

# UK Recession Fears Grow As Manufacturing Drops

Danica Kirka, Associated Press

LONDON (AP) — Concern is growing that the British economy may be headed back into recession after statistics released Friday showed a surprise drop in manufacturing activity.

The Office for National Statistics said manufacturing output fell by 0.3 percent between October and November, far off analysts' expectations for an increase of 0.5 percent.

Britain's economy has only just emerged from a double-dip recession in the third quarter of 2012, when it recorded 1 percent growth. But it seems unable to make a lasting recovery and experts say it is slowing considerably.

Vicky Redwood, chief U.K. economist at Capital Economics said November's manufacturing figures "provided yet more evidence that the economy probably contracted in the fourth quarter of last year."

The National Institute of Economic and Social Research, a leading think tank, estimated Friday that Britain's economy shrank by 0.3 percent in the fourth quarter. That would leave gross domestic product flat overall in 2012.

If the British economy were to shrink again in the first three months of 2013, it would be back in recession, technically defined as two consecutive quarters of economic contraction.

The Bank of England has kept its key interest rate at its record low of 0.5 percent since March 2009 and implemented a monetary stimulus program to help the economy recover. But the recovery has been uneven due, among other things, to sharp government cutbacks, financial troubles among key trading partners in Europe and a deep restructuring in key economic sectors like the banking industry.

The Bank of England this week held off increasing the size of its stimulus program — under which it buys government bonds from banks to increase the amount of money flowing in the economy — as it waits for the impact of previous stimulus to take effect. Analysts say the central bank may yet approve more stimulus in coming months if the economy keeps weakening.

Mervyn King, the governor of the Bank of England, warned in November that the economy could shrink in the last three months of 2012 as a boost from the Summer Olympics is reversed and that growth would remain sluggish into 2013.

British manufacturers, it seems, are being hurt by weak investment and lower public spending.

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"Furthermore, consumers' purchasing power is coming under renewed pressure from a move back up in inflation and muted earnings growth," said Howard Archer, the chief U.K. economist for IHS Global Insight. "On top of this, a still uncertain and difficult economic environment risks some orders being delayed or even cancelled."

Archer said the United States' recent budget deal to avoid the so-called fiscal cliff and improvements in eurozone financial markets did offer some hope for British manufacturing exports.

But it may take some time before the increase in confidence in financial markets translates to greater demand for goods and new jobs.

Underlining the pressure felt by U.K. manufacturers, Japanese automaker Honda announced Friday it would cut about one in four jobs at its western England factory.

Honda Motor Europe cited poor sales across the continent as the reason for cutting 800 positions from its 3,500-strong workforce in Swindon. The plant makes the Civic, Jazz and CR-V models.

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