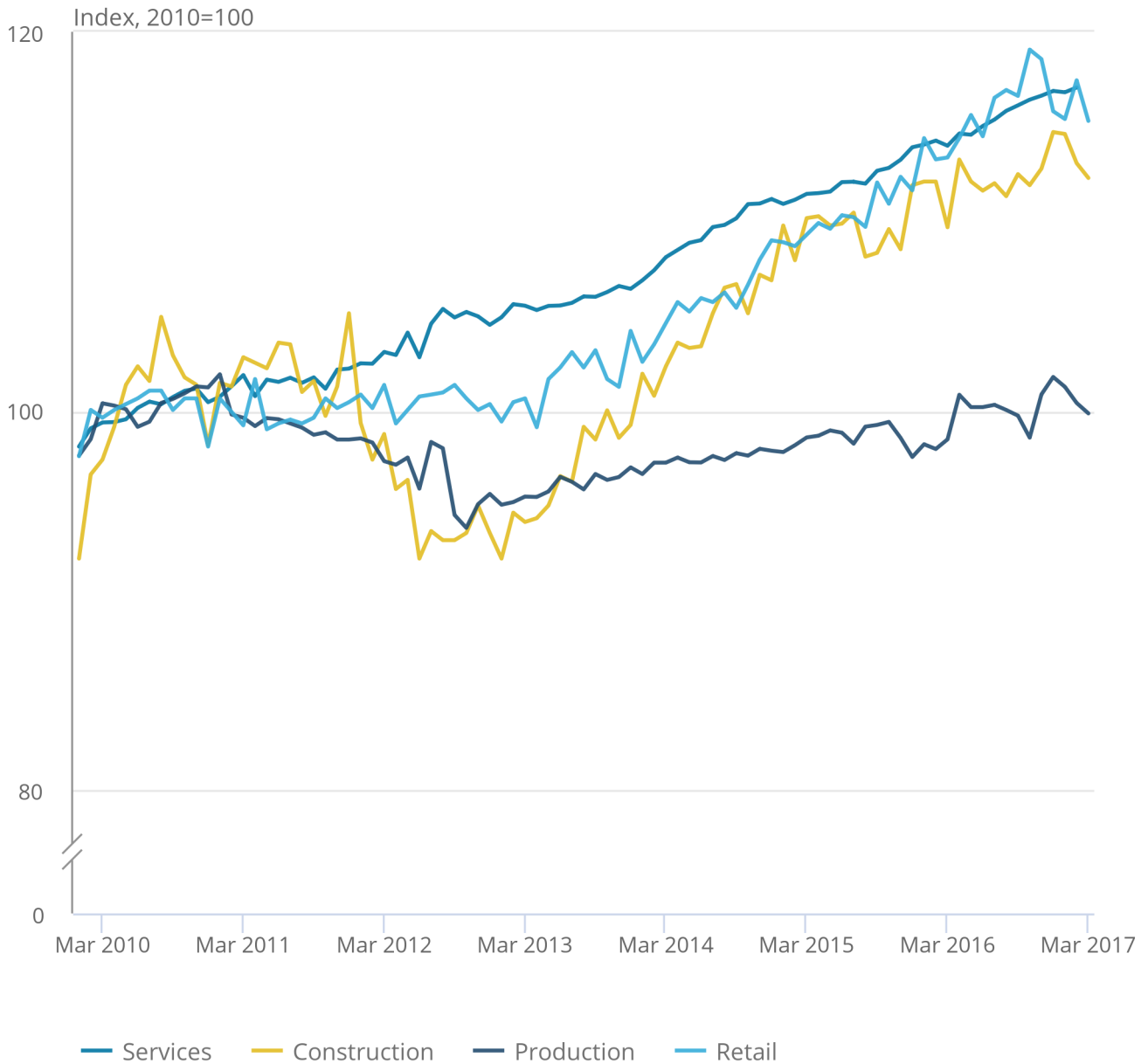
In addition, previously released data shows that output in the services industry increased by 0.2% in February 2017, following a 0.1% fall in January. While services output rose by 0.5% in the most recent 3 months to February compared with the 3 months to November 2016, this 3-month on 3-month growth figure has slowed in each consecutive month since October 2016. [Previous analysis](#) showed that part of the slowdown in services growth has been due to a decline in the output of “consumer-focused” industries such as retail trade. This is consistent with retail sales data released earlier this month, which showed a 1.4% fall in total retail sales volumes for Quarter 1 2017.

