

# United Kingdom

## PMIs signal record rates of output growth and job creation

- **October PMI surveys show record increases in output, employment, new business and backlogs of work**
- **Data consistent with 1.3% quarterly GDP growth**
- **Job creation surge adds to likelihood of Bank of England 'forward guidance' review**

The UK all-sector PMI hit a record high in October, signalling the strongest monthly expansion of business activity since data were first available at the start of 1998. The data suggest that the pace of economic growth accelerated further at the start of the fourth quarter, building on already-robust growth in the second and third quarters.

The surveys also showed record growth of inflows of new business, backlogs of work and employment.

The buoyant survey data are likely to encourage the Bank of England to raise its forecasts for economic growth when it publishes its new projections in November. The Bank is also likely to bring forward its expectation of when unemployment will fall below 7.0%, the threshold needed to be reached before the Bank will consider raising interest rates.

The all-sector PMI, measuring business activity across the UK private sector economy, hit a record high of 61.5 in October, up from 60.2 in September.

While output growth slowed in manufacturing, services saw a near-record jump in business activity. All three sectors nevertheless continue to record strong rates of expansion, pointing an ongoing broad-based upturn.

Historical comparisons of the PMI against gross domestic product<sup>1</sup> suggest the latest survey data are consistent with a 1.3% quarterly rate of GDP growth, up sharply from previous quarters. (The latest official data indicate that GDP rose 0.7% in the second quarter and 0.8% in the third quarter. The PMI data

signalled increases of 0.6% and 1.1% respectively in the second and third quarters, thereby underestimating second quarter GDP slightly but suggesting the preliminary 0.8% estimate of third quarter growth may get revised higher.)

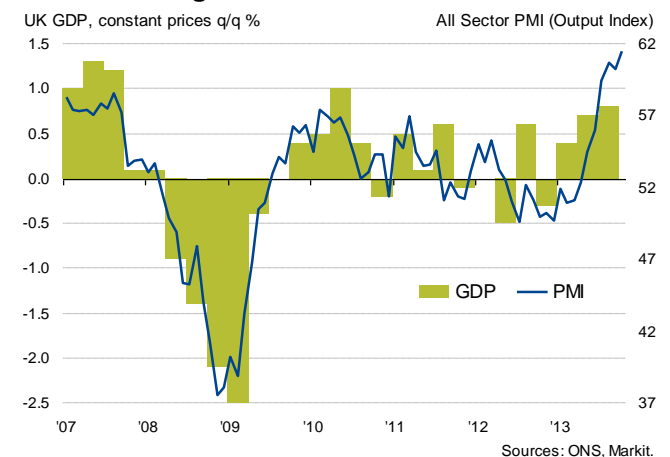
### Record growth of new business inflows

The economy looks poised for further strong growth in November, after the surveys indicated that inflows of new business also rose at a survey record pace in October. An all-time high in service sector new business growth was accompanied by steepening, strong rates of increase in both manufacturing and construction.

### Employment growth at all-time high

The recent surging growth of new business led to a record increase in backlogs of uncompleted work, which firms responded to by taking on extra staff at a rate previously not seen in the survey's fourteen-year history. The strongest pace of job creation since May 1997 in the service sector was joined by even stronger growth in construction, but a more modest increase in manufacturing.

### UK economic growth and the all-sector PMI



<sup>1</sup> To derive a comparable GDP growth rate from the PMI, we compare the PMI against the month 3 estimate of GDP, as this is the first reliable estimate of pure output. Later estimates are affected by income and expenditure components of GDP. See charts at end of note.

## Bank of England to revise forecasts

The surveys have signalled a stronger recovery than the Bank of England had anticipated earlier in the year, meaning the Bank's projections for economic growth and employment are likely to be revised higher in its November *Inflation Report*. In its August report, the Bank had forecast GDP growth of 0.5% in the third quarter and 0.6% in the fourth quarter, putting growth at 1.4% for 2013, which was expected to accelerate to 2.4% in 2014. The PMIs suggest 2013 growth will be at least 1.6%.

