4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Economic Research

04/04/2013

United Kingdom

Services upturn means PMIs point to marginal first quarter economic growth

- **All sector PMI rises from 50.7 to 50.9 in March**
- **Data point to 0.1% expansion of GDP, albeit with downside risks**
- **Service sector growth offsets manufacturing and construction downturns**

A gathering upturn in the service sector in March looks to have helped the UK avoid a triple-dip recession by the narrowest of margins.

Business activity in the service sector grew in March at the fastest rate since the Olympics-related upturn seen last August, providing a much needed boost to the economy in the first quarter after disappointing surveys for the smaller manufacturing and construction sectors both signalled contractions.

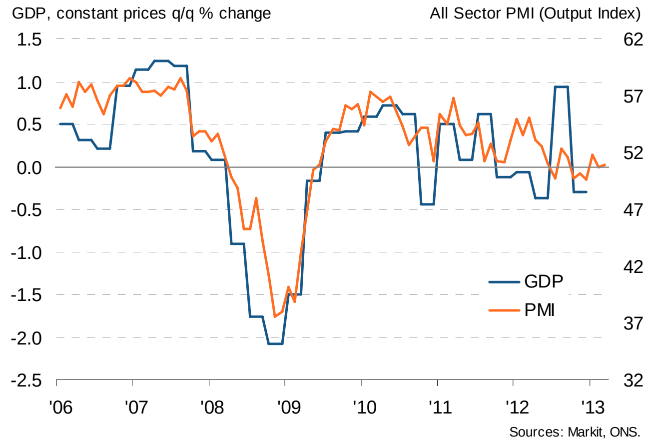
The all-sector PMI survey Output Index registered 50.9 in March, up from 50.7 in February but below January's recent peak of 51.7. The resulting average reading for the first quarter as a whole of 51.1 is above the fourth quarter average of 49.8 and consistent with a mere 0.1% quarterly increase in GDP. However, this represents a return to growth after the 0.3% decline seen in the final quarter of last year and suggests that the country will have avoided sliding into its third recession since the inset of the financial crisis in 2007, defined as two consecutive quarters of falling GDP.

However, the weakness of private sector growth signalled by the PMI data in the first quarter means that a flat GDP picture or even a decline could be seen if government sector output falls.

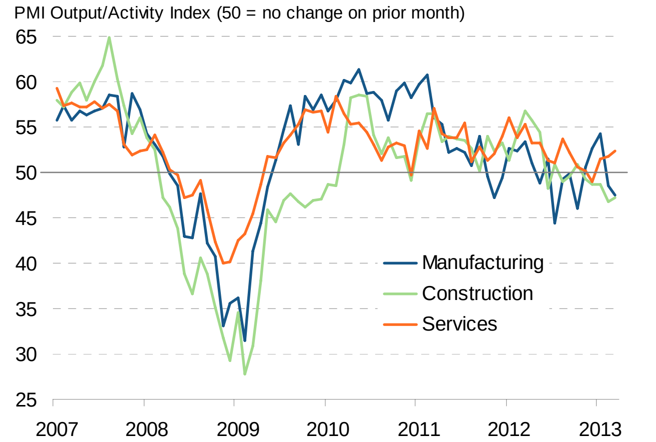
This is clearly a far from satisfactory pace of growth, although anecdotal evidence from survey contributors indicated that poor weather has caused disruptions to many businesses in recent months, meaning the underlying recovery trend is likely to be stronger than the recent data suggest. We would therefore expect to see faster economic growth in the second quarter, barring any surprises such as a further worsening of the eurozone crisis or further severe weather.

The prospect of faster growth in coming months is supported by companies' views on expected future activity levels, which were the most buoyant since last Spring.

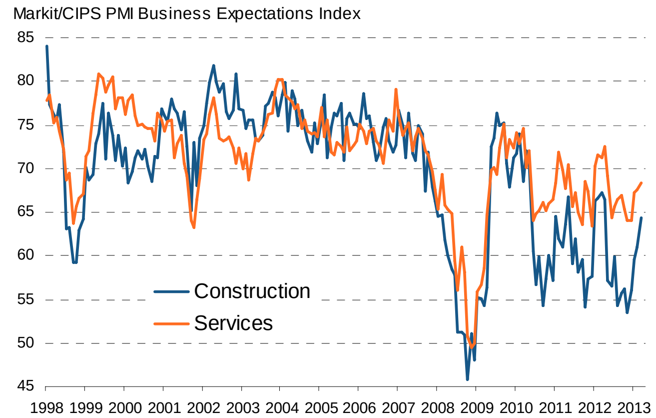
GDP and the PMI



Sector output trends compared



Business confidence



Service sector business activity growth accelerated for the third month running in March to reach the fastest since last August. The PMI data therefore suggest that the sector will have rebounded from the 0.1% contraction seen in the fourth quarter, according to official GDP data, recording growth in the region of 0.2%-0.3% in the first quarter.