The new March data follow the [preliminary estimate of gross domestic product \(GDP\) for Quarter 1 \(Jan to Mar\) 2017](#) (released on 28 April), which suggested that the UK economy grew by 0.3% in the quarter. In today’s release, the growth in the Index of Production estimate for Quarter 1 2017 was revised downwards to 0.1% from the 0.3% published in the preliminary GDP estimate, while there was no revision to construction output. The largest contributions to the revision in production came from revised data for manufacturing and electricity. The potential downward impact of these revisions to the previously published GDP is 0.02 percentage points, which does not impact the headline GDP growth rate to one decimal place.

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

UK

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



Source: Office for National Statistics

**Source: Office for National Statistics**

**Notes:**

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

## 4 . Production

Production output fell by 0.5% in March 2017, following falls of 0.8% in February and 0.5% in January. Manufacturing output fell by 0.6%, and output in the energy supply sector (electricity, gas, steam and air conditioning) fell by 4.2% due to continued relatively warm weather. The manufacture of metal products made the joint biggest negative contribution to the month on month fall in manufacturing output (0.2 percentage points), along with computer, electronic and optical products and transport equipment.

On a quarterly basis, production output grew by 0.1% in Quarter 1 (Jan to Mar) 2017, following growth of 0.4% in Quarter 4 2016. Over the same period, manufacturing grew by 0.3% while output in the energy supply sector fell by 4.3%. The increase in manufacturing was relatively broad-based, with only the volatile pharmaceutical industry and the manufacture of metal products making negative contributions (to 1 decimal place). Transport equipment made the largest positive contribution to manufacturing of 0.3 percentage points.

