

United Kingdom

Official data show service sector growth revival at start of third quarter

- **Services output grows 0.2% in July**
- **PMIs indicate further upturn as Q3 progresses**
- **Sector buoyed by better weather, but business and financial also see strong gains**

Better weather is thought to have helped the UK's services economy return to growth at the start of the third quarter. Data from the Office for National Statistics showed the services sector growing 0.2% between June and July, contrasting with the flat picture seen between May and June.

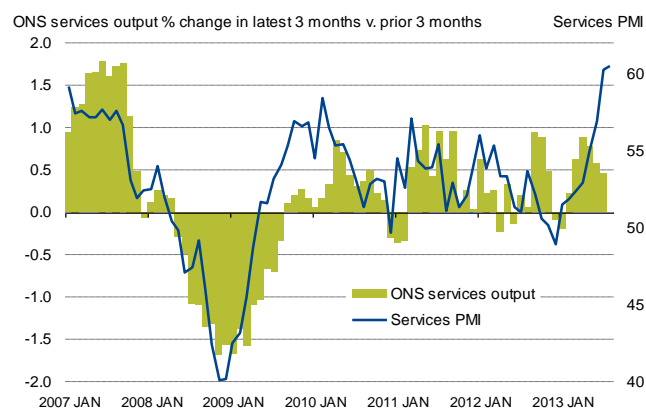
The return to growth coincided with a spell of warm weather, which is thought to have boosted demand for leisure-based services. However, it's clearly not all weather related. Although companies such as hotels and restaurants enjoyed strong growth as the weather improved, so too did business services and financial services companies, suggesting that the recent upturns in the manufacturing and construction sectors, as well as higher activity in the housing market, are feeding through to the services economy.

The upturn in the official data provides important verification of the survey data, which have become increasingly buoyant in recent months. Record highs breached by the PMI surveys in July and August point to the economy growing at a quarterly rate of 1.2% in the third quarter. That would be the strongest pace of expansion since 2007. The official data still have some way to catch up with the survey data in terms of the rate of growth being signaled, but are now moving in the right direction to add to the signs of a broad-based recovery.

The vast service sector accounts for approximately two-thirds of the economy, encompassing a wide range of business and consumer-facing sectors, such as banks, accountants, airlines, hairdresser, hotels and restaurants, as well as state-provided services such as education and health.

The sector provided a big impetus to the UK's economic growth in the second quarter, expanding by 0.6%. While the economy as a whole remains still 3.3% smaller than its pre-crisis peak, the services sector is just 0.3% smaller. While this growth has helped drive the UK recovery, it also highlights how the UK has so far failed to rebalance towards manufacturing and exports.

Service sector output: more growth to come



Sources: Markit, ONS.

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