

# United Kingdom

## PMI surveys indicate 0.5% GDP growth in Q4, alongside rising inflation

- 'All-sector' PMI consistent with +0.5% GDP in Q4
- Manufacturing leads upturn despite growth slowing
- Service sector and construction report faster growth
- Job creation at eight-month high
- Price pressures close to highest in over five years

UK business activity grew at an increased rate again in November, showing the largest monthly expansion since January. The upturn indicates that the pace of economic growth remains solid in the fourth quarter despite ongoing uncertainty caused by the Brexit vote and rising prices.

The Markit/CIPS 'all-sector' PMI rose from 54.5 in October to a ten-month high of 55.0 in November. The average reading over the past two months is consistent with the economy growing 0.5% in the fourth quarter.

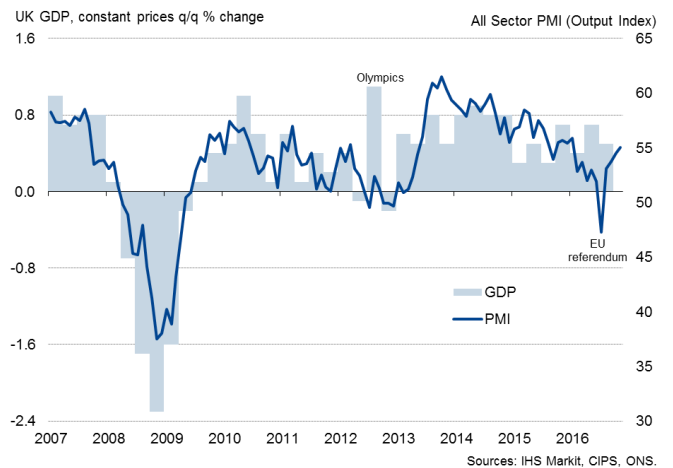
Employment growth likewise picked up to an eight-month high in November as firms sought to boost capacity in line with stronger demand. However, rates of job creation remained well below a year ago as many companies continued to take a cautious approach to hiring.

Price pressures meanwhile remained elevated, often linked to the weakened pound, suggesting inflation is set to rise. Input prices rose sharply again in November, with the past two months seeing the steepest upward pressure on businesses' costs for five-and-a-half years. Average selling prices for goods and services meanwhile showed the second-largest rise since mid-2011 in November.

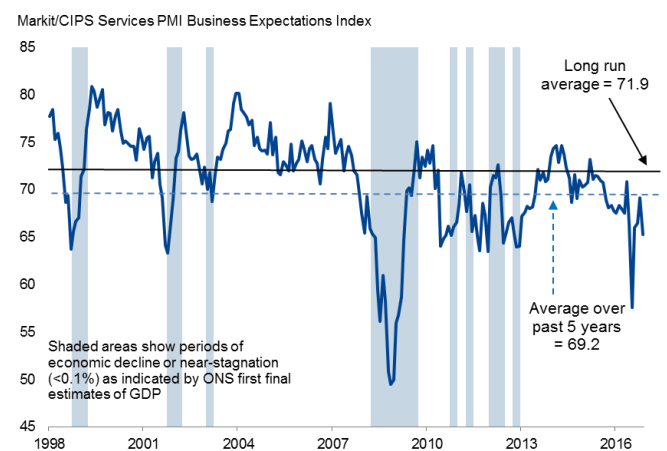
The sustained improvement in the business surveys and sharp rise in prices suggest that the odds will continue to shift away from the Bank of England adding more stimulus.

However, any policy tightening still seems a long way off, given the uncertainty facing the UK economy. The service sector PMI showed business optimism about the coming year dipped in November, to the second-lowest in four years.

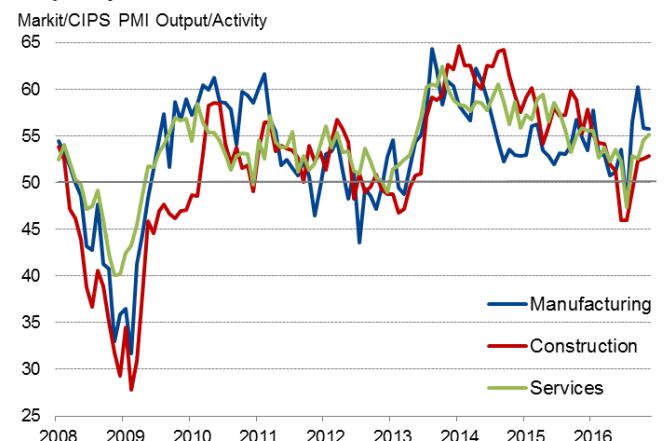
### UK PMI and GDP compared



### Business confidence in the service sector



### Output by sector



The expansion continued to be led by the manufacturing sector, even though factory output grew at the slowest rate for four months. In contrast, growth accelerated in both the service sector and construction to ten- and eight-month highs respectively.

### Manufacturers struggle with higher costs

While manufacturing was again buoyed by rising exports, attributable in turn to the weaker pound, the survey also brought evidence that some of the export gains may be being eroded by the need to pass on higher costs.

