

# United Kingdom

## All-sector PMI hits new record high in August

- All-sector PMI highest since series began in 1998
- Growth accelerates in manufacturing, services and construction
- GDP growth could exceed 1.0% in Q3
- Hiring slips from July's near six-year high, but slowdown looks temporary

The economy is enjoying its strongest growth spurt for over 15 years, according to PMI survey data, benefitting from a triple-whammy of faster growth across the manufacturing, services and construction sectors.

The UK all-sector PMI hit a new survey high for the second month running in August, having risen from the previous record of 59.5 in July to 60.7. Both July and August readings have been the highest since data for the three surveys were first available in January 1998\*.

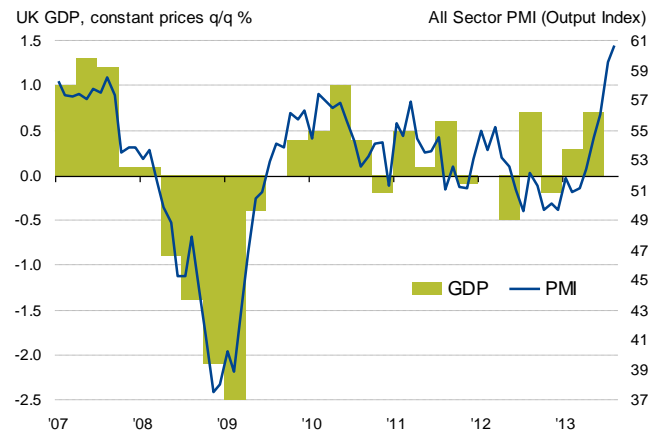
The PMI data for the third quarter so far put the economy on course to expand by at least 1.0% and possibly as much as 1.3%, assuming there is no waning of business conditions in September. The latter looks unlikely – with inflows of new business hitting a record high in August, the most likely scenario is that growth could accelerate further in September.

Manufacturers reported the largest monthly increase in output for 19 years in August. Meanwhile, service sector activity growth was the second-strongest seen over the 15-year survey history, just shy of the record seen in December 2006. Concurrently, construction activity rose at the fastest rate since September 2007, driven primarily by house building.

The surveys are clearly signalling a pace of expansion well above that anticipated by policymakers. This exacerbates the challenge faced by the Bank of England in justifying ultra-loose policy for the time frame envisaged. Currently, the Bank puts any tightening of policy no earlier than mid-2016.

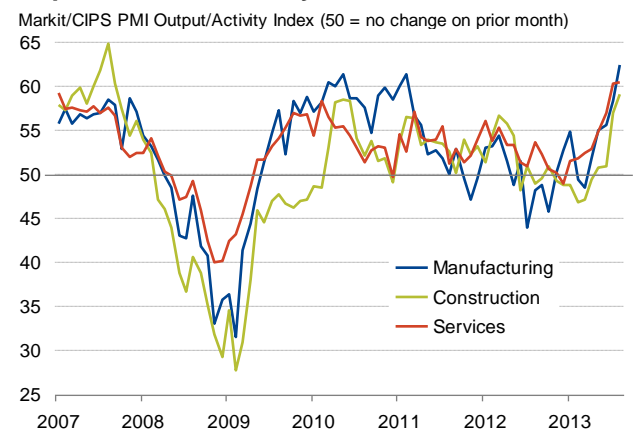
\* The previous high of 59.2 was seen in November 2003 – a time when the UK economy was growing at a quarterly rate of 1.3%.

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



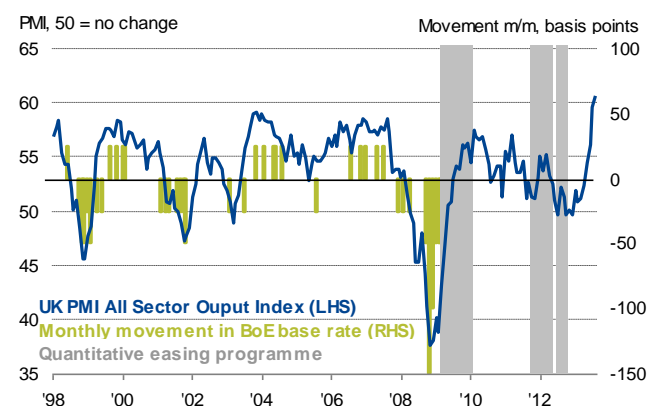
Sources: Markit, ONS.

### Output/business activity indicators



Source: Markit.

### Bank of England policy decisions and the PMI



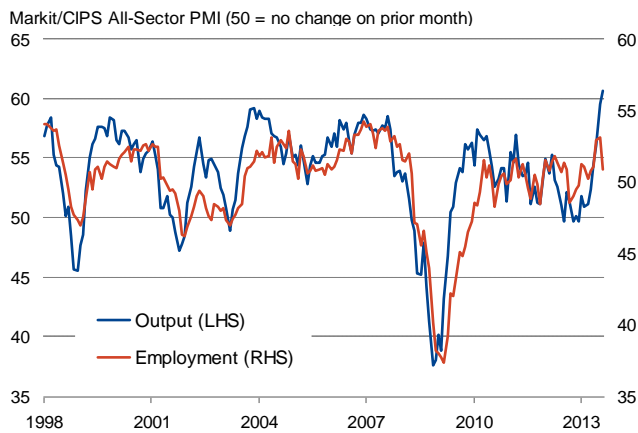
Sources: Markit, Bank of England.

