Office for National Statistics

Article

Short-term indicators economic commentary: Jan 2017

A summary of the latest economic data released on 11 January.

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Release date:
11 January 2017

Next release:
10 February 2017

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1 . Main points

- Taken together, the short-term indicators show overall UK economic activity has continued to grow in recent months. However, the performances of the headline industries remain widely varied and the trade balance has not seen a sustained improvement.

- Apart from services, growth has been erratic and far more subdued. While production rebounded from a temporary fall in October, overall production output has been broadly flat for the last few months. In addition, construction declined for the second consecutive month. However construction new orders – a leading indicator of construction output – held up in Quarter 3 (July to Sept) 2016 while the manufacturing industry has seen rising export values relative to domestic sales over the last 12 months.

- The latest UK trade figures also showed strength in goods exports, driven by orders from the EU. However this has been accompanied by increases in imports from both EU and non-EU economies, which has resulted in a widening of the overall goods trade balance in November.

- While no new services data have been released today, previously published data show activity remains robust across a range of sub-industries, but has recently been driven by a faster rate of growth in “consumer-focused” industries such as retail, food and beverage services.

2 . Introduction and statistician comment

The 3 bulletins published alongside this article present new information on economic conditions in November 2016, with data available for output in the production and construction industries, as well as the trade balance. These new estimates for November – together with November retail data already published and October data for services – continue to show a growing UK economy, but with variation in the performance of individual industries. The latest data follow gross domestic product (GDP) growth of 0.6% in Quarter 3 2016, a rate unchanged from the previous quarter and in line with longer historical trends.

Commenting on today's short-term indicator figures, Senior ONS statistician Kate Davies said:

“Today’s figures continue to paint a mixed picture of the UK’s economic performance. Production saw significant growth, mainly down to increased oil and gas output as the Buzzard field came back online along with a boost from the volatile pharmaceuticals industry.

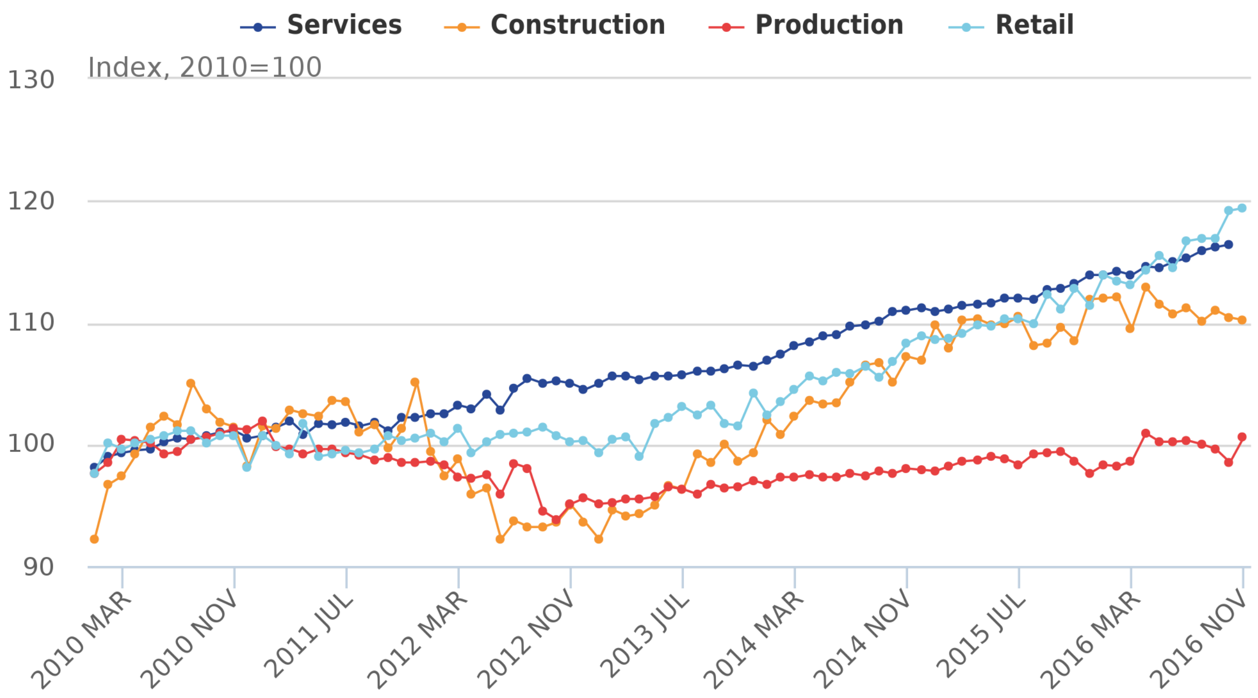
“However, the trade deficit widened as imports of transport equipment, chemicals and portable computers helped eclipse rising exports, while falls in repair work and commercial building led to a small overall decline in construction.

