

United Kingdom

Surveys show job creation at record high as economy continues to boom

- All-sector PMI falls in June but remains consistent with 0.8% GDP rise in Q2
- Employment growth surges to record high
- Upturn in new order growth bodes well for sustained expansion in third quarter

Yet another strong service sector PMI number indicates the UK economy continued to boom at the end of the second quarter. Alongside similar surveys showing an ongoing surge in construction and the largest quarterly rise in manufacturing output for 20 years, the services PMI confirms that the UK economy is firing on all cylinders.

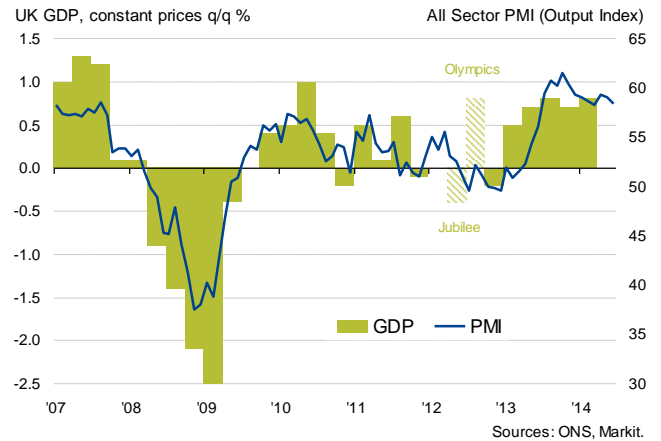
The persistent strength of the three Markit/CIPS PMI™ surveys suggests that we should expect the economy to grow by 0.8% again in the second quarter, taking GDP to a new all-time high.

A fall in the all-sector PMI from 59.1 in May to 58.4 indicates that the overall rate of growth of output slowed to the weakest for three months in June. That said, the slowdown may prove short-lived: a renewed upturn in growth of new orders across all three sectors to a six-month high overall in June suggests that the economy should pick up speed again as we move into the second half of the year. The economy therefore looks to be on course to grow by at least 3.0% in 2014, in what would be its best performance for seven years.

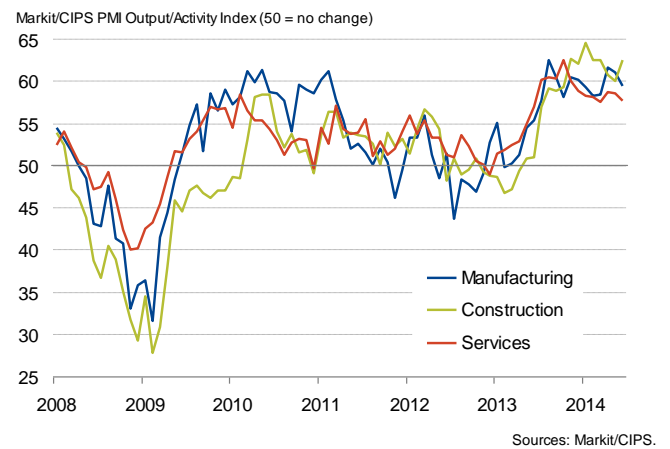
With the Bank of England expecting the economy to slow in the second half of the year, the persistent strength signalled by the PMI surveys raises the likelihood of policymakers deciding that a pre-emptive rise in interest rates later this year is warranted. Pressure is building for policymakers to ensure that they do not delay the first rate hike too long and end up having to tighten policy more aggressively than would be the case under an earlier series of small rate hikes.

The concern is that raising rates too early might choke off the recovery, but this argument is losing conviction given the consistent speed with which the economy has grown over the past year.

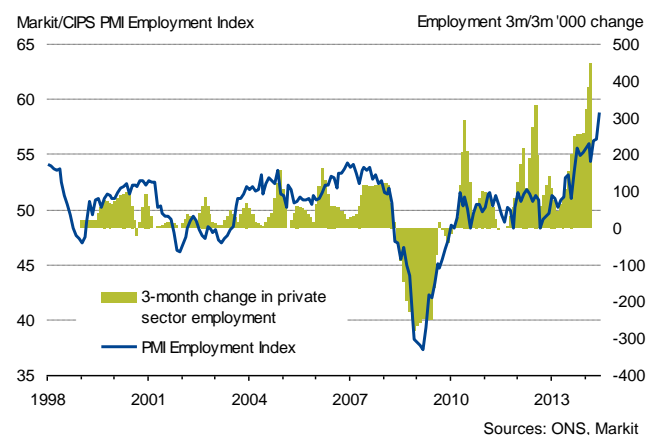
UK economic growth and the all-sector PMI



Output/business activity indicators



Employment



Another month of record job creation

The sustained growth of demand and a favourable business outlook led to a record jump in employment in June. The all-sector PMI Employment Index moved sharply higher in June, up from a previous record of 56.4 in May to a new all-time peak of 58.8.

