Round up

UK output unwound the "Jubilee Bank Holiday effect" and grew by 1% in the third quarter…

GDP growth	1%	↑
Manufacturing growth	1%	↑
PMI	47.5	↓

UK GDP grew by 1% in the third quarter of 2012. This growth followed three consecutive quarters of contraction, meaning output growth in the UK has been broadly flat in the past year. Manufacturing output also grew by 1% in the third quarter.

However, October's manufacturing PMI suggests that the economic difficulties are far from over. The PMI fell to 47.5 in October, its lowest level since July this year. Output and orders fell, with weakness reported in both domestic and export demand. Consumer goods manufacturers bucked the trend, however, and saw an improvement in output in October.

…unemployment has continued to fall…

ILO unemployment rate	7.9%	↓

The number of people in employment increased by 212,000 in the three months to August. The ILO measure of unemployment fell by 50,000 over the quarter, and the ILO unemployment was 7.9%, the lowest rate since June 2011. The Claimant Count measure of unemployment – which records the number of people claiming Job Seekers' Allowance – fell by 4,000 in September. The claimant count rate was 4.8%.

…CPI inflation dropped to what is expected to be its lowest level for some time…

CPI inflation	2.2%	↓

CPI inflation fell to 2.2% and RPI inflation fell to 2.6% in September, from 2.5% and 2.9% respectively. Much of the fall was the result of the base effect of last year's hikes in domestic energy prices falling out of the measure. This is likely to be a low-point for inflation as increases in fuel and food prices combined with a new round of energy price rises could push inflation up in the next few months.

However, inflation could well fall in the first half of 2013 as food and fuel prices ease and the significant margin of spare capacity in the UK economy reduces inflationary pressures. Monetary policy is therefore likely to remain accommodative, and further increases to the Bank of England's asset purchase programme remain probable.

...however, consumer confidence fell to its lowest level in six months…

Consumer confidence index	-30	↓

The consumer confidence index fell back in October, to its lowest level since April this year. Despite recent falls in unemployment and inflation, consumers are still worried about their financial situation, which is likely to mean consumer spending growth remains relatively subdued in the next couple of quarters.

…and the international environment remains challenging

Exchange rate (€/£)	1.24	↓

The global economic situation remains precarious, though recent announcements from several monetary authorities have eased short-term concerns. For most of the developed world, growth looks likely to be slow at best as the Eurozone crisis and concerns about the US fiscal cliff weigh on demand and confidence. PMIs for October point to a continued weak picture, with most Eurozone economies in contraction. Recent GDP data points to a continued softening of growth in China, although the country's PMI has picked up a little, which could point to a stabilisation.

Chief Economist's Comment

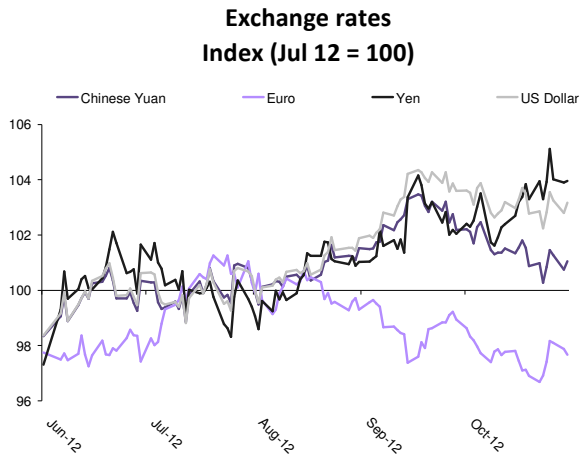
Growth has returned to the UK for the first time in a year. The first official estimate of GDP growth for the three months to September showed a rebound in activity with growth posting 1%. Manufacturing output also surged, growing 1% on the quarter. Good news certainly, but few are convinced this means the UK recovery is squarely back on track. Strong growth over the period was a result of displaced output from the Jubilee holidays in June and some Olympics effects.

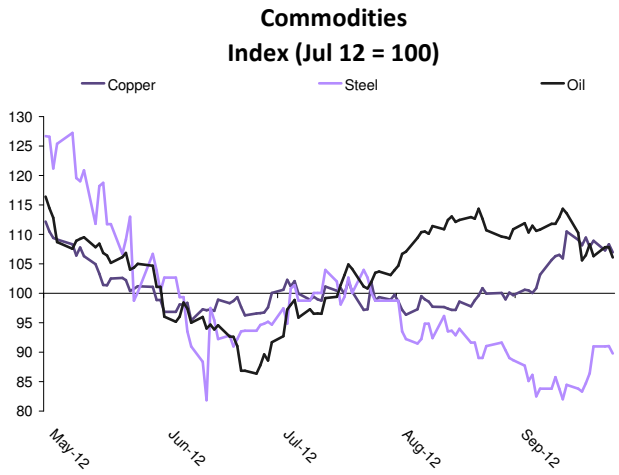
The first indicator of the month for manufacturing – the PMI – suggests the quarter got off to a slow start with a fall in output and new orders. Indeed the consensus forecast is for modest growth of just over 1% across the economy as a whole in 2013, following a mild contraction this year. A similar expansion has been pencilled in for manufacturing.

Against that backdrop there are two upcoming announcements of note. The first is the MPC announcement in early November. The Bank's last round of asset purchases will have been completed and the question is whether another expansion in QE will get the vote of majority. There are a couple of reasons why a hold in policy is looking more likely: the GDP bounce was better than expected and inflation is still above target. The MPC will have the benefit of updated forecasts in the *Inflation Report,* but this may be enough for some members to pause. In addition, a couple of recent speeches from the Bank have raised questions about how much extra bang the economy can expect to get from more QE.

The second announcement is the Chancellor's Autumn Statement, which will give an update on the OBR's assessment of growth and, importantly, the fiscal position. We'll return to this one next month.

Prices





Sources: Bank of England, LME, EIA

Global data round-up

	GDP		Inflation		Unemployment rate	
	Latest	Forecast	Latest	Forecast	Latest	Forecast
	12q2 % q-q change	2012 % y-y change	Sep 12 % y-y change	2012 % y-y change	Aug 12 % rate	2012 % rate
UK	**1.0 (Q3)**	**-0.2**	**2.2**	**2.8**	**7.9**	**8.2**
US	0.5 (Q3)	2.1	2.0	2.0	8.1	8.1
Eurozone	-0.2	-0.6	2.6	2.5	11.4	11.3
Germany	0.3	0.8	2.1	2.0	5.5	6.8
France	0.0	0.0	2.2	2.1	10.6	10.0
Japan	0.2	1.9	-0.3	0.0	4.1	4.4
China	2.2 (Q3)	7.2	2.8	2.7	Comparable numbers not available	

Sources: BEA, BLS, Eurostat, Oxford Economics, Statistics Bureau and NBS