"Overall, construction and production output has been broadly flat over the last few months.”

The services industries – which drove overall gross domestic product (GDP) growth in Quarter 3 (July to Sept) 2016 – saw their output rise by a further 0.3% in October, continuing a rate of growth seen over the last 6 years. Production output also rose by 2.1% in November, following a fall in output in the previous month; however a significant proportion of this growth (as well as the fall in the previous period) reflects the timing of maintenance for some North Sea oil rigs. Overall, production output has remained flat in the past few months. The construction industry recorded a slight fall in monthly output, with a decline in all repair and maintenance outweighing growth in new housing construction.

Figure 1: Summary of short-term indicators, Jan 2010 to Nov 2016, indexed to 100 at 2010 levels, chained volume measures

Jan 2010 to Nov 2016



Source: Office for National Statistics

Notes:

1. Services data are only available up to October 2016, while construction, production and retail data are available to November 2016.

Looking over a longer period shows services provided the largest and most consistent contribution to growth in the UK economy over the last couple of years. Figure 1 plots output across the 3 headline GDP output components, as well as the volume of retail sales, from the start of 2010. Between Quarter 1 (Jan to Mar) 2010 and Quarter 3 2016 services accounted for 13.3 percentage points of the 14.7% overall gross value added (GVA) growth – a higher proportion of that growth than the industry's relative size – while construction and production growth were more erratic over this period[1]. Both have also clearly been more subdued since the start of 2015.

Notes for: Introduction and statistician comment

1. Gross Value Added (GVA) is a measure of the value of goods and services output (excluding intermediate consumption). GVA plus taxes and minus subsidies is equal to gross domestic product (GDP).

3 . Services

Services output has recently been supported by strong growth in a range of "consumer-focused industries", as well as retail trade. For example Figure 1 shows retail sales continuing to outpace total services output (sales rose 2.1% in the 3 months to November 2016, the fastest rate since January 2015). The value of internet retail sales has risen strongly in recent months: comparing the 3 months to November 2016 with the 3 months to November 2015 shows growth of 26%, the fastest rate since August 2009. Services industries that include restaurants, cafes, bars, and TV and cinema activities also recorded stronger growth compared to total services in Quarter 3 2016.

The role of tourist behaviour in contributing to this activity is difficult to assess. Growth in the volume of "watches and jewellery" sales rose strongly from 9.8% in July to 16.6% in October, which could be attributed to tourists taking advantage of the weaker sterling value. However, the series can be erratic and growth subsequently [fell back to 10.6% in November](). In addition data from our International Passenger Survey up to October 2016 suggests that the number of trips to the UK has been flat since the start of the year, and that average expenditure per trip declined over the same period.

