Markit Economic Research

03/04/2014

United Kingdom

PMIs signal strong end to first quarter, but also point to slower pace of expansion and easing price pressures

- **All-sector PMI down to nine-month low of 58.1**
- **Survey points to Q1 GDP growth of at least 0.7%**
- **Employment growth dips from record high**
- **Price pressures ease as sterling appreciates**

The March PMI™ surveys signalled a strong end to what looks to have been another quarter of above-trend economic growth of at least 0.7%. Growth may weaken from here, but only modestly with no sharp easing in sight. Employment growth has likewise moderated, but so have price pressures.

The three Markit/CIPS PMI™ surveys collectively signalled an expansion of private sector business activity in March but, at 58.1, down from 58.6 in February, the 'all sector' output index signalled the weakest pace of expansion since last June.

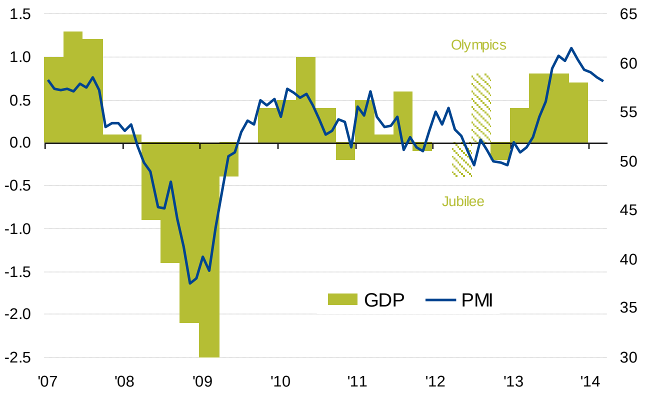
While the easing in the rate of growth in the first two months of the year was attributed in part to the wettest weather on record for parts of the country, the further easing in the pace of expansion in March is suggestive of an underlying slowdown in the pace of expansion. This slowing is also signalled by a moderation in the rate of growth of new business for a fourth successive month in March, as well as a dip in service sector expectations about the year ahead to a four-month low.

However, while the rate of growth is slowing, it is doing so merely from an extremely high base, suggesting the pace of economic expansion remained historically strong in the first quarter.

The persistent elevated level of the surveys is highlighted by the fact that the average reading seen over the first quarter was the highest since the final quarter of 2003 with the exceptions of the record expansions seen in the second half of last year.

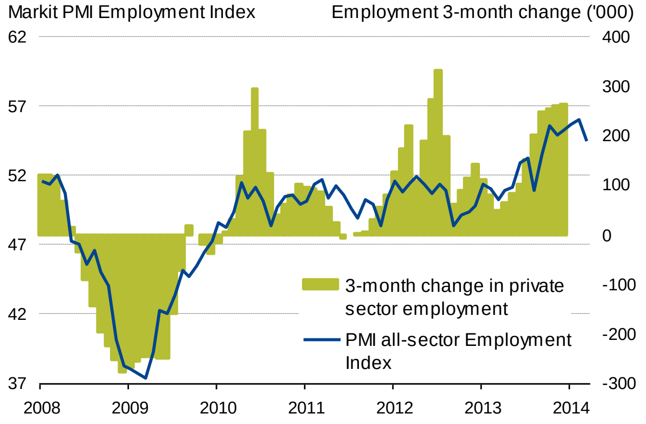
Pure historical comparisons of the PMI with official gross domestic product data indicate that the economy

UK economic growth and the all-sector PMI



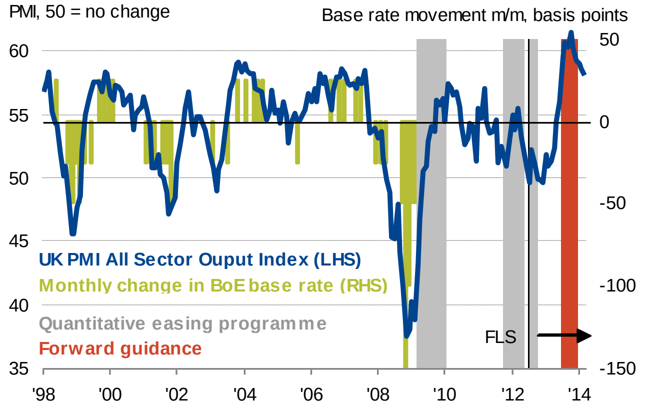
Sources: ONS, Markit.

Employment



Sources: ONS, Markit.

Policymaking and the PMI



Sources: Markit/CIPS.

grew by approximately 1.2% in the final two quarters of last year and that growth merely slowed to around 1.0% in the first quarter. However, official data have recently signalled slightly weaker growth than the PMI, registering a 0.7% expansion in the final quarter of last year after a 0.8% rise in the third quarter. We therefore suspect that the initial release of GDP for the first quarter is on course to come in at around 0.7%, but that this growth, and that currently being estimated in the second half of last year, will eventually get revised higher, in line with the PMI readings.

