

# United Kingdom

## All-sector PMI signals strong start to fourth quarter

- 'All sector' PMI rises to 54.6 in October
- Manufacturing leads the upturn, service sector accelerates, construction buoyed by house building
- Job creation edges up but remains subdued
- Record index jump pushes price pressures to highest for over five years

Growth of UK business activity picked up in October to its fastest since January, but inflationary pressures also continued to build, with prices increasing at the steepest rate for over five years.

Employment continued to rise, but the combination of ongoing uncertainty about the economic outlook and rising cost pressures meant the pace of hiring remained well below that seen at the start of the year.

### Strong start to fourth quarter

The Markit/CIPS 'all-sector' PMI rose further from July's Brexit-vote low, climbing from 53.8 in September to a nine-month high of 54.6 in October and thus representing a strong start to the fourth quarter.

The October PMI is consistent with the economy growing at a quarterly rate of just over 0.4%.

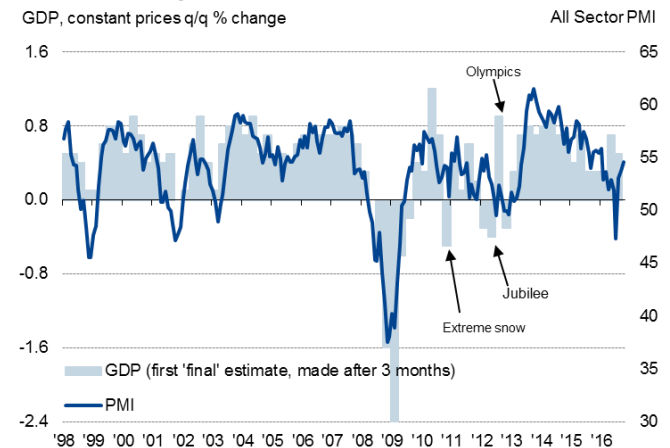
Key to the further upturn in the headline PMI was faster growth in the dominant service sector, where increased inflows of new business from customers and improved business expectations about the year ahead encouraged firms to raise activity levels to the greatest extent since January.

Importantly, although the current level of business optimism remained below the survey's long-run average, it is in line with the average seen over the past five years and has recovered from levels which have typically indicated a marked slowing in the economy.

### Export boost

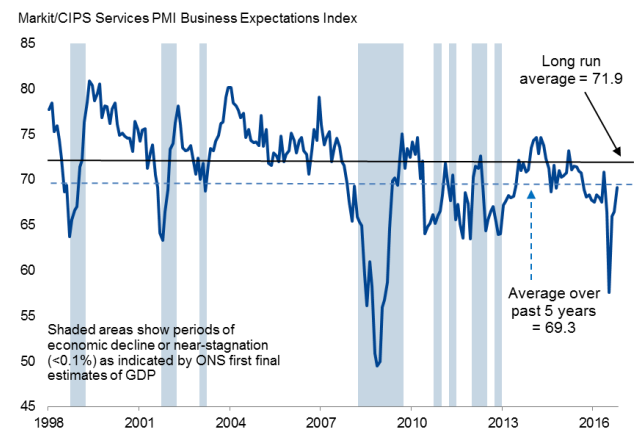
However, it was the manufacturing sector which again reported the strongest expansion of the three sectors, with factory output growth easing compared to September but remaining one of the fastest seen for over two years. Export volumes rose markedly for a third successive month, buoyed by the weaker pound.

### UK economic growth

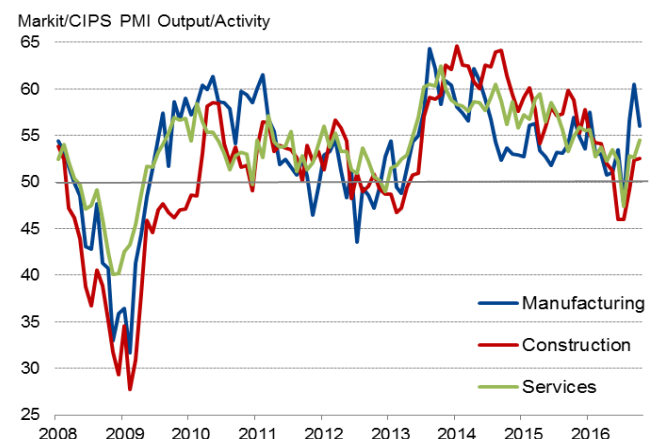


Sources: IHS Markit, ONS.