4 . Production

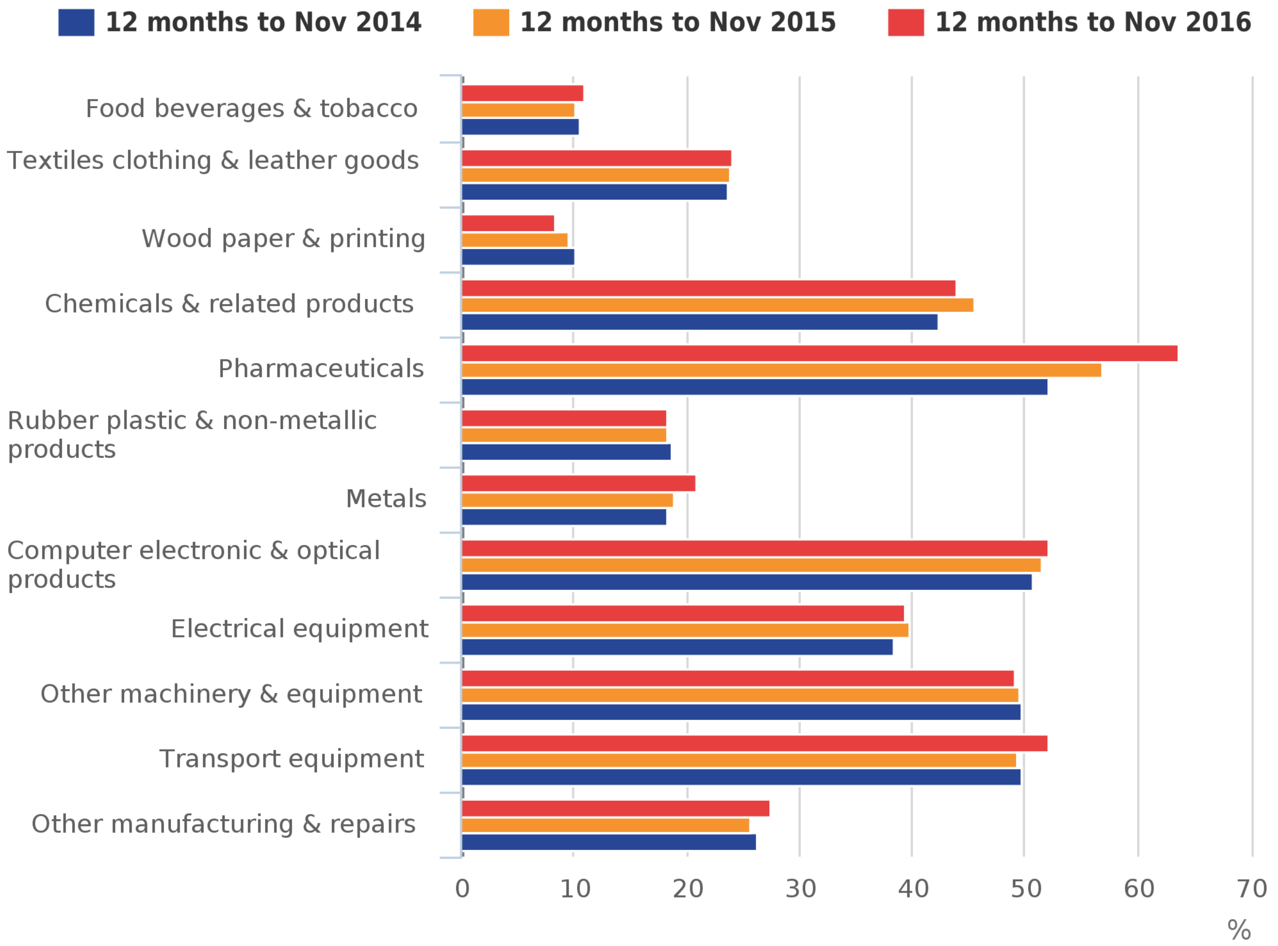
Although production output fell immediately following the end of Quarter 3 in October, the latest data show output rising by 2.1% in November, the largest monthly increase since April 2016. These data were strongly affected by movements in oil extraction output, which fell by 9.8% in October and bounced back to grow by 10.3% in November (subtracting and adding approximately a percentage point to production growth respectively). Both reflect the timing of maintenance for some of the North Sea's oil rigs – which temporarily reduces output for the duration of the work.

However away from this temporary factor, manufacturing output also saw a broad-based rise in output, recovering by 1.3% in November following a 1.0% fall in October. Some respondents cited that their customers brought forward UK export orders soon after the sharp fall in sterling in July, and the latest month showed further strength in export figures for both the pharmaceutical and motor vehicle industries.

This continues a longer-run trend of rising manufacturing export turnover relative to domestic sales turnover, across a large number of manufacturing sub-industries shown in Figure 2. Those that have increased their share by the largest amount include pharmaceuticals – which attributed 64% of turnover to exports in the 12 months to November – as well as computer and electrical products and transport equipment.

Figure 2: Export share of total manufacturing turnover

UK, rolling 12 month average, non-seasonally adjusted



Source: Office for National Statistics

5 . Trade

The latest trade figures showed continued strength in goods exports in November 2016. Although the UK trade in goods deficit worsened in November – to £12.2 billion from £9.9 billion – the overall value of goods exports rose 2.8% in the month and by 13.5% in the year to November. Exports rose most strongly to the EU (8.7%) but this coincided with a 9.4% rise in imports from the EU, leading to a widening of the EU goods trade balance (Figure 3). The trade balance with the “rest of the world” widened to a greater extent – with exports to this group falling 2.4% while imports rose 7.0%.