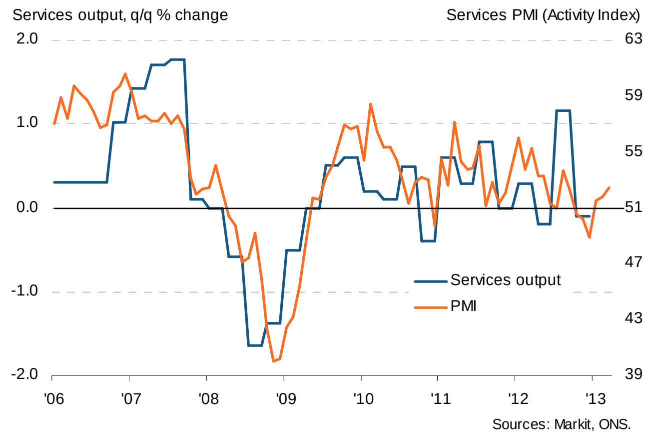
Encouragingly, inflows of new business rose sharply higher in March, rising at the fastest pace since last May, pointing to further improvements in activity levels in coming months.

Manufacturing output fell at the fastest rate for five months in March, dropping for the second successive month. Despite bad weather, which was sometimes cited as a cause of lost production, the solid start to the year seen in January means the first quarter as a whole was not as bad in terms of output than the final two quarters of 2012. Nevertheless, the PMI data are consistent with output of the sector falling by around 0.6% in the first three months of the year, acting as a significant drag on the overall economy despite the sector only accounting for around 10% of total economic activity.

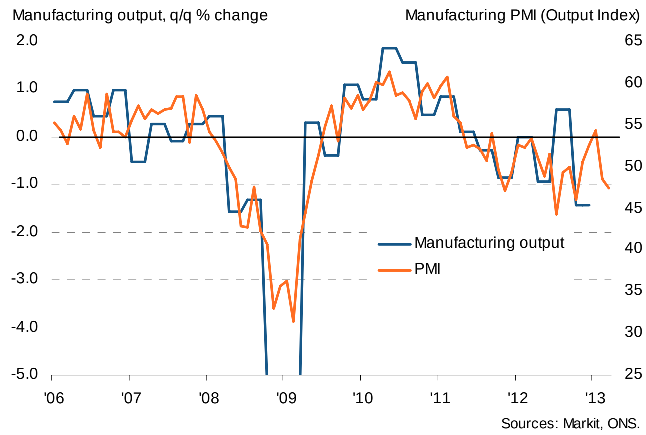
Construction output fell for the fifth successive month in March, albeit to a slightly lesser degree than in February. The sector still saw the steepest quarterly downturn since the final quarter of 2009, with the weak PMI numbers pointing to a 0.8% pace of contraction. The PMI data have exhibited a different trend to official data in recent years, however, coinciding with a change in methodology at the Office for National Statistics, making comparisons between the survey and GDP data difficult.

Companies reported that severe weather has adversely affected construction projects so far this year, and confidence in the sector lifted to its highest for eleven months in March as expectations about future growth continued to improve.

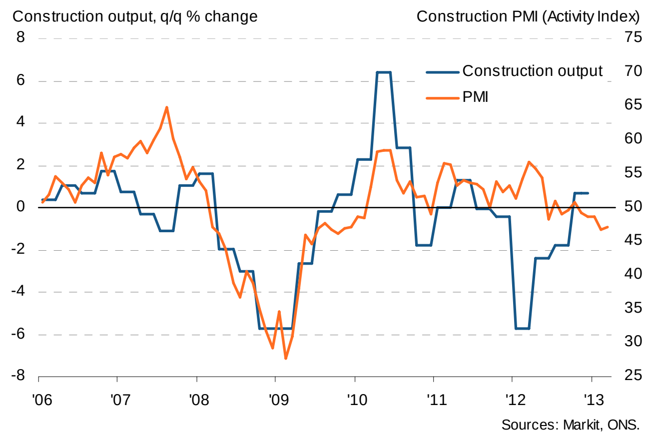
Services



Manufacturing



Construction



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com