

United Kingdom

Growth upturn gathers momentum in second quarter

- All-sector PMI highest for over a year in May
- Data suggest GDP growth could hit 0.5% in second quarter
- Services and manufacturing expand at faster rates, construction returns to growth
- Upturn suggests BoE will keep policy on hold

The UK economy has moved up a gear with all cylinders now firing. For the first time in a year, manufacturing, services and construction sectors are all now reporting higher levels of activity. The resulting overall pace of growth in May was the fastest since March of last year, having now accelerated for three successive months.

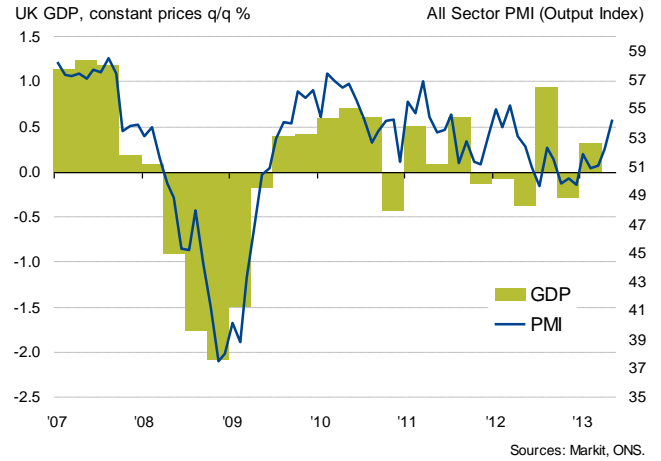
The all-sector PMI measuring output (or business activity) across the private sector economy rose from 52.1 in April to 54.3 in May; its highest since March 2012.

The service sector enjoyed the strongest expansion since March of last year, manufacturing output is growing at the fastest pace since January and the construction sector has returned to growth for the first time since October.

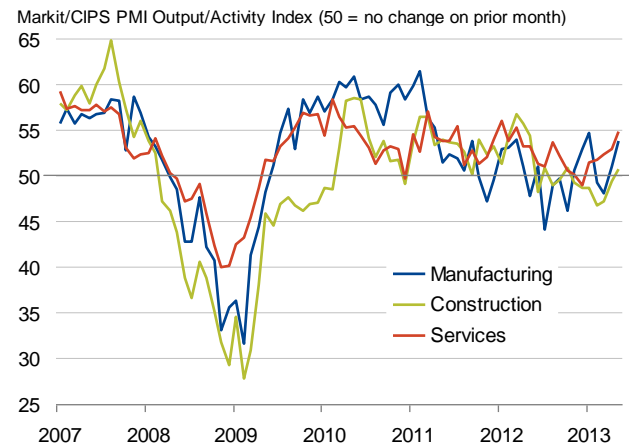
The data suggest that economic growth will have picked up in the second quarter compared to the 0.3% increase in GDP seen in the first quarter, shaping up to reach 0.5% if June sees sustained growth. At 53.2, the average all-sector PMI reading for the second quarter so far compares with just 51.2 in the first quarter.

There's good reason to believe growth can accelerate further. New business grew at the fastest rate since February 2010 in the service sector, building on improvements in demand seen in both manufacturing and construction. Manufacturers reported the largest monthly rise in new orders since February 2011 and new business in the construction industry showed the strongest increase for a year. Across all three sectors, new business showed the largest monthly increase for three years.

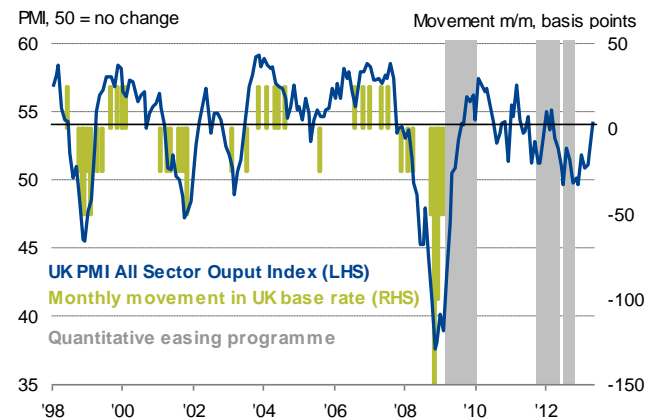
UK economic growth and the all-sector PMI



Output/business activity indicators



Bank of England policy decisions and the PMI



Firms are also taking on staff in increased numbers, responding to the brightening outlook. Job creation was the highest for four months, led by ongoing payroll growth in the service sector, a return to job creation in manufacturing and a steadying of the construction labour force.

No more stimulus?

The increasingly buoyant picture and improved outlook painted by the PMIs effectively kills off any chance of the Bank of England's Monetary Policy Committee voting for more stimulus such as asset purchases for the foreseeable future. New governor Mark Carney will have the benefit of taking the reins of an economy that is already showing signs of acquiring 'escape velocity' from the doldrums it has been wallowing in for much of the last two years.

The latest reading of the PMI pushes the survey out of territory that has been historically consistent with policy stimulus for the Bank of England.

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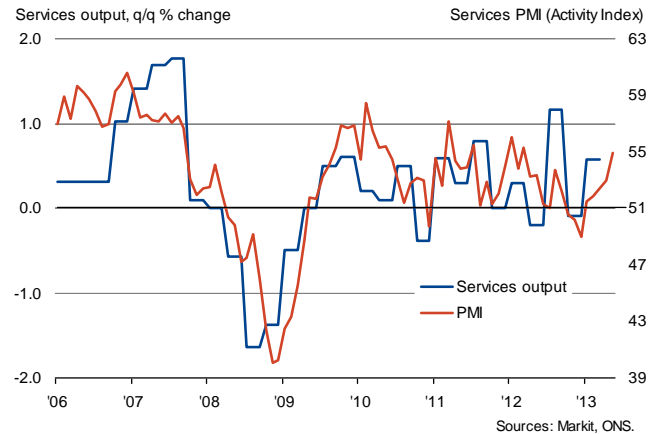
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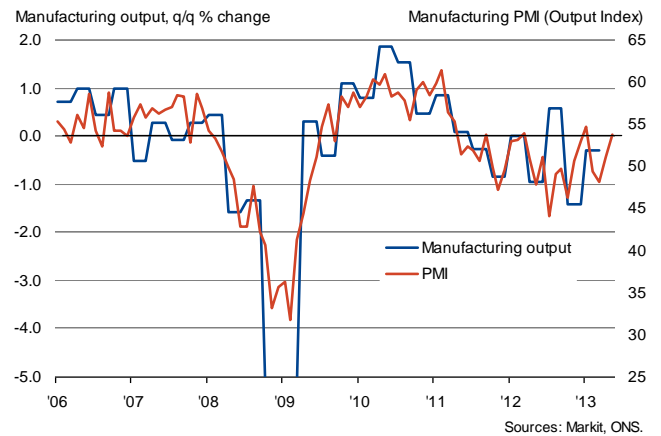
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Services



Manufacturing



Construction