The flip-side of the weaker exchange rate has been sharply higher input costs, which have been widely blamed for manufacturers' selling prices rising at the fastest rate since mid-2011 so far in the fourth quarter.

Export order growth has slowed markedly from September's five-and-a-half year high, causing growth in total new order inflows to ease to a four-month low in November.

### Service sector sees mixed performance

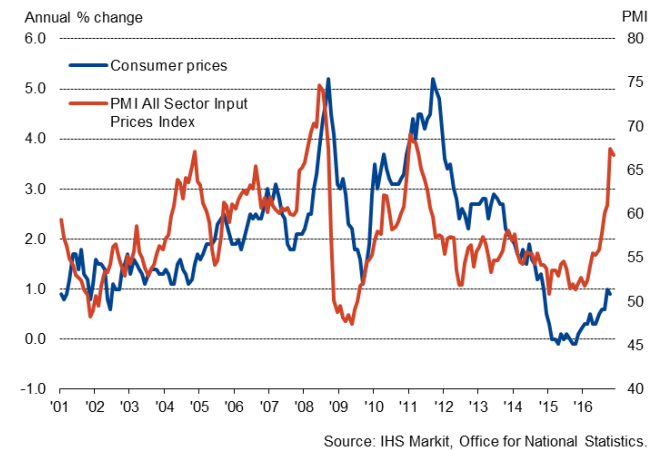
Service sector activity also saw a smaller rise in inflows of new business compared with October, but business activity in the vast tertiary sector nevertheless grew at the fastest rate since January.

There was a wide array of performances by sub-sector within services. Based on three-month averages, growth accelerated in financial services, business-to-business services, transport & communications and consumer services, but slowed in computing & IT. Activity meanwhile fell in the hotels & restaurants sector.

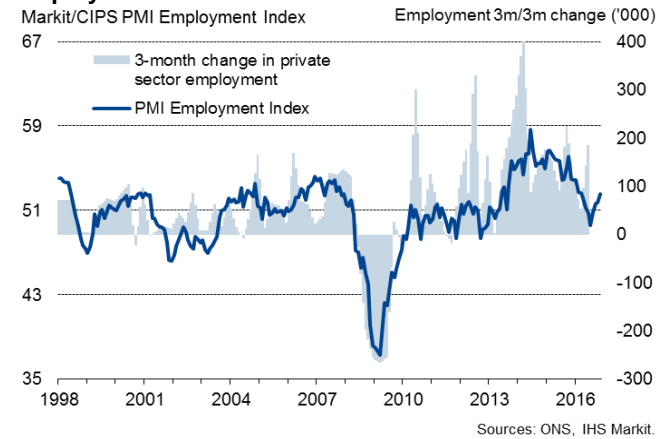
### Construction helped by housebuilding

Output of the construction industry grew at the fastest rate since March, thanks to a further improvement in housebuilding. However, commercial activity and civil engineering showed only marginal rises compared with October.

### UK inflation



### Employment

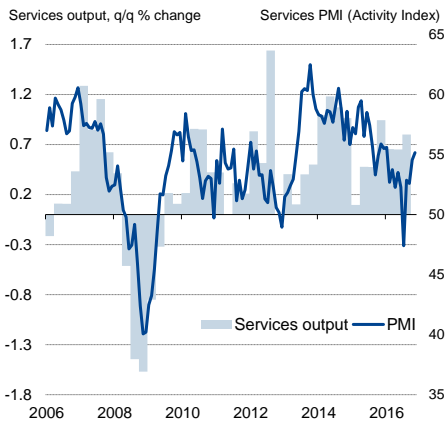


### UK service sector worries for year ahead\*



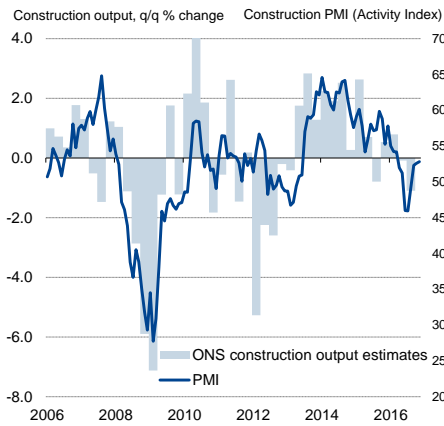
\* Derived from reasons cited for pessimism about business activity in the year ahead.

### UK services



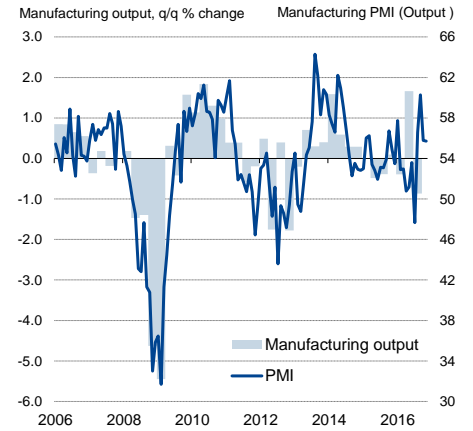
Sources: IHS Markit, CIPS, ONS.

### UK construction



Sources: IHS Markit, CIPS, ONS.

### UK manufacturing



Sources: IHS Markit, CIPS, ONS.

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