

UK economy

Economy shows renewed vigour in January

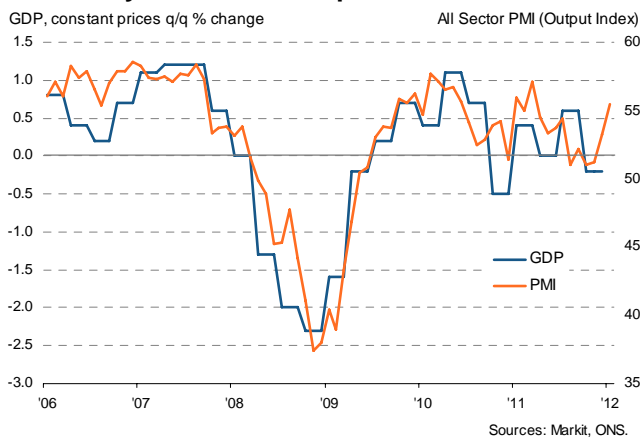
- **PMIs point to marked improvement in rate of growth as all-sector index hits ten-month high**
- **Manufacturing, services and construction all show expansion**
- **Risk of renewed recession falls**

The pace of UK economic growth picked up momentum at the start of 2012, with businesses reporting the largest increase in activity for ten months. The data fuel hopes that the UK economy may avoid a slide back into recession – defined as two consecutive quarters of economic decline – following a 0.2% contraction of gross domestic product (GDP) in the final quarter of last year.

Growth at ten-month high

The three PMI surveys for the UK collectively indicated the fastest rate of economic growth at the start of 2012 since last March, with the combined Output Index rising for the third month running from 53.2 in December to 55.5. As such, the surveys suggest that the pace of GDP growth may have picked up to approximately 0.5% in January.¹

PMI surveys and GDP compared



All three main sectors covered by the PMIs contributed to the expansion. The strongest performance was seen in services, closely followed by manufacturing. In both instances growth rates improved to the strongest since

last March. Construction sector activity also continued to expand, though the rate of growth was only modest and the weakest since September.

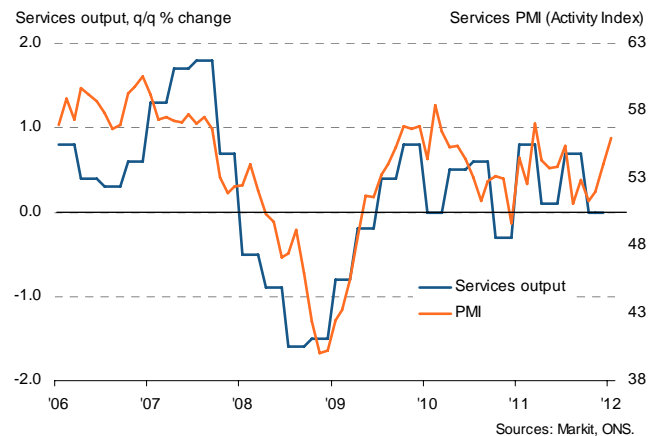
Services boosted by record jump in confidence

Growth in the service sector was not only a ten-month high but also the second-sharpest in almost two years. The pace of expansion has improved in each month since last October and is consistent with a 1% quarterly rate of growth in official services output.

Given preliminary official data showed stagnation of the services economy in the fourth quarter, the survey signals a sharp improvement in performance at the start of 2012 (although we remain sceptical with the first read of official data and expect this to be revised higher in time – Services PMI data pointed to growth of 0.3% in the three months to December).

Moreover, there are some grounds for optimism that the strong start to 2012 will persist: incoming new business rose at the sharpest rate since July and business confidence about the year ahead showed the largest monthly rise since the survey began in 1996, reaching the highest level since May.

Services



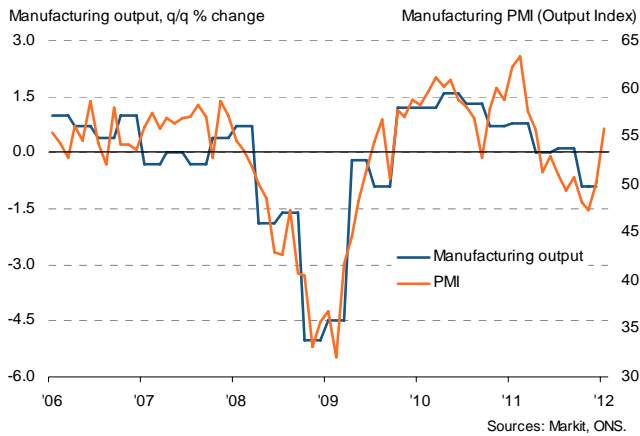
¹ i.e. a GDP increase of 0.5% would be expected for the first quarter if the index remained at the current level in February and March

Manufacturing springs back to life

Manufacturing was a key area of weakness in the GDP data for the fourth quarter of 2011, with output dropping 0.9% according to official data. The PMI had signalled an even steeper decline, in excess of 1%. In contrast, the January level of the Manufacturing PMI Output Index is roughly consistent with a 0.5% quarterly rate of expansion.

Whether the current rate of manufacturing growth can be sustained in coming months remains highly uncertain, especially as order book growth has yet to match that of production ([further details here](#)), but the data nevertheless represent a surprisingly encouraging start to the year for UK manufacturing.

Manufacturing

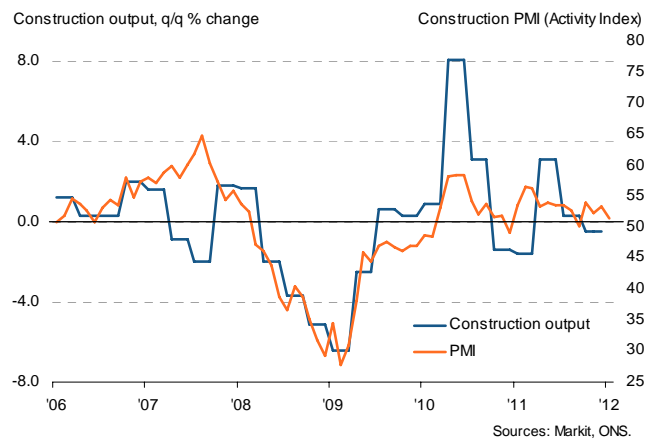


Construction activity supported by business spending; hit by weak property market and public spending cuts

Official data suggest that the output of the construction sector has been very volatile in recent years (see chart), while the PMI has charted a steadier course. The PMI signalled modest expansion in the final three months of last year – contrasting with a 0.5% decline signalled by official estimates for the sector – but indicates that the rate of growth eased in January to a subdued pace. A rise in commercial activity, implying higher business spending, was in part offset by a fall in house-building and civil engineering, which likely reflects subdued mortgage lending and government spending cuts respectively.

However, the message is that the construction sector continued to expand at the start of 2012, though only at a subdued pace.

Construction



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