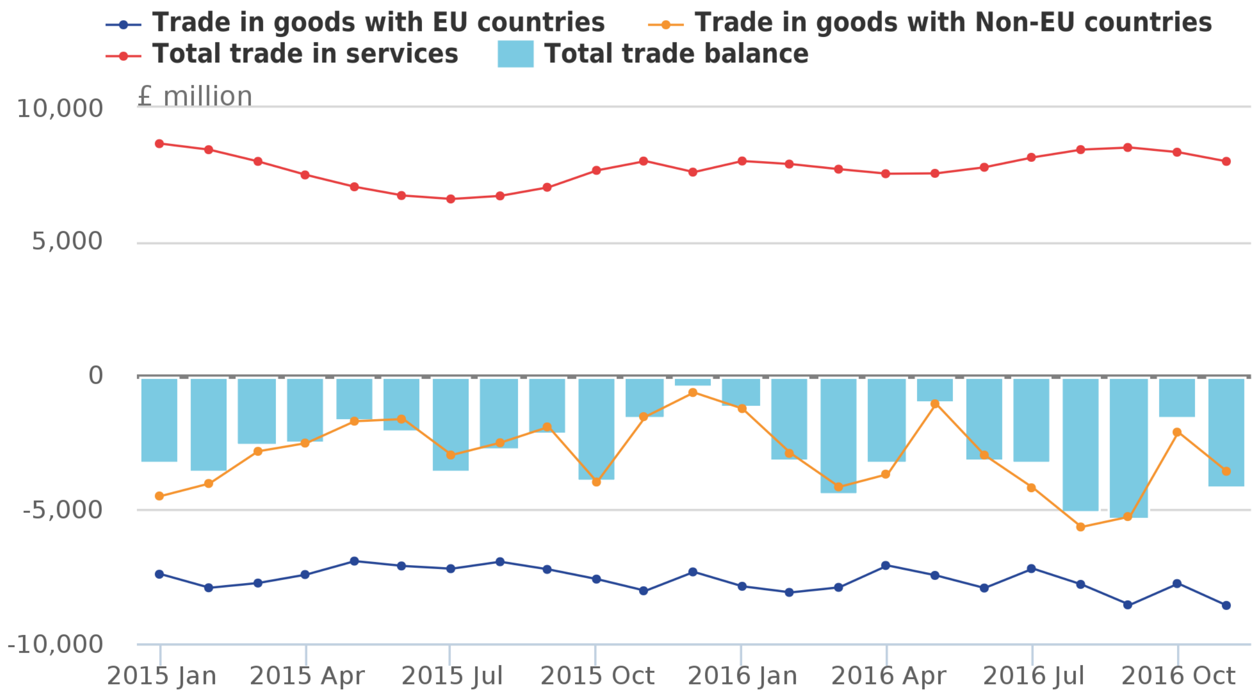
It should be noted that trade prices have been heavily influenced by recent sterling movements. Goods export and import prices have fallen slightly in November (by 1.9% and 1.0 % respectively), coinciding with sterling appreciating by 2.7% against a basket of currencies. Additional information on sterling movements and its effect on trade prices can be found in the Economic Review and Producer Price Inflation publications.

Lower trade prices have also coincided with a 1.1% fall in the total input price index (the prices manufacturers are charged for intermediate inputs used in the production process) and flat output price growth (the prices charged for finished manufactured goods) in the month to November.

More broadly, the IMF global commodity price index (on a dollars basis) also fell by 1.2% in November 2016 but remains 9.5% higher compared with November 2015.

