

UK economy

Outlook darkens as confidence slumps

Confidence slumps

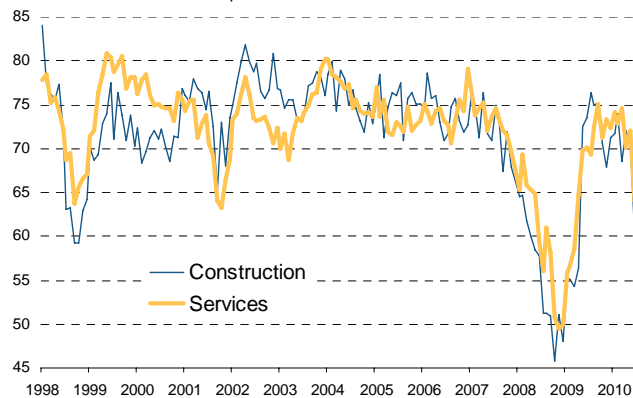
Business confidence has slumped in the wake of the austerity measures announced in the emergency Budget of 22 June, raising the likelihood that businesses may revise expansion and growth plans lower compared to earlier in the year. Prospects for investment and employment have therefore dimmed against pre-Budget expectations, meaning the rest of the year may see some disappointing unemployment and economic growth numbers.

The Business Expectations Indices from the PMI™ surveys covering services and construction¹ showed record monthly falls in June (dropping 8 and 10 index points respectively) as companies voiced concern that the public sector spending cuts revealed in the Budget would hit economic growth over the coming 12 months.

Any hopes that the falls in June were a knee-jerk reaction to the Budget, from which confidence would bounce back, were dashed as the indices remained weak in July. The index for construction even fell by a further four points in July while services showed only a very modest improvement in expectations for the year, with the index gaining less than one point.

Business confidence

Markit/CIPS PMI Business Expectations Index



Both indices remain above the lows reached at the height of the financial crisis, but confidence in the construction sector is now lower than at any time seen over the survey's 13-year history prior to the collapse

¹ An Expectations Index is not produced for manufacturing.

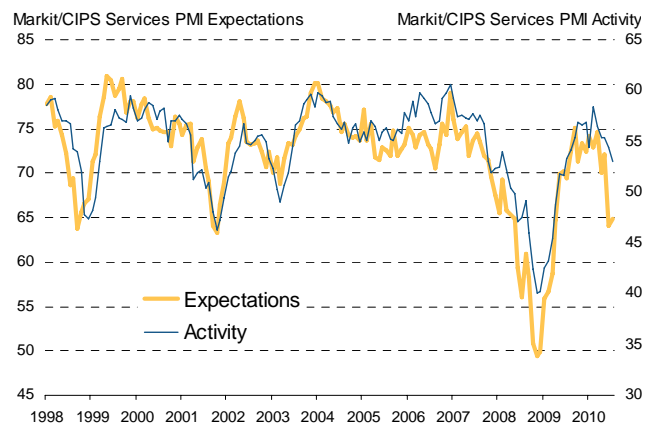
of Lehmans, while service sector confidence is close to the lows seen at the time of the 9/11 terrorist attacks and the Asian financial crisis.

Only computing & IT, transport & communications and 'other consumer services' showed any improvement in confidence from the June slump. Confidence meanwhile fell further in July in the financial services, business-to-business and hotels, restaurants & catering sectors.

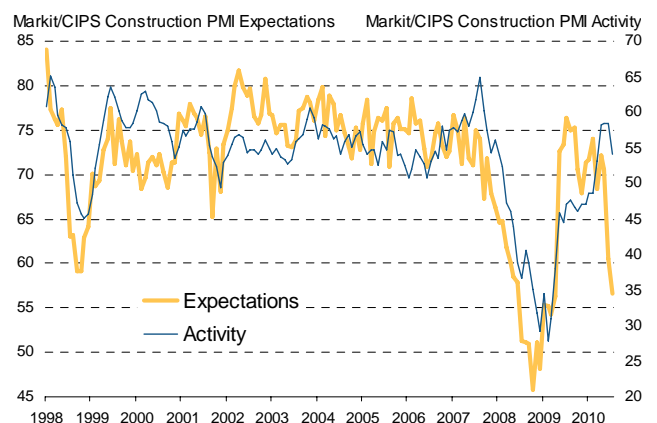
Activity indices set to fall sharply?

Steep changes in the Expectations Index tend to be followed sooner or later by changes in actual activity. Worryingly, it would be very unusual for the recent drop in confidence not to be followed by a further marked decline in the PMI survey Activity Indices.

Services



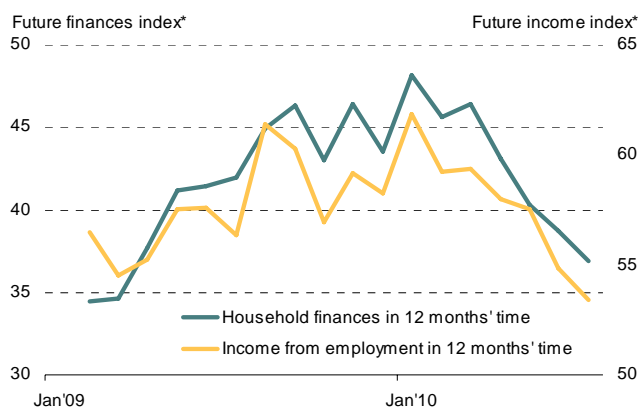
Construction



Drop in business optimism matches downturn in consumer morale

The PMI survey findings on business expectations follow downbeat numbers on consumer confidence. The Markit/YouGov Household Finance Index dropped in July to levels last seen at the height of the recession in early-2009, linked to worries about the impact of the Budget. Public sector employees were particularly concerned about the outlook for incomes and employment.

Markit/YouGov Household Finance Index



* Index readings above 50 signal an improvement in 12 months' time, readings below 50 signal a deterioration

For more details of households' reaction to the Budget see

http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jul/HFI_Budget_26_07_10.pdf

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