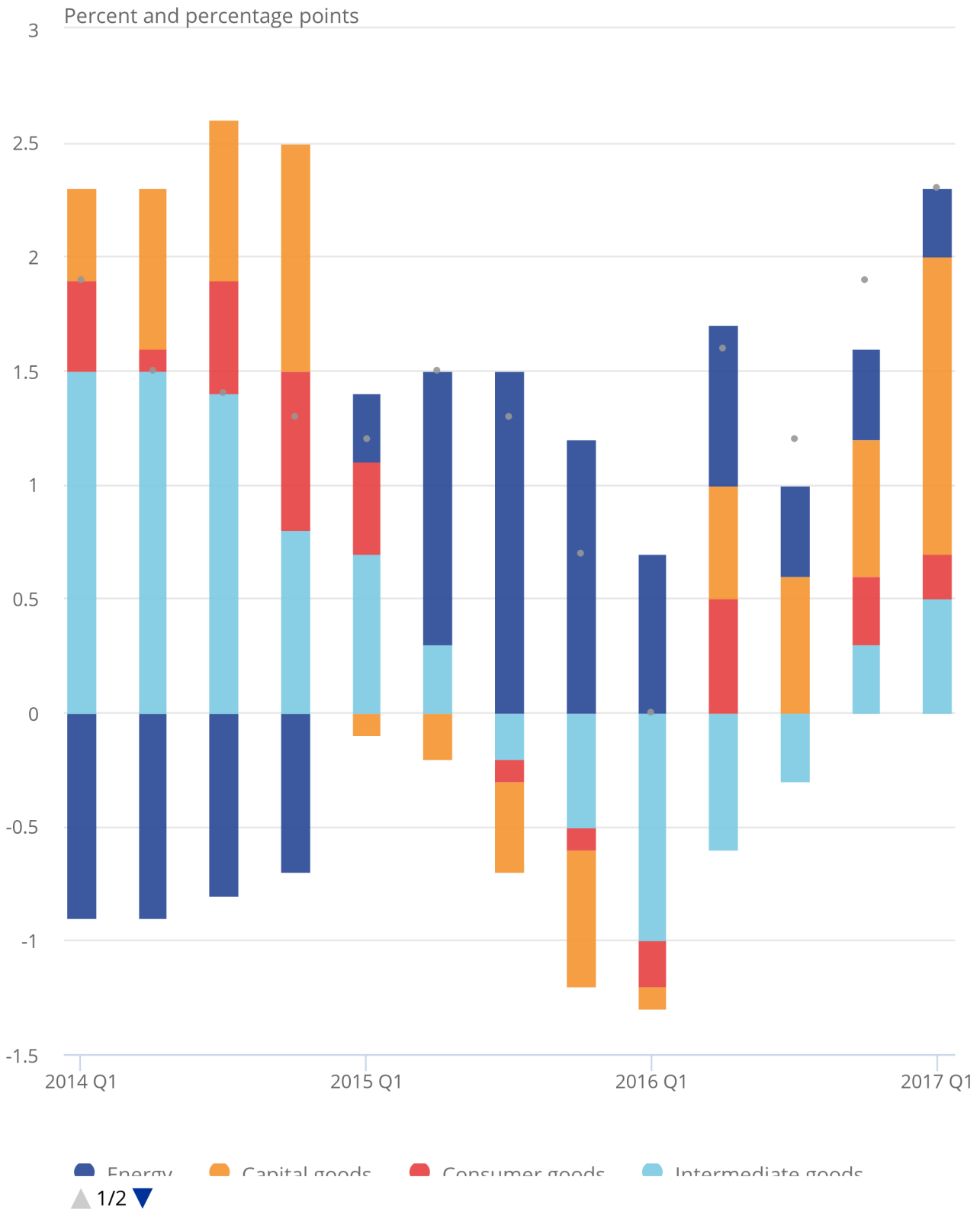
Figure 2 shows contributions of the “main industrial groupings” (which splits output into consumer, capital and intermediate goods) to quarter-on-year growth in production output. In the two most recent quarters, all four main industrial groupings made positive contributions to total production growth, with capital goods making the largest contributions of 1.3 percentage points in Quarter 1 2017 and 0.6 percentage points in Quarter 4 2016. Figure 2 also shows a slowdown in production growth from Quarter 2 (Apr to June) 2015 to Quarter 1 2016, which was driven by falls in the production of intermediate, capital and consumer goods, as well as a slowdown in growth in the energy sector. In 2014, prior to this slowdown, the energy sector made negative contributions to growth in total production, whilst the other groupings were growing, with intermediate goods making an average contribution of 1.3 percentage points over the year.



**Figure 2: Contributions to quarter on same quarter a year ago growth in production by Main Industrial Grouping, Quarter 1 (Jan to Mar) 2014 to Quarter 1 (Jan to Mar) 2017, % change and percentage points**

UK

Figure 2: Contributions to quarter on same quarter a year ago growth in production by Main Industrial Grouping, Quarter 1 (Jan to Mar) 2014 to Quarter 1 (Jan to Mar) 2017, % change and percentage points



Source: Office for National Statistics



Notes:

1. Contributions may not sum to total due to some industries not belonging to a main industrial grouping and one industry being counted in two groupings.

Looking at the period as a whole, contributions of intermediate goods follow a downward trend between Quarter 1 2014 (1.5 percentage points) and Quarter 1 2016 (negative 1.0 percentage points), before becoming less negative and reaching 0.5 percentage points in Quarter 1 2017. Whilst growth in the production of capital goods was negative during part of this period, [previous analysis](#) has shown it has generally been the driver of manufacturing and production growth since the economic downturn (Quarter 1 2008 to Quarter 2 2009).