### Business confidence



### Output by sector



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Construction also grew, expanding for a second month running. While growth was only modest, the rise in activity was the largest since March and represents a marked contrast to the steep declines seen in June and July. However, the increase was driven entirely by house building, with building of (and hence investment in) other fixed assets such as infrastructure, civil engineering and commercial property more or less stagnating.

### Job gains

Employment growth also continued to revive by reaching a six-month high, having slipped into mild decline in July. The rate of job creation nevertheless remains far weaker than earlier in the year, with only modest gains seen in all three sectors reflecting widespread caution in taking on permanent staff amid an uncertain economic environment.

### Costs surge higher

Hiring was also constrained by worries over rising costs. The PMI index covering input costs across the three sectors showed the largest monthly increase in 20 years of data collection, rising to its highest since March 2011, thanks largely to a surge in the number of firms reporting higher prices related to the weakened exchange rate. For example, over 90% of all manufacturers citing a reason for higher costs blamed the exchange rate to at least some extent. However, it wasn't just goods producers that reported higher costs, with a sharp increase in input prices also signalled in both services and construction sectors.

Higher costs fed through to higher output prices. The October surveys signalled the largest monthly rise in average prices charged by companies for their goods and services since May 2011.

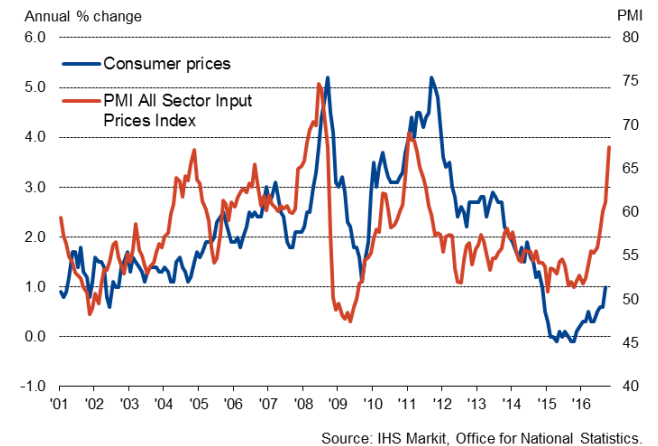
### Steady growth for now

The survey results suggest that business conditions have continued to improve since the initial shock of the Brexit vote and ensuing collapse of the government. Anecdotal evidence from companies indicate that the more stable political environment and near-term outlook is supportive of ongoing growth, with the weaker exchange rate providing a notable fillip to exporters.

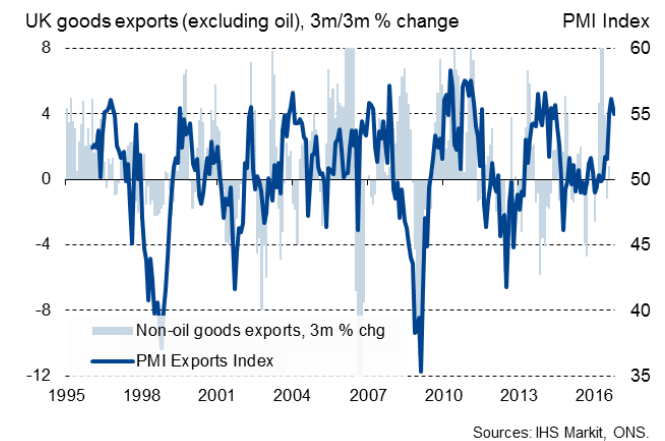
However, a marked upturn in price pressures resulting from the fall in the exchange rate is a key feature of the survey data and threatens to push inflation higher in the near term, which could in turn feed through to a squeeze on consumer spending. Business optimism also clearly remains fragile, and dependent on the government's Brexit negotiations. For the moment,

however, the surveys suggest that the economy is continuing to expand at an encouragingly solid pace.