Figure 3: UK Trade balance, Balance of Payments Basis, seasonally adjusted, current prices

UK



Source: Office for National Statistics

6 . Construction

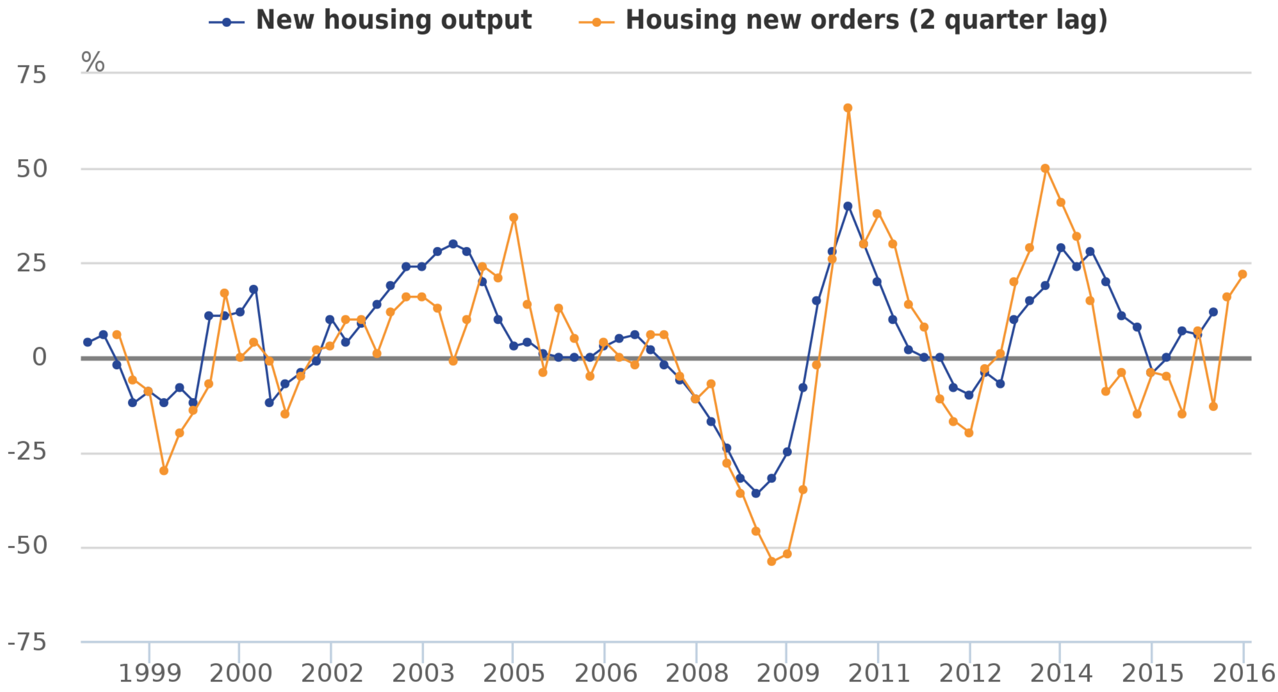
Although construction output grew strongly between 2013 and 2015, output has been subdued since and the latest month showed the second consecutive month of falling output. However there have been large differences in the performance of lower level types of work. For example comparing November 2016 with November 2015, new housing work grew by 12.6% over this period. In contrast, all repair and maintenance (which accounts for just over a third of construction output) fell by 3.6%.

While construction output fell slightly (0.2%) in November, and has fallen slightly since early-2016, new construction orders held up in the latest data. New orders measure the value of new (legally binding) contracts for future construction work and are widely regarded as a leading indicator of construction output.

Despite a small decline between Quarter 2 (Apr to Jun) and Quarter 3 (July to Sept) 2016, the volume of new orders remains 5.5% higher than Quarter 3 (July to Sept) 2015: types of work that were especially strong were new housing and commercial work to tender. Figure 4 shows that new housing output tends to be best correlated with a 2 quarter lag in new housing orders. The growth of housing orders suggests that any pre-referendum uncertainty that existed did not translate into a trend decline in housing new orders to tender.

Figure 4: New housing construction output and housing new construction orders (2 quarter lag), quarter on previous year growth, chained volume measures

UK, Quarter 1 (Jan to Mar) 1998 to Quarter 3 (July to Sept) 2016



Source: Office for National Statistics

We also publish a project and regional breakdown of new orders – which reveals some interesting trends in the construction industry. Comparing the pre-downturn period with the 4 quarters to Quarter 3 2016, shows an increasing share of total orders attributable to infrastructure and housing, while the share of commercial and industrial work has fallen (the latter could be explained by a smaller manufacturing base relative to the whole economy). Across the regions, London has historically claimed a large share of construction, and has been the only region to achieve a notable proportionate rise between the pre and post-downturn periods.