

United Kingdom

Economy gains further growth momentum in third quarter

- **GDP up 0.8% in third quarter, largest quarterly rise since second quarter of 2010**
- **Manufacturing, services, agriculture and construction all expanding**
- **Stronger economic growth adds to likelihood of earlier hike in interest rates**

Britain's economy is showing the most sustainable and robust-looking upturn since the financial crisis. The UK economy grew at a robust pace in the third quarter, expanding at the fastest rate since the second quarter of 2010.

Gross domestic product grew 0.8% in the third quarter, according to the first estimate from the Office for National Statistics. This was in line with economists' expectations, and builds on the 0.7% increase seen in the second quarter and a 0.4% increase in the first three months of the year.

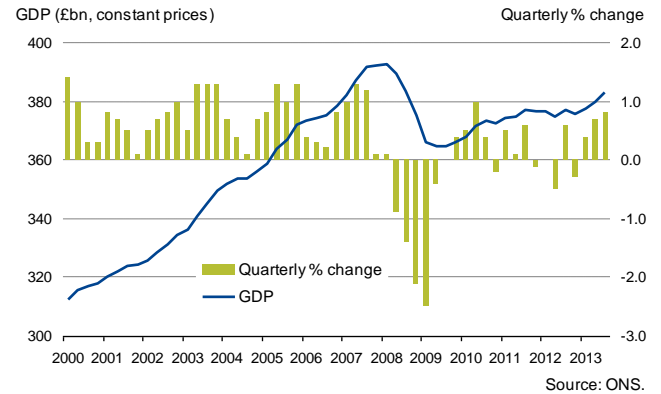
All four sectors – manufacturing, services, agriculture and construction – grew for a second consecutive quarter, in what is developing into a broad-based, sustainable-looking recovery.

Forward-looking indicators suggest we will see further robust growth in the fourth quarter. Business and consumer confidence is rising, unemployment is falling sharply and surveys are indicating that companies' order books are growing at the fastest rate for 15 years. In addition, growth is reviving in our main export market, the eurozone, and the health of the banking sector is improving, all of which should add further support to the recovery.

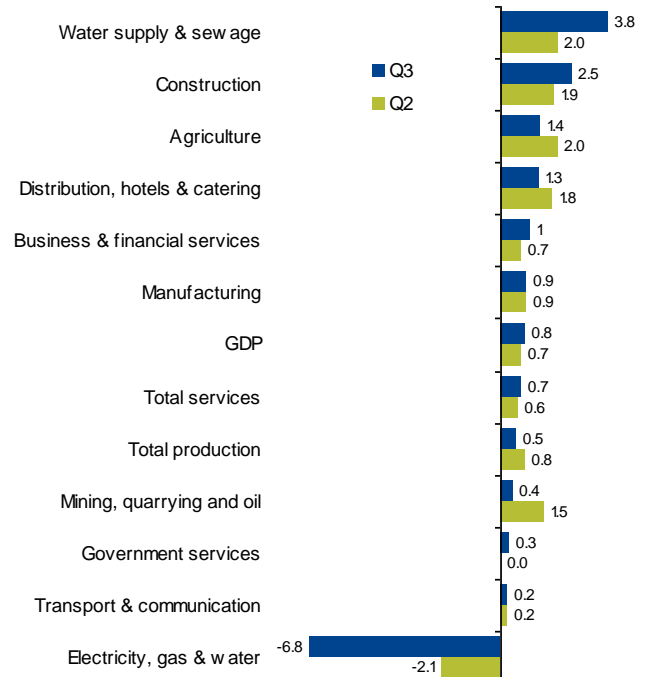
Bank of England to revise up its forecasts

Alongside the recent labour market data, which showed jobless benefit claimant numbers falling at the steepest rate since 1997, the GDP data suggest that the Bank of England will be revising up its economic growth forecasts in its November Inflation Report. Recent announcements of higher energy bills will also inevitably lead to an upward revision to the Bank's inflation outlook.

UK gross domestic product



GDP by sector, ranked by quarterly % change in Q3



Expectations will therefore mount that the Bank will start raising interest rates earlier than it expected back in August, when a tightening of policy was not envisaged before 2016.

However, the Bank will inevitably also focus on the fact that the latest GDP increase still leaves the economy 2.5% smaller than its pre-crisis peak.

An imminent rate hike is therefore certainly not on anyone's radar, but if the economic data continue to surprise on the upside, it is reasonable to assume that rates will start rising in 2015.