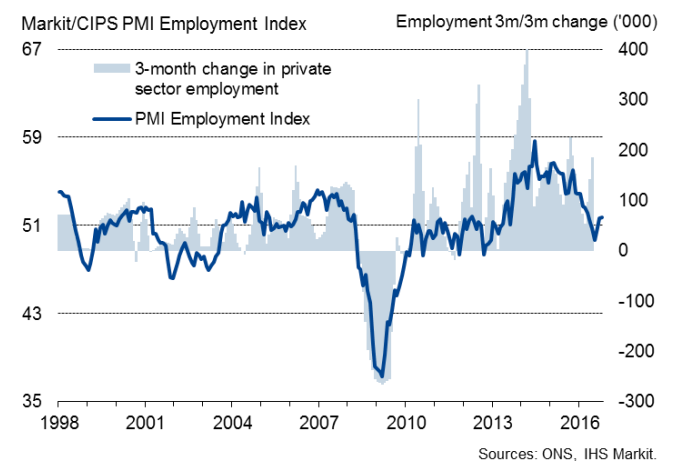
### UK inflation



### Exports

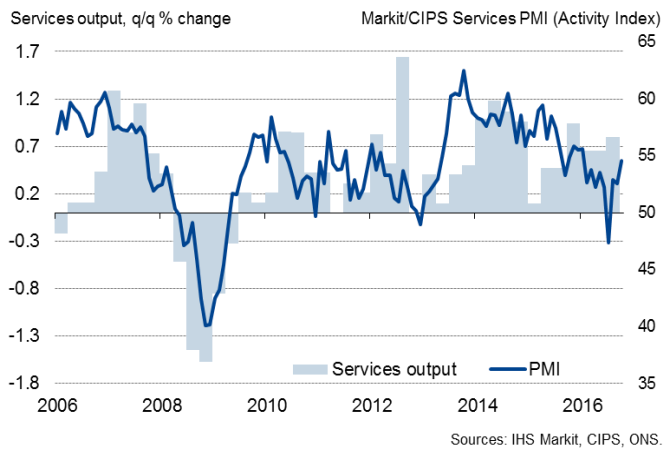


### Employment

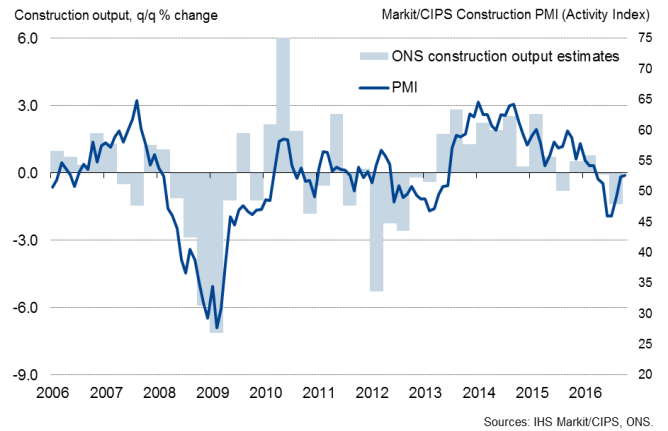


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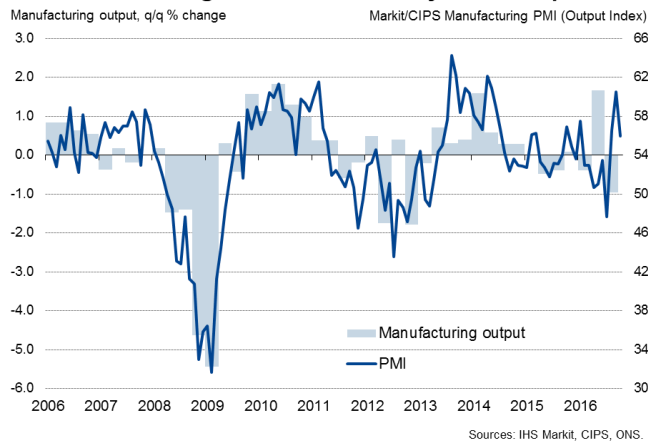
### UK services: official and survey data compared



### UK construction: official and survey data compared



### UK manufacturing: official and survey data compared



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