

# UK Services

Official data confirm January rebound in services output, pointing to the possibility of firm GDP growth in Q1

- **1.3% rise in services output in January.**
- **GDP growth could hit 0.8% in Q1.**
- **Government output shows largest monthly jump for two years.**

Latest data from the UK Office for National Statistics indicated a strong recovery of service sector activity in January, suggesting that GDP may have risen strongly in Q1 following the dismal 0.5% contraction seen in the final quarter of last year.

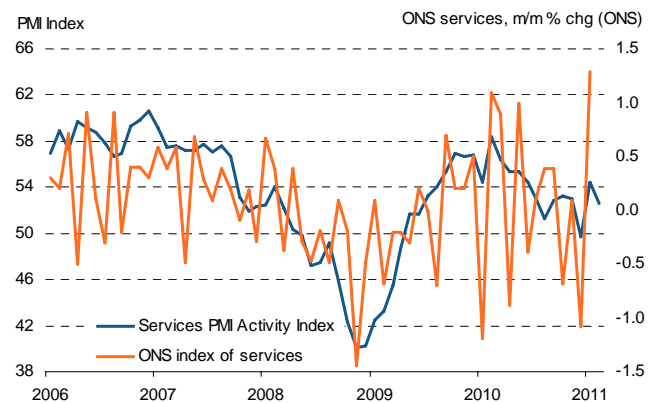
ONS data indicate that service sector output rose 1.3% in January, which was unsurprising in so far as it followed a -1.1% decline in December caused by heavy snow falls and freezing conditions.

On the downside, the fact that January's rise was the strongest since July 2002 does little to detract from the disappointing news that the sector more-or-less stagnated over these two months. Measured on a rolling three-month basis, the rate of decline merely eased from -0.6% in December to -0.5% in January.

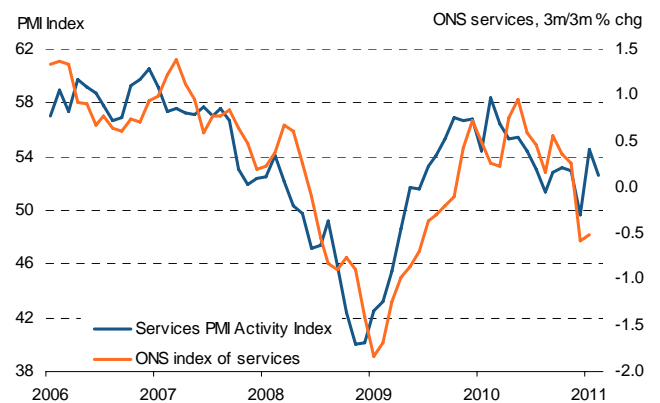
However, the latest numbers do suggest that economic growth in the first quarter may be far stronger than previously thought. The data are the first official statistics to show how the sector – which accounts for more than three quarters of total gross domestic product – performed in the new year. When looked at alongside the PMI business survey data for February, the sector is on course for a possible 0.7% expansion in Q1 following the surprise 0.6% contraction in the final quarter of last year.

**We estimate that GDP may be on course to expand by around 0.8% in Q1 as a result**, providing growth holds up in the remaining months of the quarter. Much will depend on whether growth can be sustained in the face of further declines in household confidence in recent months, as measured by the [Household Finance Index](#), and the situation in the construction sector, where data have been mixed for Q1 so far.

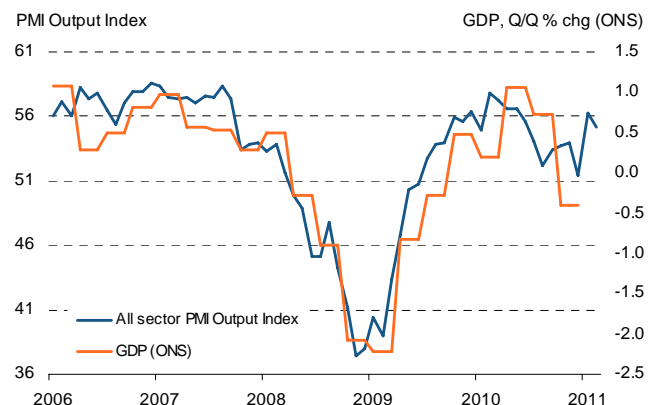
**PMI and Index of Services: monthly growth**



**PMI and Index of Services: quarterly growth**



**All sector PMI and GDP**



Sources for all charts: Markit, ONS.