## 5 . Trade

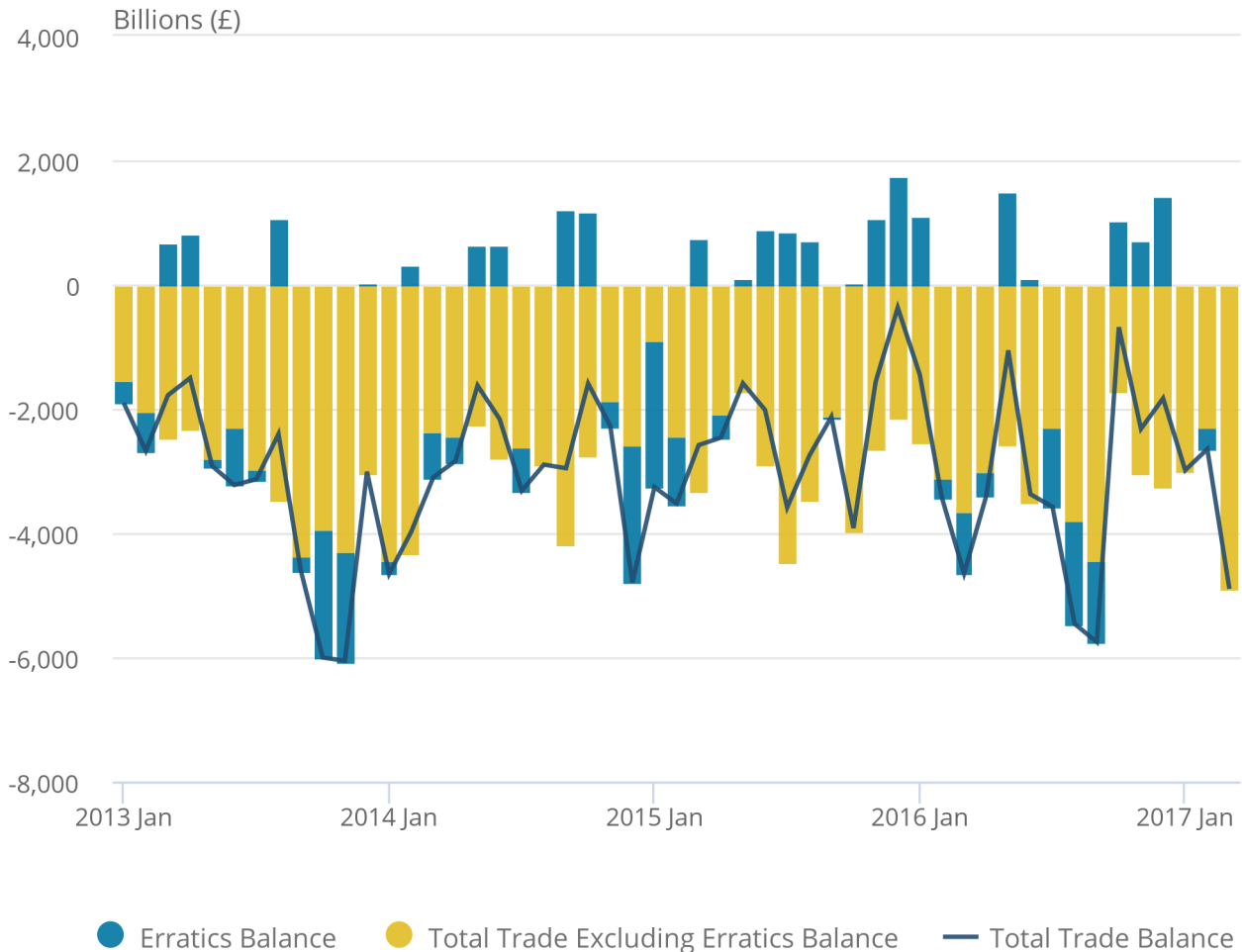
Completing the picture for Quarter 1 (Jan to Mar) 2017, the latest trade data show that the total trade deficit widened by £2.3 billion in March compared with February, with growth in import values (5.6%) greater than growth in export values (1.3%). The total trade deficit also widened on a quarterly basis, from £4.8 billion in Quarter 4 (Oct to Dec) 2016 to £10.5 billion in Quarter 1 2017. This primarily reflected a 3.3% rise in import values (particularly in imports of oil, chemicals, mechanical machinery and motor vehicles) and a 0.5% fall in export values in the quarter.