Perhaps most important, however, is the outlook for the labour market, as the surveys suggest that the jobless rate could fall considerably faster than policymakers were expecting back in August. The Bank has pledged not to raise rates until unemployment has at least fallen below 7.0%, which in August it did not expect to happen until the second half of 2016. This projection is based on the assumption that employment will lag behind output growth as existing spare capacity is used up before employers start hiring again in earnest. However, the PMI data suggest that hiring has already picked up sharply, and other indicators – such as the survey's Backlogs of Work Index and Suppliers' Delivery Times Index – suggest that capacity is already being stretched.

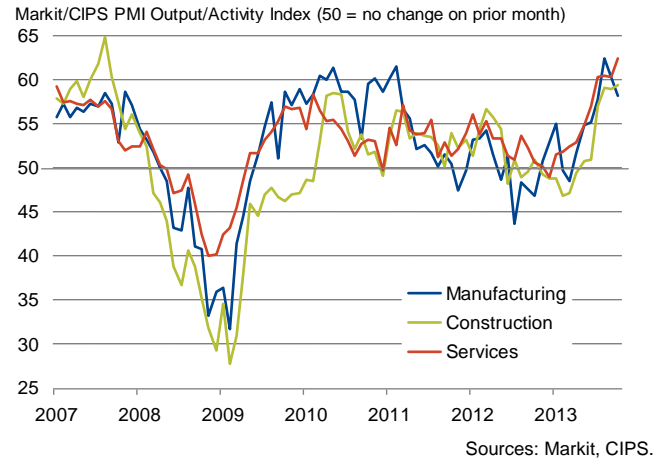
The surveys indicate that the rate of private sector job creation is currently running in excess of 100,000 per quarter. Such a strong pace of growth should eat further into unemployment, which is already showing signs of falling fast. Recent data from the Office for National Statistics showed the jobless benefit claimant count falling at the sharpest rate since 1997.

## Services-led expansion

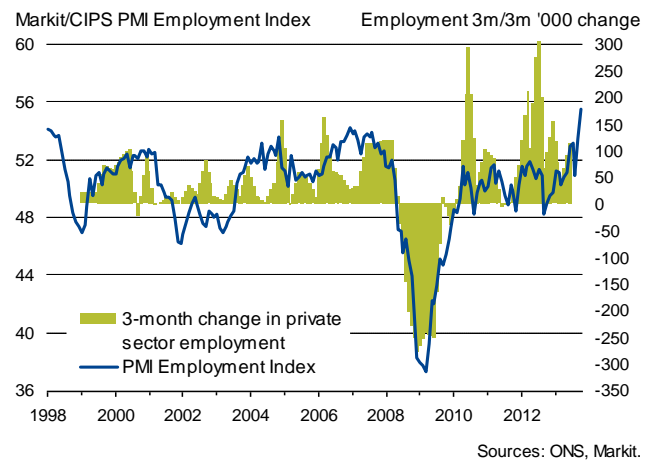
The details of the PMI surveys indicate that the construction sector is currently enjoying the strongest growth, with the PMI index signalling a quarterly rate of expansion of approximately 2.5%, in line with the increase seen in the third quarter, according to official GDP data.

Manufacturing is also growing strongly. Despite the PMI Output Index slipping to a three-month low in October, the manufacturing index remains consistent with quarterly output growth of approximately 0.9% in October, in line with official data for the third quarter.

