Weak manufacturing in UK second quarter led by big fall in car output

As forecast here, the car industry accelerated a sharp decline in manufacturing in the second quarter. The overall manufacturing fall of 2.3% in the second quarter compared to the first was led by a 20% decline in car output, which was part of a 5.2% decline in transport equipment generally. The squeeze on car sales from higher VED, tougher conditions on car loans and above all the regulatory uncertainty created over the future of diesels that I have highlighted have taken their toll. Various manufacturers compounded this by closing their factories for the annual shut down early this year in the second quarter, after building stocks in the first quarter. It is also part of a wider world pattern, with poor figures from China, Germany and other leading manufacturing nations.

Household spending continued to rise, up 0.5% quarter on quarter, and services managed a weak expansion. The economy as a whole grew by 1.2% over the last year, with a 0.2% quarter on quarter fall after a decent quarter to start 2019. Gross Domestic Capital formation was weak in the second quarter, as businesses sought to destock after their big stock build at the start of the year in preparation for the March Brexit which the government cancelled late.

The overall performance of the UK economy is good by EU standards, especially considering the combined fiscal and monetary squeeze which the outgoing government undertook. Germany's economy is growing at an annualised 0.7% , 0.5% lower than the UK's latest, and Italy is not growing at all after a recession in the second half of 2018. The UK economy can do better and needs some monetary and fiscal relaxation. Money growth is under one quarter of the rate in the USA and half the rate in the Euro area. The fiscal stance is now going to be loosened a bit, which is important. The US tax cuts drove accelerated growth there in contrast to the European performances. The US has been growing well over 2% with its more pro growth approach, with the President wanting growth above 3%.

The Fed, the ECB, the Indian, Australian, New Zealand, Turkish and Russian Central Banks are all loosening policy to offset the general global manufacturing downturn. The UK has not yet taken such action.

The global picture for manufacturing remains poor, with Germany experiencing a 1.5% fall in industrial output in June with more poor orders for the second half of the year.

(I have posted this post for tomorrow early given the topicality of the item)