While the value of goods imports increased from both EU and non-EU countries in the quarter (up 4.5% and 5.7% respectively), a rise in exports to EU countries (up 5.7%) coincided with a fall in exports to non-EU countries (down 3.8%). However, this fall in goods exports to non-EU countries followed an increase of 17.5% in the previous quarter (Quarter 4 2016), which was largely driven by exports of oil and erratic commodities (mainly non-monetary gold and aircraft). This contributed to a narrowing of the total trade deficit in Quarter 4 2016, from £14.8 billion to £4.8 billion.

Looking at trade data excluding erratic commodities can indicate the extent to which trade balance movements are driven by volatile components. Figure 3 decomposes the total trade balance (goods and services) into the trade balance excluding erratic commodities and the erratics trade balance. It shows that for the three months in Quarter 1 2017, the underlying trade picture remains broadly similar when excluding trade in erratics, with the erratics balance totalling only £0.4 billion for the quarter. In comparison, trade in erratics was a driver of movements in the trade balance in Quarter 4 2016, with the erratics balance totalling £3.2 billion in the quarter. Excluding trade in erratics, the narrowing of the trade deficit in Quarter 4 2016 is smaller, narrowing from £10.5 billion to £8.0 billion. The latest trade figures also show that while total export values fell by 0.5% in Quarter 1 2017, total export values excluding erratics rose by 1.3%.

**Figure 3: UK Total Trade Balance including and excluding erratic commodities, Mar 2013 to Mar 2017**

Figure 3: UK Total Trade Balance including and excluding erratic commodities, Mar 2013 to Mar 2017



Source: Office for National Statistics

**Source: Office for National Statistics**

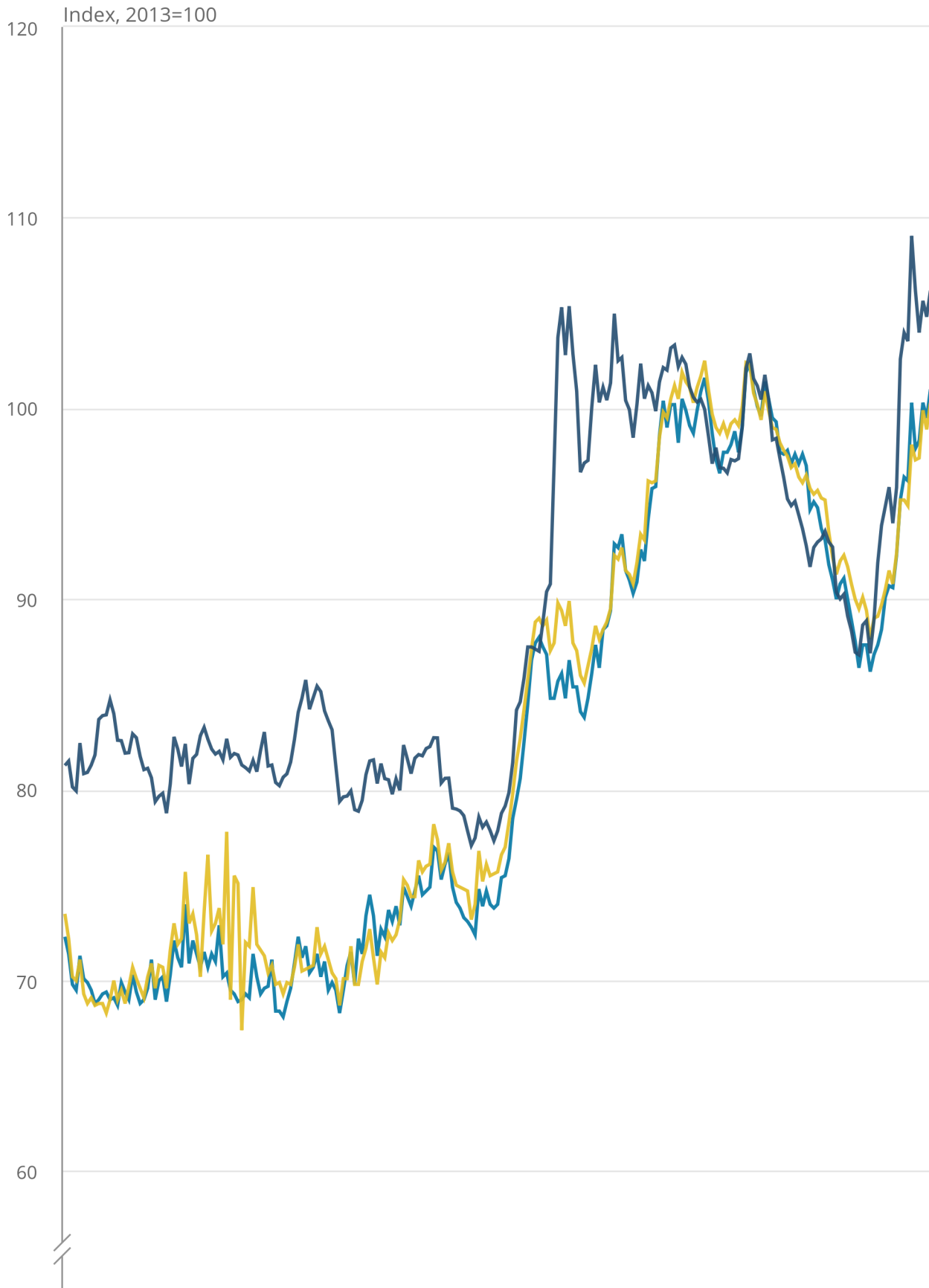
Trade prices continue to move with recent movements in exchange rates. Goods export and import prices rose by 1.5% and 1.4% respectively in March compared with February, coinciding with sterling depreciating by 1.3% against a basket of currencies (Figure 4). Excluding oil and erratic commodities, export prices rose by 1.9% while import prices rose by 1.6%. Looking over a longer period, the value of sterling remains 10.7% lower when compared with March 2016. Over this period, goods export and import prices rose by 12.1% and 10.8% 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.