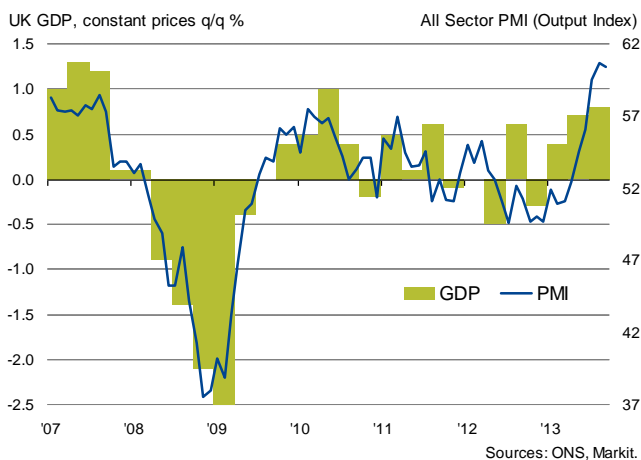
Broad-based upturn

In the detail, industrial production grew by 0.5%, led by a 0.9% expansion of manufacturing output. Construction output surged 2.5%. Services grew by 0.7%, led by a 1.3% increase in the hotels, restaurants and catering sector and a 1.0% increase in business services and finance. Government and other services output grew 0.3%. Agriculture meanwhile expanded by 1.4%.

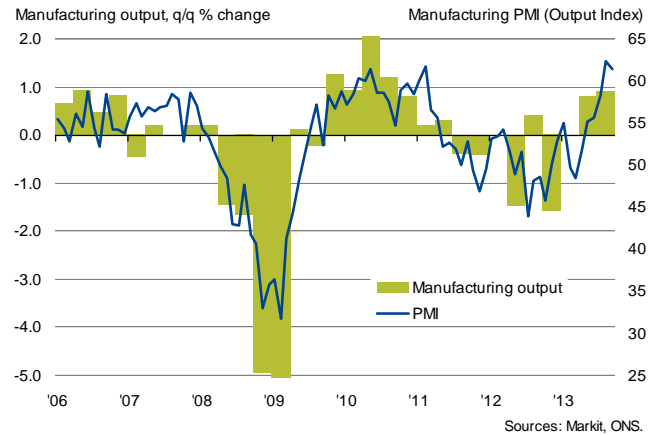
Potential for upward revision

While the third quarter GDP reading was the strongest for just over three years, we suspect growth to be revised higher in coming months. In particular, the GDP estimate does not include hard data for September, which the business surveys suggest was a strong month of growth. An upward revision to 1.0% or more should not be ruled out.

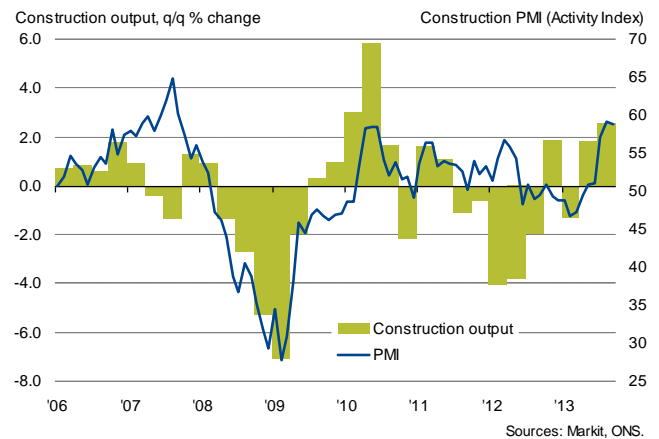
GDP and the PMI business surveys



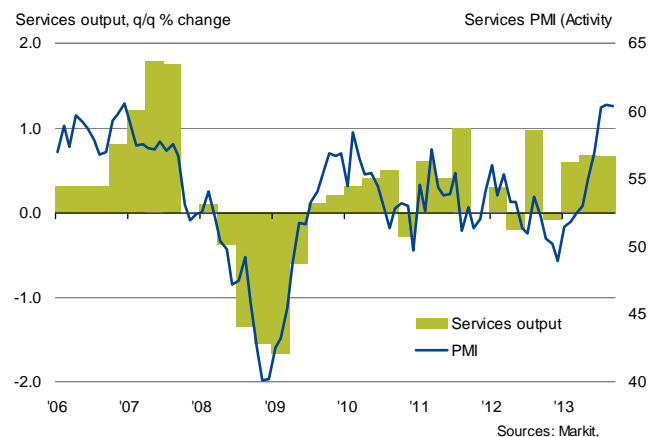
Manufacturing



Construction



Services



Chris Williamson

Chief Economist, Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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