Hiring picked up speed across all three major parts of the economy. Survey record rates of job creation were seen in both services and construction sectors, while factory employment rose at the strongest rate for over three years.

With the survey data having shown new record rates of job creation in each of the past three months, unemployment should continue to plummet from the 6.6% rate recorded for the three months to April. A jobless rate below 6% is achievable by the end of the year if anything like the current pace of job creation is sustained in coming months.

Second quarter GDP

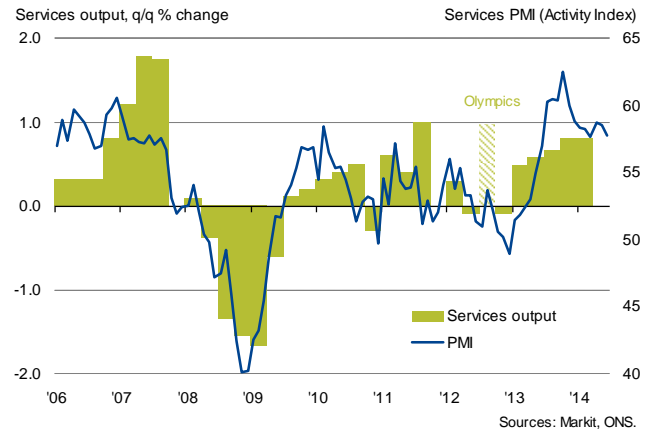
Looking in more detail, the sector data highlight how strongly the economy continued to grow across all main sectors in the second quarter.

The service sector saw the slowest expansion of all three sectors in June, and over the second quarter as a whole, but nevertheless maintained an historically robust pace of expansion that was slightly greater than that seen in the first quarter. The sector therefore looks to have grown by at least 0.9% in the second quarter. With growth of service sector new orders hitting a six-month high in June, strong momentum has been sustained as we move into the second half of the year

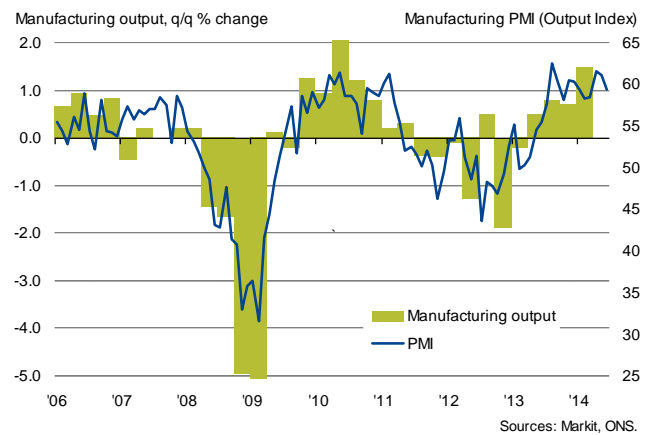
Although manufacturing output growth slowed in June, the sector still saw the highest average output index for a calendar quarter for two decades. Manufacturing looks set to grow by slightly more than the 1.5% expansion seen in the first quarter. With new orders for manufactured goods gaining momentum again in June, the sector looks to be on course for further strong growth in the third quarter.

Despite only accounting for approximately 6% of the economy, the sheer speed with which the construction sector is growing means that building activity should also provide a meaningful boost to GDP in the second quarter. We would expect to see the official data showing construction output growing by at least 1% in the second quarter, though an expansion of up to 3% is feasible given the buoyancy of the PMI numbers.

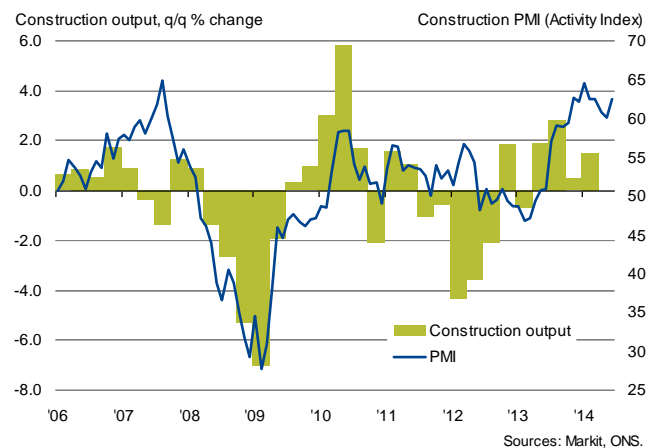
Services



Manufacturing



Construction



The strength of recent construction PMI data also suggests prior recent GDP estimates may also get revised higher.

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