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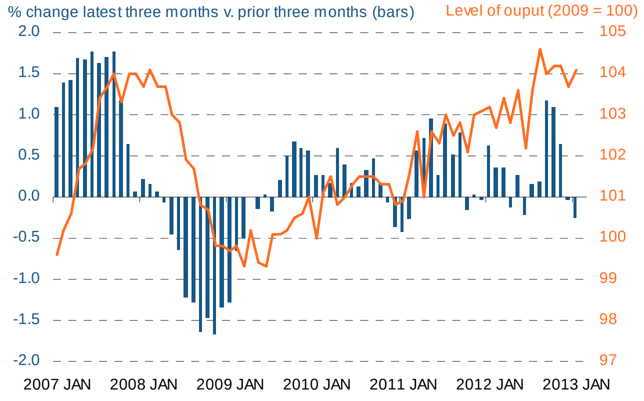
28/03/2013

# United Kingdom

## Service sector growth stifles triple-dip fears

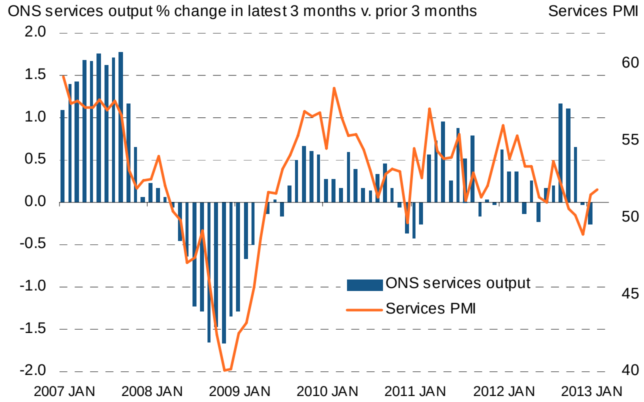
- **Service sector output rises 0.3% in January; largest rise since last August**
- **Economy likely to have stagnated in January as services growth offset industrial weakness**

### UK service sector output




Sources: Markit, ONS.

### Services output and the PMI compared




Sources: Markit, ONS.

Growth in service sector activity at the start of the year has greatly reduced the risk of the UK falling back into a triple-dip recession. The country is not out of the woods yet, with much depending on how the economy has coped with adverse weather conditions in recent months, and the indications are that any growth is still disappointingly weak. The data nevertheless provide some encouragement that the UK economy is showing some resilience in the face of headwinds from the eurozone and ongoing pressures on consumers at home, such as rising prices and weak pay growth.

The UK services economy grew by 0.3% in January, according to the Office for National Statistics, despite adverse weather which hit many businesses. The increase was the largest since last summer, when the Olympics helped boost the economy.

The data confound fears that services activity was hit badly by bad weather in January. Retail sales had slumped 0.7% during the month, and industrial production had suffered a shock 1.2% fall, heightening fears that weather-related disruptions would cause the economy to contract for a second consecutive quarter. However, with the service sector, which accounts for around three-quarters of all activity in the economy, growing in January, and PMI data suggesting that further growth was enjoyed by the sector in February, the chances of the UK avoiding a triple-dip recession have risen substantially.

The data available so far indicate that the UK economy probably stagnated in January (assuming a weather-related fall in construction output). But there are indications that growth has picked up since then. Retail sales rebounded sharply in February after being hit by the bad weather in January, and the PMI surveys signalled a modest upturn in business activity in February, led by the service sector. Therefore, while there remains a risk of the economy sliding back into its third recession since the onset of the financial crisis in 2007, the most likely outcome is that a further downturn in the first quarter will be narrowly avoided. Much depends on how the economy fared with additional bad weather in March, and in that respect next week's PMIs will provide important guidance.

However, even if the political embarrassment of a triple-dip recession is avoided, the underlying weakness of the economy still has the potential to trigger further credit rating downgrades, putting selling pressure on gilts and sterling. On the other hand, these better than expected data are probably enough to deter the Bank of England from feeling there is any immediate need to take action to revive growth through additional quantitative easing.

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