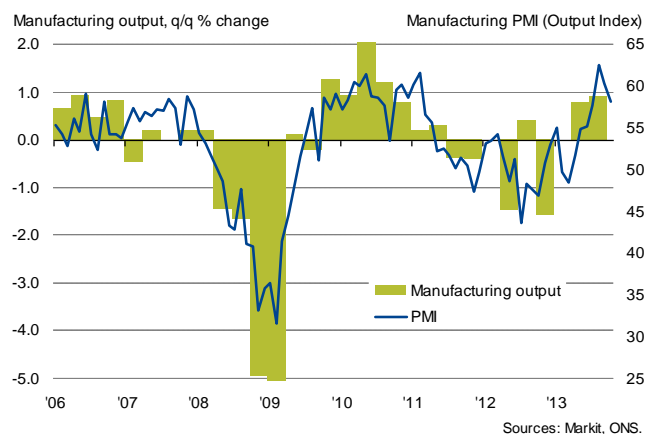
## Output/business activity indicators



## PMI Employment Index

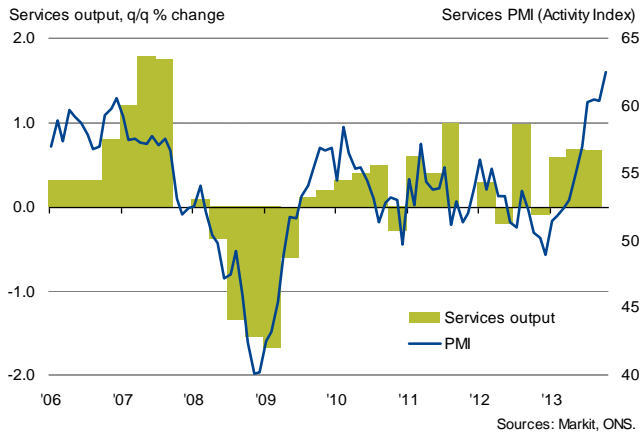


## Manufacturing

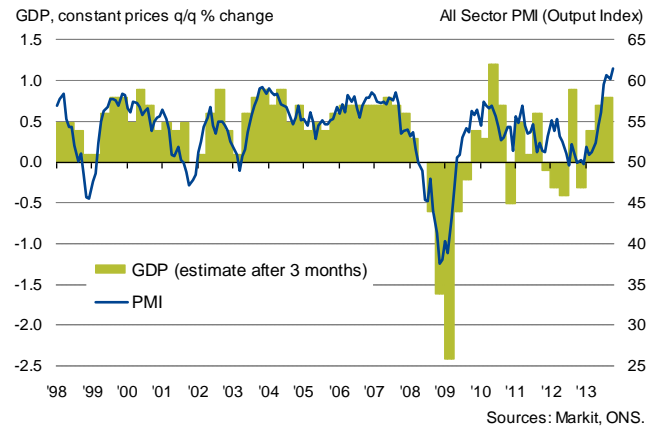


However, it is the services sector which – due to its sheer size – is the major driving force behind economic growth at the moment. The steep improvement in the Business Activity Index in October pushes the survey into new territory, consistent with the sector growing at a quarterly rate of approximately 1.5%. Official data signalled a mere 0.7% increase in the third quarter, a figure that the PMI suggests will be revised up to 1.0% or more in future estimates.

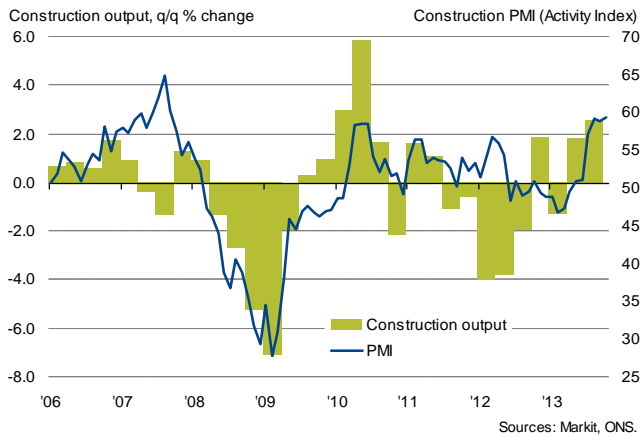
### Services



### Long-run GDP and PMI comparisons



### Construction



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