Looking at the percentage change in output in the latest three months on previous three months, the steepest decline was recorded in the hotels and restaurants sector, followed by transport, storage and communication. Both sectors had seen large drops in output in December due to the adverse weather.

The best performance was seen in the distribution (retail and wholesale) sector, where output rose 0.4% in the latest three months, followed by government services, which saw only a 0.1% decline.

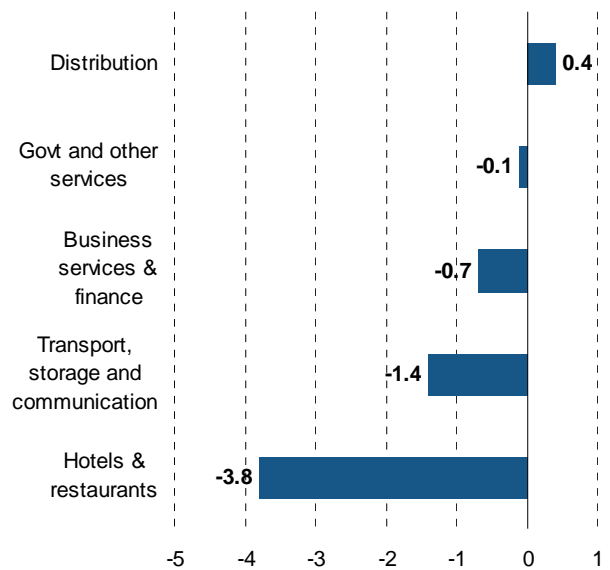
### Government output shows largest monthly rise for two years

Government and other services in fact saw the strongest growth in year-on-year terms since last September, a 1.9% increase reversing a gradual downward trend over the final three months of last year. Government output in fact jumped 0.7% in January following just a 0.1% decline in December – the strongest monthly rise for two years. There is little evidence to suggest that this reflected a rebound from weather-related disruptions. If, instead, it reflected the spending of budgets in advance of the fiscal year-end, this poses **upside risks to services growth in the remaining months of the first quarter.**

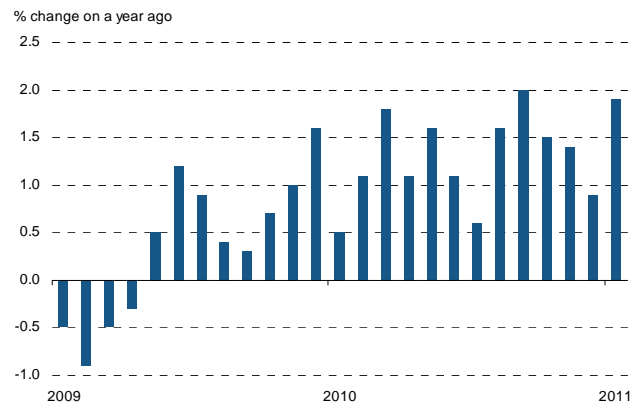
Education saw a 2.4% increase on a year ago in January after only a modest 0.1% fall in December, suggesting the rise was not a recovery from weather-related factors at the end of last year. Similarly, health and social work rose 4.0% in year-on-year terms, up from 3.8% in December. Sewage and refuse disposal, having seen a huge 11.6% drop in December, saw a further 0.7% contraction in January.

More reassuringly in respect to the coalition’s plans to reduce government spending, public administration and defence saw a 1.7% drop in output compared to a year earlier, which was the strongest fall since October’s 1.8% decline.

**% change in output in latest 3 months on previous 3 months**



**Government and other services**



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