Economy Module

Data Alert: UK output, trade & costs

Latest ONS releases

March 2011

Introduction

These data alerts highlight key economic statistics as they are released and relate the messages they convey to the SW economy.

This particular alert considers the raft of UK indicators that emerged around the 11th March. The main message for SW business is that weather effects were important over the year change but that the fundamental picture of stagflation remains.

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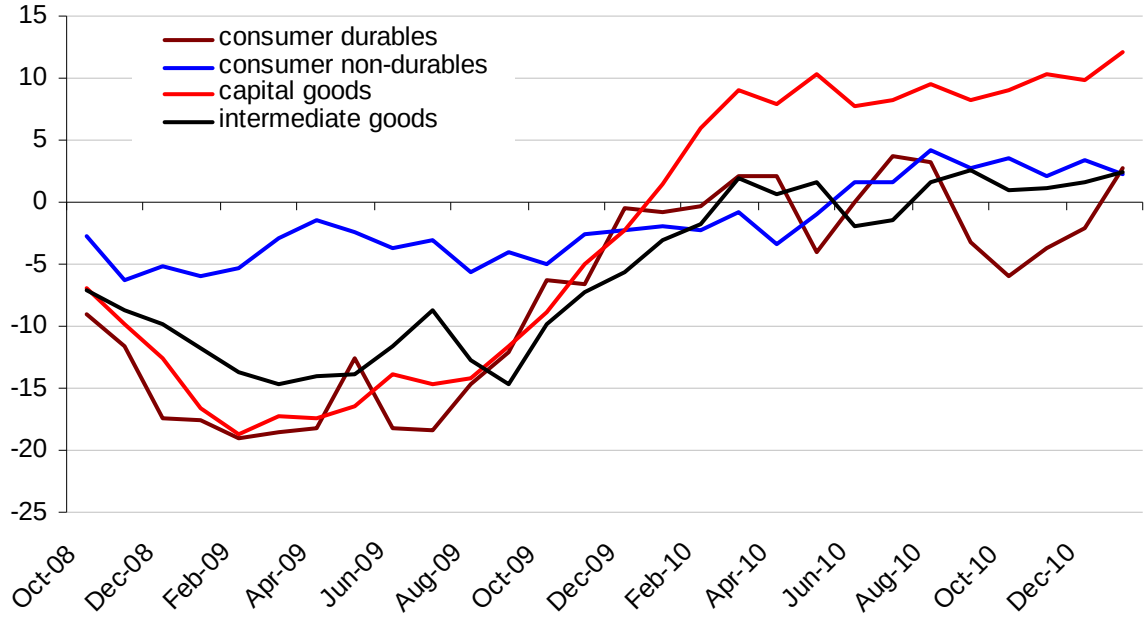
Data Headlines

The ONS has just released monthly data on construction and industrial production, factory prices and international trade.

- In the three months to January, construction output was 13.9% lower than the preceding equivalent period. This large fall was led by a massive drop in repair and other areas of public works. The construction sector may have gone back into recession.

- In January, industrial production was 4.4% higher than a year earlier, led by a 6.8% increase in manufacturing. The overall figure, however, was still 10% or more below the pre-recession peak. Moreover, most of the current growth is in capital goods (see Figure 1 below). Other manufacturers are still having no more than a modest and volatile upturn. In other words, a manufacturing recovery is underway but there is a considerable way to go before the downturn will be over. With investment intentions, at best, modestly better, the recession's damage to UK productiveness remains evident.

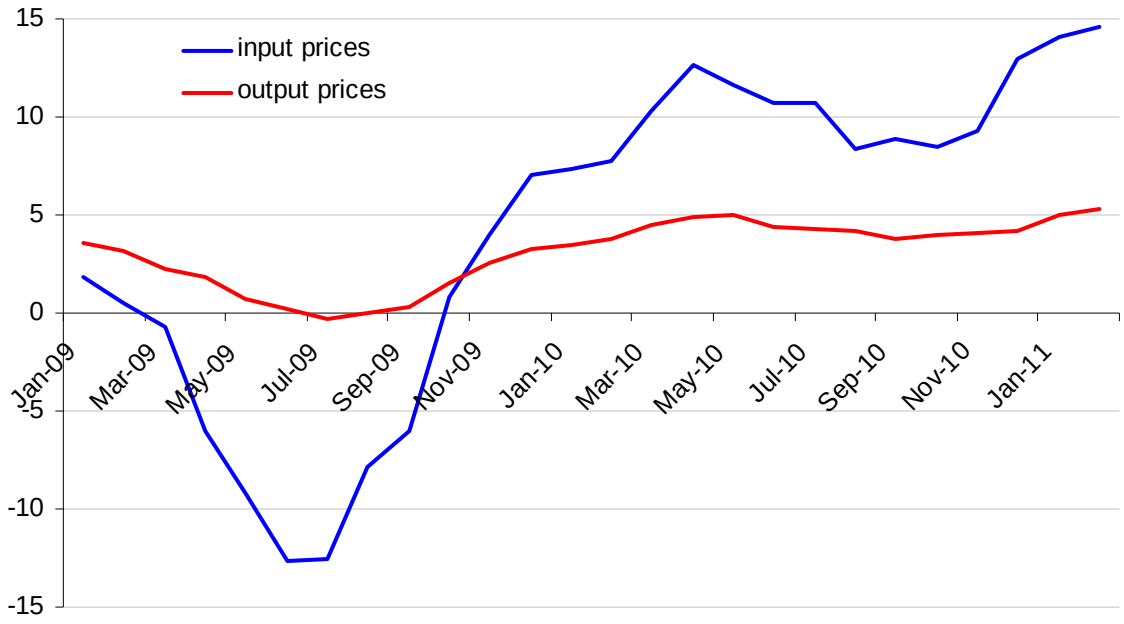
Figure 1: Industrial production, % change, year-on-year to January 2011



- January's trade deficit (-£3bn) was smaller than the December net total, but the latter was revised even higher (£5.5bn). It seems the weather conditions in December may have delayed some outward shipments. As we saw a year ago, a clearer picture emerges if we average these two months, yielding a deficit of £4.25bn. This confirms the gradually deteriorating trend seen since the recession. To export, UK companies need to import: a catch-22 that makes economic rebalancing very difficult.

- Meanwhile, input and producer price inflation is accelerating (see Figure 2 below). In the year to February, they were 14.6% and 5.3% higher respectively. Commodity prices are leading this cost push, especially fuels, metals and foodstuffs.

Figure 2: Cost inflation: % change, year-on-year to February 2011



From these data releases, we can see that activity is sluggish and inflation surging. The threat and reality of stagflation is evident across the UK economy.

Prospects

The UK economy accelerated through the first half of 2010 but lost momentum thereafter and ended the year relatively flat. This weak tone has continued into 2011, fed by uncertainties over the global background, fiscal realities and domestic demand.

At the same time, inflation has been building up, with the Bank of England's MPC clearly split about whether this is another round of temporary pressures that will drop out of the numbers in due course or whether the risk is that internal inflation expectations are about to rise.

For SW businesses and workers, this macroeconomic story paints a picture of testing trading and employment conditions for the spring. Many will be looking to the "Budget for Growth" heralded by the Chancellor for 23rd March to counter the risks of a 'stagflating' economy through the rest of the year.

However, with avowedly little government money to spend on enterprise zones or partnerships, a general mismatch between macro (laissez faire) and micro (interventionist) policies for business, and last year's emergency budget measures only now about to bludgeon consumer confidence and spending, the prospects for the South West's economies remain subdued.

Nigel Jump, March 2011

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