All three major sectors of the economy continued to record historically strong growth, though in each case the rate of expansion slowed.

The **construction** sector continued to record the fastest pace of growth, rounding off the strongest quarter of growth seen since the survey began in 1997 despite the rate of expansion slipping marginally compared with February. Surging house building was accompanied by strong growth of commercial building and civil engineering activity. The survey points to construction growing by well over 2% in the first quarter.

Ongoing expansion in **manufacturing** meanwhile provided evidence that goods producers remain a key element of the recovery. Output growth was the weakest since June, dragged down in part by weaker export orders which was linked in some cases to sterling's appreciation, but over the first quarter as a whole the survey signals a 1.0% rise in production compared to the fourth quarter.

However, it's the **service sector** which, due to its sheer size, continued to provide the main support to the economy in March. Although the pace of expansion was the weakest since last June, growth over the first quarter as a whole was among the strongest seen in the survey's near-two decade history, consistent with the sector expanding by as much as 1.0% in the first three months of the year.

Record spell of job creation continues

Employment growth slowed alongside the reduced rate of increase of new orders, but remained higher than anything previously recorded by the surveys prior to last October. Slower job gains in services, and to a lesser extent manufacturing, were offset by increased hiring in the construction sector. All three sectors nevertheless continued to report buoyant hiring trends by historical standards.

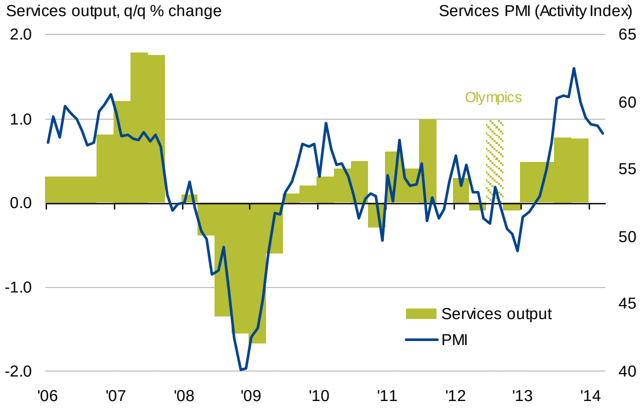
Price pressures ease, takes pressure off policymakers

Despite growth remaining strong, input costs grew at the slowest rate for ten months on average across the three sectors in March. This was in part due to the recent appreciation of sterling, which has reduced the cost of imported goods. Manufacturing costs fell at the fastest rate since July 2012.

Reduced cost pressures alleviated the need for companies to raise their own prices. Prices charged for goods and services barely rose, showing the smallest increase since last May.

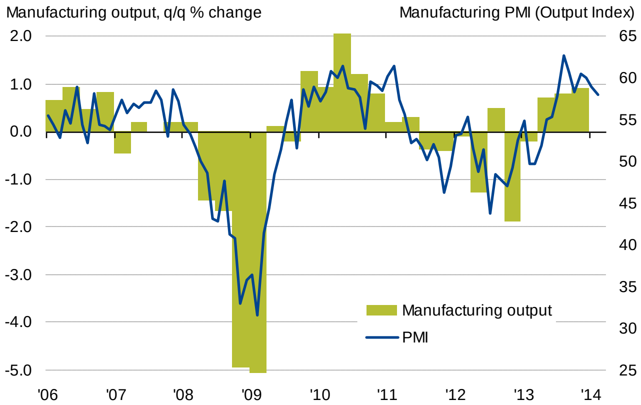
The drop in price pressures signalled by the PMI surveys bodes well for a further fall in inflation, which was already down to a post-recession low of 1.7% in February. Lower inflation in turn takes pressure off the Bank of England to tighten policy in the face of above-trend economic growth, as would normally be the case.

Services



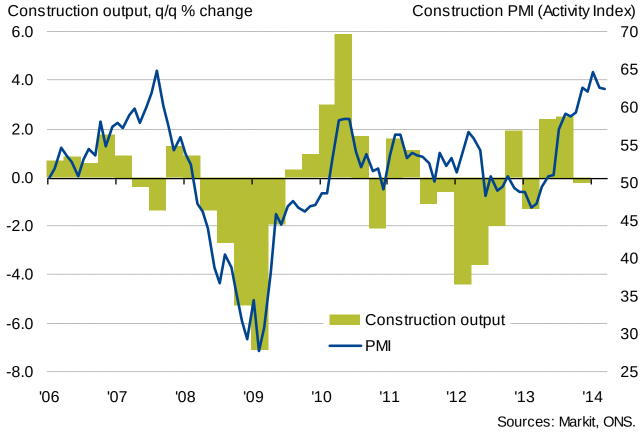
Sources: Markit, ONS.

Manufacturing



Sources: Markit, ONS.

Construction



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

Click here for more PMI and economic commentary.

Email economic@markit.com for further information