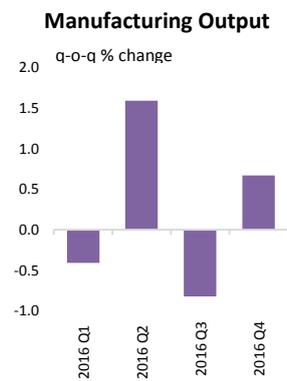


The UK economy ended 2016 on a strong footing, with GDP growth posting at 0.6% in the final quarter of the year. Looking at 2016 as a whole, output increased by 2.0%, driven by a solid expansion in the services sector. Manufacturing also provided a positive, yet modest contribution to annual growth.

- Manufacturing activity expanded by 0.7% in the final quarter of 2016, putting annual growth at 0.3% after a 0.2% contraction in 2015. There were large variations across sectors, however. Transport equipment saw a solid expansion, growing by 3.7% over the year. By contrast, uncertainty and weak prospects for business investment weighed on capital goods.
- The UK economy maintained its momentum in the final quarter of 2016, underpinned by the strong performing services sector. At its February meeting, the Bank of England left interest rates unchanged, but significantly upgraded the outlook for the UK economy for the years ahead. They now expect GDP to increase by 2.0% in 2017 and 1.6% in 2018.
- Risks remain largely skewed to the downside, however. There is a great degree of uncertainty around future wage growth and how it could affect consumer spending in the coming years.

Manufacturing ended 2016 on a strong note													
Output	↑	<ul style="list-style-type: none"> • Output expanded by 0.7% in 2016q4, recovering from a 0.8% contraction in the previous quarter. 	 <p>Manufacturing Output q-o-q % change</p> <table border="1"> <tr><th>Quarter</th><th>q-o-q % change</th></tr> <tr><td>2016 Q1</td><td>-0.2%</td></tr> <tr><td>2016 Q2</td><td>1.5%</td></tr> <tr><td>2016 Q3</td><td>-0.8%</td></tr> <tr><td>2016 Q4</td><td>0.7%</td></tr> </table>	Quarter	q-o-q % change	2016 Q1	-0.2%	2016 Q2	1.5%	2016 Q3	-0.8%	2016 Q4	0.7%
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2016 Q3	-0.8%												
2016 Q4	0.7%												
Employment	↓	<ul style="list-style-type: none"> • Manufacturing headcount decreased in the three months to September. • Growth in earnings is losing momentum and the share of pay freezes is drifting up. 											
Investment	↓	<ul style="list-style-type: none"> • Manufacturing investment contracted by 3.9% in volume terms in 2016q3. • While political uncertainties are likely to be weighing on investment intentions, a collapse is unlikely as companies need to expand capacity to meet new orders. 											

Challenges	Bright spots	Outlook for 2017
<ul style="list-style-type: none"> - In addition to the dive in sterling, cost pressures intensified with the recovery in oil and commodities prices. - Sterling volatility is a concern among manufacturers. - Pickup in CPI inflation likely to affect households' purchasing power and the demand for consumer goods - Uncertainty about demand prospects likely to affect investment intentions 	<ul style="list-style-type: none"> - Weak Sterling provides a boost to export orders - Brighter demand prospects in key export markets: growth in Euro area, US and China strengthened in the final quarter of 2016 - Headwinds from the energy sector are waning as a result of the recovery in oil prices 	<ul style="list-style-type: none"> - The UK economic momentum continued into 2017 with strong manufacturing PMI in January - However, services PMI fell below long-term average in January, a sign that the sector could be losing momentum - Solid export orders and persistent weak sterling will boost overseas sales - Higher inflation and subdued growth in wages pose a risk to consumer-related sectors