[Previous analysis](#) also looked into the proportion of EU goods trade conducted in Euros and sterling – trade prices to the EU are affected by exchange rate movements against the euro, with a long-run relationship between export prices to the EU (excluding oil and erratic goods) and the sterling to euro exchange rate. Higher trade prices in March also coincided with a 0.4% increase both the total input price index (the prices manufacturers are charged for intermediate inputs used in the production process) and output price (the prices charged for finished manufactured goods) in the month to March.



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

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





Source: Office for National Statistics

Source: Office for National Statistics

## 6 . Construction

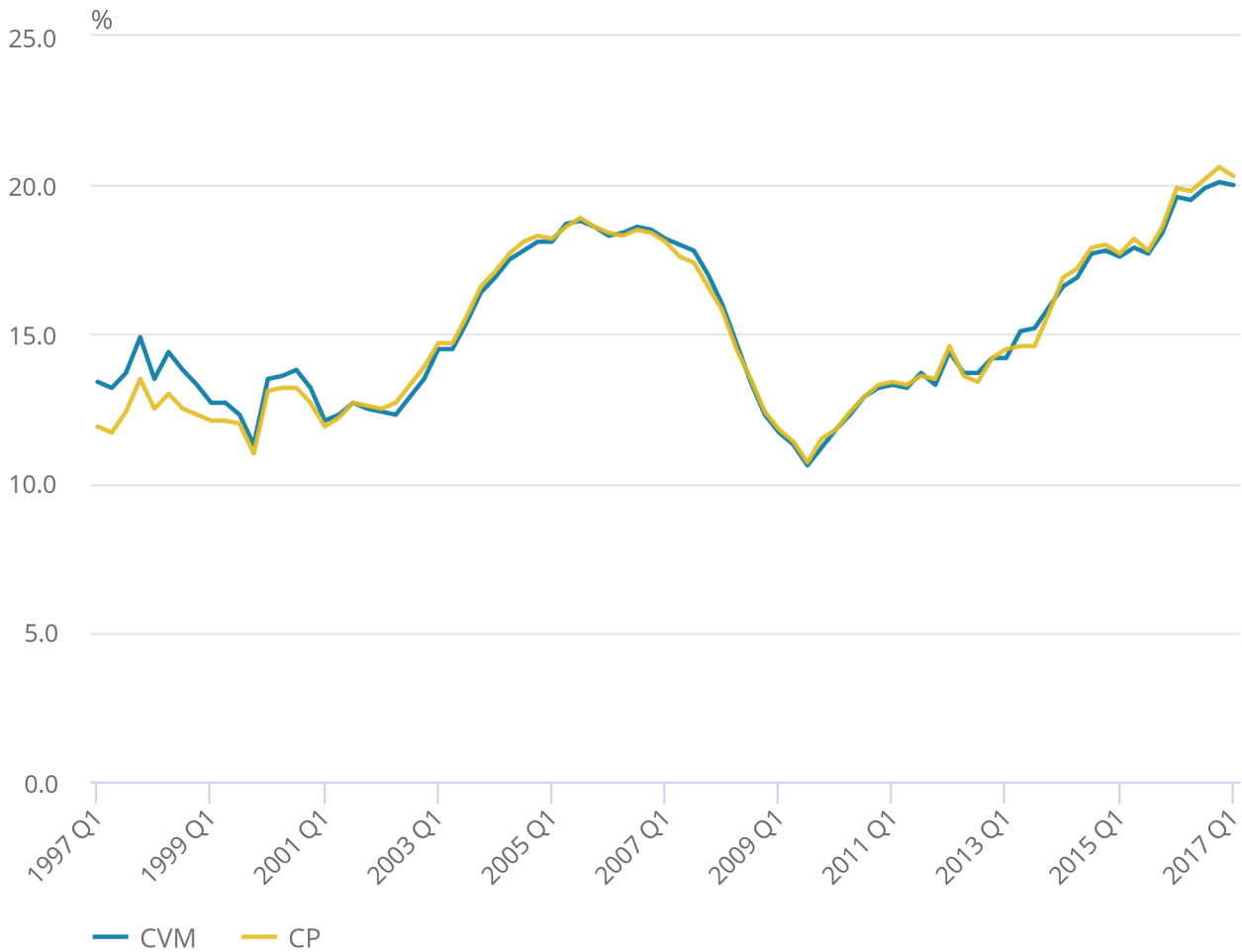
Construction output fell by 0.7% in the month of March, with the largest contribution to the fall coming from infrastructure. For total construction, growth in December (with output at an all-time high) was followed by quarterly growth of 0.2% in Quarter 1 (Jan to Mar) 2017 – a second consecutive quarter of positive growth. This was despite consecutive declines in the first three months of 2017. Compared to the same quarter last year, total construction output has grown by 1.8%.

While total construction output has grown relatively consistently since early-2013, the components of construction have performed unevenly. Private new housing provided the largest positive contribution to construction growth in the month, in line with trend of growth seen in the sector since early-2013. Between Quarter 1 2013 and Quarter 1 2017, private new housing growth accounted for just under half of total growth in construction output (despite accounting for less than a quarter of output in volume terms as of Quarter 1 2017).

Figure 5 shows private new housing output as a percentage of total construction output. The chart shows three distinct periods: prior to the economic downturn (between around 2002 and 2007) private new housing grew faster than total construction. During the economic downturn, private new housing output fell more rapidly than the sector as a whole (roughly halving in size peak-to-trough). Since around 2010, however, growth in private new housing has been faster than total output growth; hence the upward trend in its share of total output.

**Figure 5: Private new housing as a share of total construction output, Quarter 1 (Jan to Mar) 1997 to Quarter 1 (Jan to Mar) 2017, seasonally adjusted volume and current price measures, %**

Figure 5: Private new housing as a share of total construction output, Quarter 1 (Jan to Mar) 1997 to Quarter 1 (Jan to Mar) 2017, seasonally adjusted volume and current price measures, %



Source: Office for National Statistics

**Source: Office for National Statistics**

In the latest month, total repair and maintenance declined by 1.8%, continuing the trend of slightly negative growth seen in repair and maintenance since mid-2014. Another contributor to the latest monthly decline is infrastructure (contributing negative 0.7 percentage points). Infrastructure has performed erratically over time, declining over the last two years following growth in early-2015.