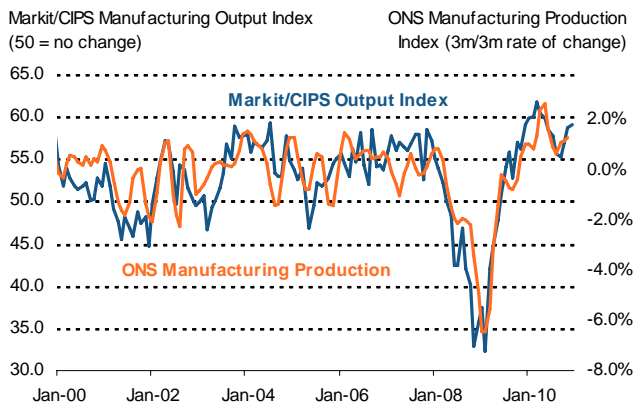


UK manufacturing

Manufacturing production up 0.6% in November

November data from the ONS reported a 0.4% monthly increase in industrial production, slightly below market expectations, but still an improvement on the marginal drop seen in the previous month. Manufacturing was the strongest performer within the sector, seeing a 0.6% increase, whereas mining and extraction was a drag on growth – reporting a 0.7% decline in output.

Manufacturing overview



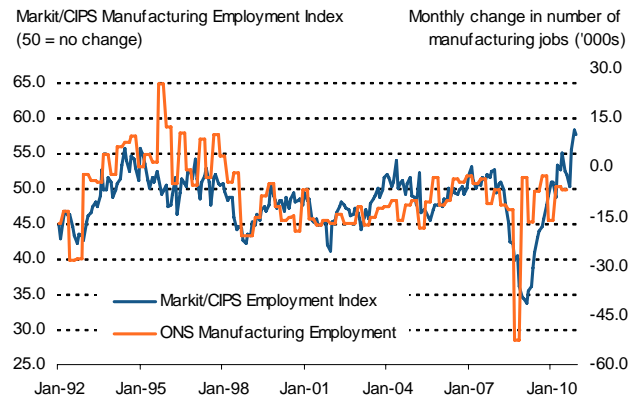
Given the volatility of the official monthly manufacturing data, it is often more illuminating to view the underlying trend of the performance of the sector. On a 3month-on-3month basis, manufacturing production rose by 1.2% in November, unchanged from the rate seen in October. At first glance, this appears to be slightly at odds with what was reported by the Markit/CIPS manufacturing PMI survey, which showed a clear acceleration in the trend rate of manufacturing sector growth between October and November.

If we assume that the official data are indeed correct, then the acceleration in manufacturing output signalled by the PMI in December would place the quarterly rate of manufacturing growth at the end of the year somewhere in the region of 1.5%. However, closer inspection of the ONS data for October shows that the growth rate was revised up from the originally reported 1.1%. This raises the possibility that the November ONS data will be similarly revised in the future. Given the accelerations signalled by the PMI for both November and December, the rate of expansion at the end of last year would therefore be closer to that

signalled by the PMI survey which, based on historical comparison, is broadly consistent with growth of around 1.8%.

Under either of these scenarios, the rate of growth for 2010 as a whole would be around 4%, the fastest since 1994. The average reading for the PMI Output Index during last year was also the highest since 1994.

Manufacturing Employment



Further signs of a maturing recovery in the sector are also being shown in the labour market. The December PMI pointed to near-record manufacturing job creation, following on from November's series record high, and are broadly in line with employment rising by around 20,000 in the final quarter. Companies appear to be positioning themselves to at least maintain current production volumes into 2011.

All of this suggests that the UK manufacturing sector saw a spectacular end to 2010 and should generate a meaningful contribution to economic growth in the fourth quarter to offset likely weakness in other sectors such as services and construction.

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