

Round up

Stronger GDP growth in 2016q3

The UK economy grew faster than previously estimated in the third quarter of 2016, as suggested by the ONS. GDP growth was revised up by 0.1 percentage points from the second estimate, to +0.6% in the three months to September.

By contrast, GDP expansion in the first half of the year was slightly slower than earlier estimates, with GDP growth revised down by 0.1 percentage points to +0.3% and +0.6% respectively in the first and second quarter of 2016.

GDP growth revised up
to

0.6%

In 2016q3

Manufacturing investment contracted in 2016q3

Manufacturing
investment at

6bn

In 2016q3

Business investment expanded by 0.4% in the three months to September. This was weaker than previously estimated however (revised down by 0.5 percentage points).

Manufacturing investment in volume terms declined in the three months to September. The quarterly change of business investment in manufacturing came in at -3.9% in the third quarter of 2016. Yet this contraction was mainly attributed to the most volatile components – namely transport equipment and new buildings, while investment in other capital equipment fell by a modest 0.3%, still standing at a higher level than a year ago. Sector-wise, the metals and textiles industries posted positive growth rates, partly offsetting large falls in the first half of the year.

Manufacturing confidence at its highest

Business sentiment across manufacturing ended 2016 on a strong note, largely surprising to the upside. The manufacturing PMI index came in at 56.1 in December, hitting its highest level in 30 months. Consistent with earlier improvements in new orders, output expanded significantly to meet increased demand across all sub-sectors.

New orders continued to improve in December. Firms reported new work inflows from both the UK and overseas markets. The latter is driven by brightening demand prospects in key markets such as the Eurozone, the US and China. In addition, the persistent weak level of the sterling exchange is now providing the long-awaited boost to export competitiveness.

Cost pressures remained high in December, although slightly decelerating from October's peaks. In addition to the weak pound, the ongoing recovery in commodities prices is also contributing to the rise in input costs.

Manufacturing PMI at

56.1

In December

Consumer confidence on a rollercoaster

Consumer confidence
index at

-7

In December

It has been a roller-coaster year for consumer confidence in 2016. After large fluctuations since the outcome of the EU referendum, the GfK index increased one point to -7 in December. The modest gain was underpinned by a strong improvement in the major purchase index, suggesting resilient households' consumption in the last quarter of 2016. The savings index also improved significantly. The trend is likely to reflect consumers' early reaction to the upcoming rise in inflation as a result of the weak pound and the recovery in oil prices.

However, consumers continued to be pessimistic about the general economic situation, with the sub-component being at its lowest level since December 2013.

Chief Economist's Comment

2016 looks to have ended on a reasonably positive note for the UK economy. GDP growth in the third quarter showed no ill effects from the referendum and business surveys are showing a fairly consistent picture of solid activity and strengthening confidence across the private sector. The labour market has demonstrated similar resilience with unemployment remaining stable and earnings growth picking up. The predicted post-referendum increase in inflation is also starting to materialise – the effects of the drop in the oil price are now dropping out of the series and some pass through from higher import costs will become more apparent in the coming months.

This is not the story of the UK economy that many expected to hear in the wake of the Brexit vote. Yet I still believe there is some value in outlining how the UK economic outlook might evolve over the coming year. Our central expectation is that the pick-up in inflation will weigh on consumer spending power and households will make a small contribution to growth this year than last year. If, as we expect, Sterling stays weak, then net trade should provide a boost to real GDP. The outlook for investment is less rosy in our view – the referendum outcome aside, we were expecting a softening in the pace of growth, but this is likely to be exacerbated by Brexit negotiations.

The magnitude of these factors is, however, highly uncertain and the potential for any number of events to shift the direction of travel feels greater than usual. These events are not confined to those in the UK, rather the early decisions of the new US president; elections in European economies; economic rebalancing in China could all potentially be importance determinants of the fortunes for the UK economy and UK manufacturers over the course of 2017.

Data summary

| | Period | Figure | Reference | Trend |
|---|----------|--------|-----------|-------|
| UK GDP growth | 2016 Q3 | 0.6% | q-on-q | ↑ |
| UK Manufacturing PMI (Index) | 2016 Dec | 56.1 | m-on-m | ↑ |
| UK Services PMI (Index) | 2016 Dec | 56.2 | m-on-m | ↑ |
| Eurozone Manufacturing PMI (Index) | 2016 Dec | 54.2 | m-on-m | ↑ |
| EEF Annual GDP Forecast | 2016 | 2.1% | y-on-y | ↑ |
| EEF Pay Settlements | 2016 Oct | 2.0% | 3m-on-3m | ↑ |
| Average earnings – manufacturing | 2016 Oct | 2.5% | 3m-on-3m | ↓ |
| Average earnings – whole economy | 2016 Oct | 2.5% | 3m-on-3m | ↑ |
| UK ILO Unemployment rate | 2016 Oct | 4.8% | 3m-on-3m | ↔ |
| CPI inflation | 2016 Nov | 1.2% | m-on-m | ↑ |
| RPI inflation | 2016 Nov | 2.2% | m-on-m | ↑ |
| UK Consumer Confidence Index | 2016 Dec | -7 | m-on-m | ↑ |
| Index of Production | 2016 Oct | -1.3% | m-on-m | ↓ |
| Index of Manufacturing | 2016 Oct | -0.9% | m-on-m | ↓ |
| UK Trade - Goods balance (£billion) | 2016 Oct | -13.6 | m-on-m | ↓ |
| Business Investment (£m, current prices) | 2016 Q3 | 45,873 | q-on-q | ↑ |
| Manufacturing Investment (£m, current prices) | 2016 Q3 | 6,020 | q-on-q | ↑ |
| UK Debt to GDP level | 2014/5 | 83.6% | y-on-y | ↑ |
| UK Current Account Balance % of GDP | 2015 | 5.2% | y-on-y | ↓ |

Sources: ONS, Markit, GfK NOP, EEF and Oxford Economics