Policymakers are therefore likely to focus on the less-upbeat employment aspect of the surveys, which show a widespread reluctance among firms to take on staff. Measured across all three sectors, employment growth in August slowed sharply compared with July, which had seen the strongest jobs growth since October 2007.

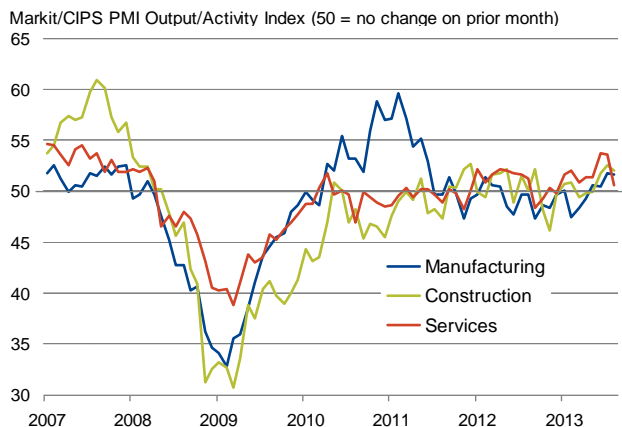
However, the waning rate of job creation looks likely to be only temporary given the strength of order book growth. Moreover, backlogs of work (either not yet started or not completed) showed the largest increase across both the manufacturing and service sectors since comparable data began in November 1999. This suggests that companies are struggling to keep up with demand.

Historical comparisons show that employment only starts increasing significantly with some delay after output growth picks up (see chart below). On that basis, employment growth should start to gather momentum as we move into the fourth quarter.

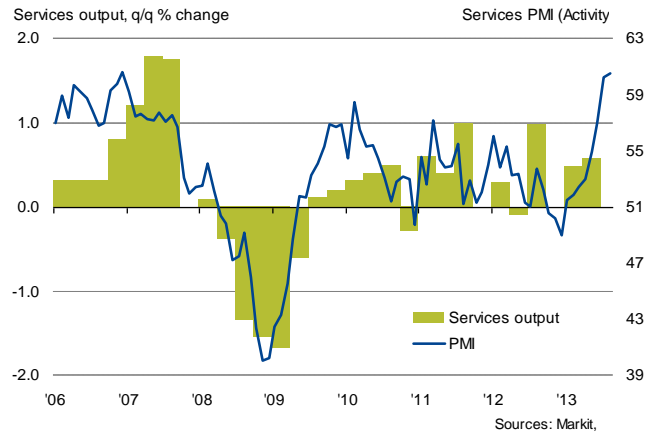
**Output and employment**



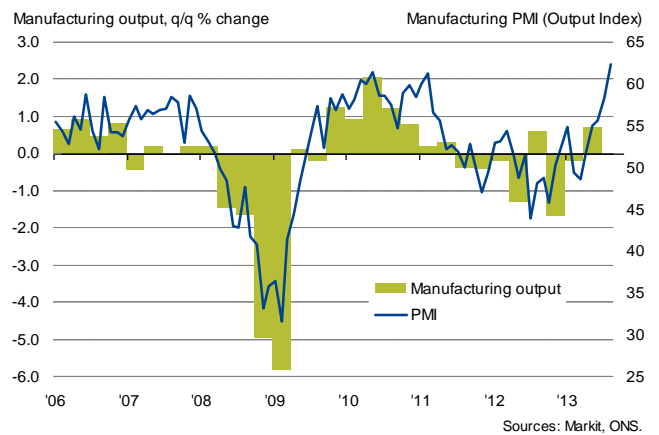
**Employment by sector**



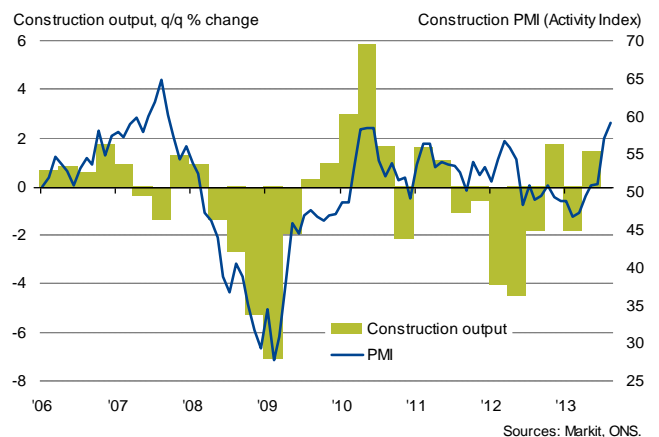
**Services output**



**Manufacturing output**



**Construction output**



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