

United Kingdom

Economic growth revised higher in second quarter

- **Second quarter GDP revised up to 0.7%**
- **Broad-based upturn in output, with services, manufacturing and construction all expanding**
- **Expenditure data show steep upturn in exports plus rising investment and household spending**

The UK economy grew faster than previously thought in the second quarter. GDP is now estimated to have grown 0.7% compared with an initial estimate of 0.6%, according to the Office for National Statistics.

With the exception of last year's Olympics-related growth spurt, the quarter saw the best expansion for three years.

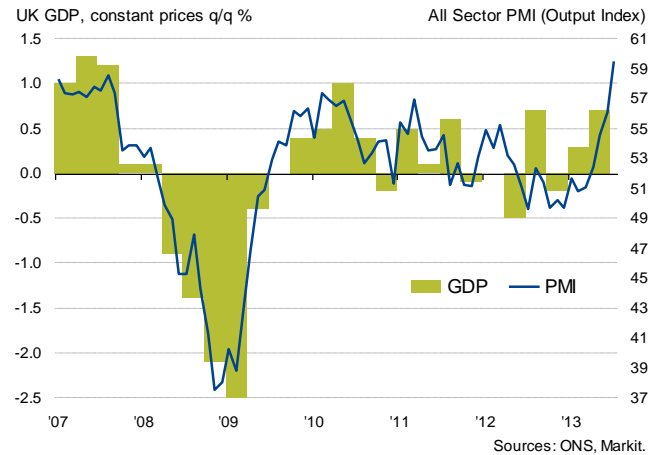
The details show a very encouraging picture of a broad-based upturn across almost all sectors of the economy (the exception being falling energy output). Importantly, the upturn was not simply fuelled by surging household spending. Instead, exports and business investment were key drivers of the expansion, pointing to a rebalancing of the economy away from domestic consumption.

Manufacturing grew almost twice as fast as previously thought, up 0.7% compared with a first estimate of 0.4%, and construction jumped 1.4% higher after the previous estimate of a 0.9% rise. Service sector output growth was unrevised at 0.6%.

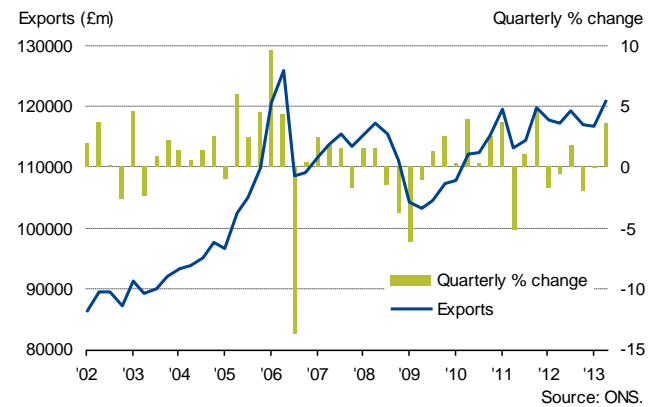
It was exports that was the star performer, however, surging 3.6% to register the fastest growth since late-2011. Business investment showed a healthy 0.9% rise, while household spending was up a modest 0.4%.

Growth looks likely to have accelerated again in the third quarter. The PMI surveys showed business activity growing in July at the strongest pace since data were first available at the start of 1998. The service sector was found to have been growing at the fastest rate for six-and-a-half years, manufacturers were enjoying the best growth of production for over two years and construction growth had surged to a three-year high on the back of increased house building.

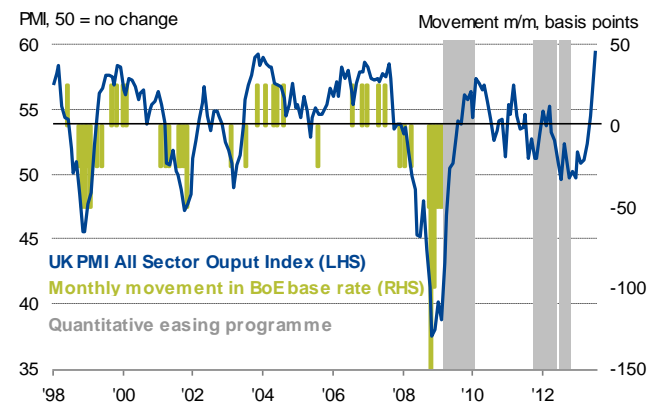
GDP and the PMI



Exports



Bank of England policy

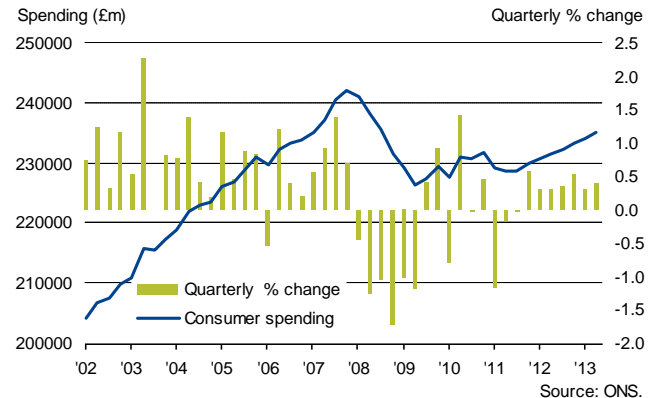


Alongside these domestic improvements, there are also signs that global economic conditions are also picking up. Markit's [flash PMI surveys](#) for August signalled the first simultaneous improvement in manufacturing conditions in the US, China and eurozone since mid-2011. The eurozone's upturn will be particularly beneficial to the UK, being the country's most important export market, and suggest that the recent upturn in export performance will continue.

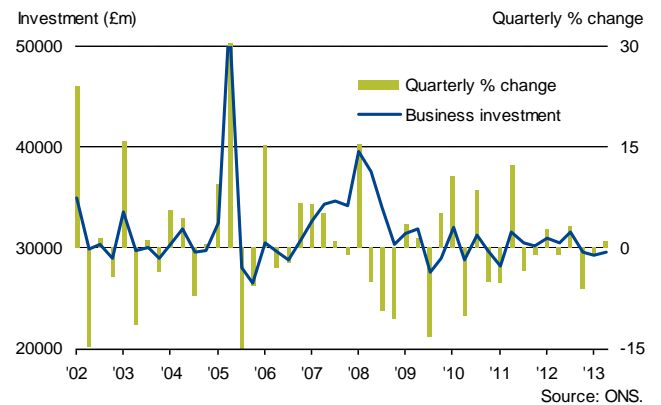
The improvement in the UK economy is feeding through to employment. The jobless claimant count is falling at the fastest pace since 2010, and surveys of both purchasing managers and recruitment agencies report that the demand for staff is growing at the strongest pace for six years.

The Bank of England is therefore facing a growing challenge of how to convince the markets and households that interest rates will not need to rise over the next three years. Given the strength of the GDP and PMI data, and the fact that better growth now appears to be driving a strong upturn in the labour market, it is hard to see how an increasingly hawkish mood will not creep into the monetary policy meetings.

Consumer spending



Business investment



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com