

United Kingdom

Economy grows at slowest rate for 2½ years as weakness spreads to services

- **'All-sector' PMI falls to 2½ year low signalling 0.3% GDP growth in September (0.5% in Q3)**
- **Weakness spreads from manufacturing to services**
- **Employment growth remains solid suggesting firms expect temporary slowdown**
- **But drop in new order growth hints at further malaise in coming months**

The rate of UK economic growth slowed to a two-and-a-half year low in September, according to PMI survey data, suggesting that the economy sank further into a soft patch at the end of the third quarter.

The survey data suggest that GDP growth slowed to 0.5% in the third quarter, but that the economy is entering the fourth quarter at a pace down to just 0.3%.

At the moment, sustained strong hiring in services and construction suggests that companies are generally expecting weakness to be short-lived, but this could soon change unless demand shows signs of reviving.

Growth at 2½ year low

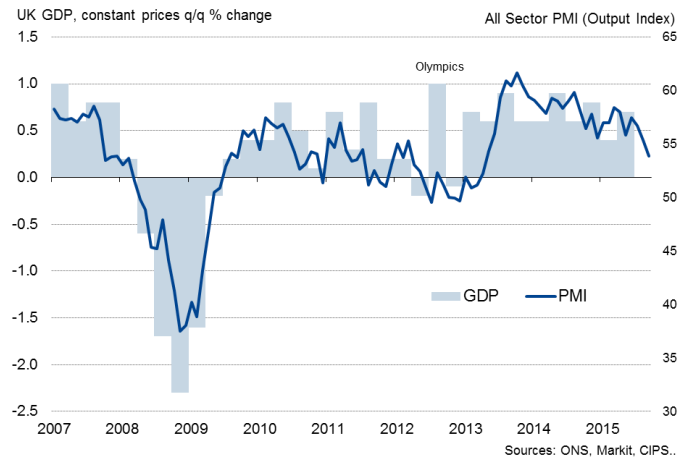
The all-sector Markit/CIPS PMI fell from 55.4 in August to 53.9, its lowest since April 2013, to signal an easing in the pace of growth for a third straight month.

The September reading rounds of the worst spell of growth since the second quarter of 2013, with the surveys indicative of GDP growth waning from 0.7% in the second quarter to 0.5% in the third quarter. However, growth clearly eased during the quarter, with the survey data indicating that the quarterly rate of growth eased to a mere 0.3% in September data compared to 0.7% in July.

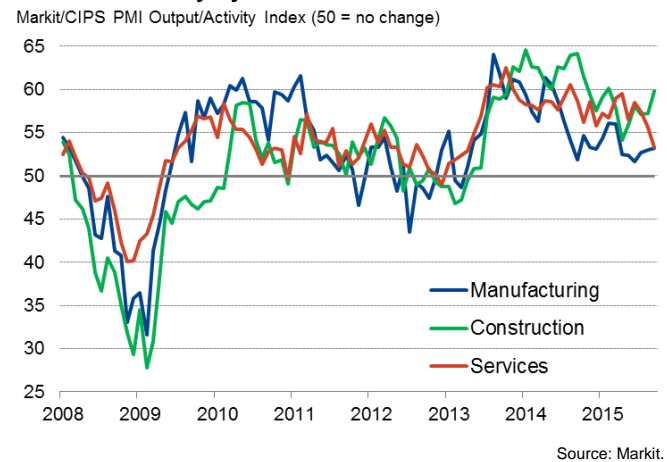
Slowdown spreads beyond manufacturing

Persistent weakness of the manufacturing sector has increasingly spread to the far larger services economy in recent months, hitting transport and other industrial-related services in particular. However, there are also signs that consumers have become more cautious and are pulling back on their leisure spending, such as restaurants and hotels. Wider business service sector confidence has meanwhile also been knocked by global economic worries and financial market jitters.

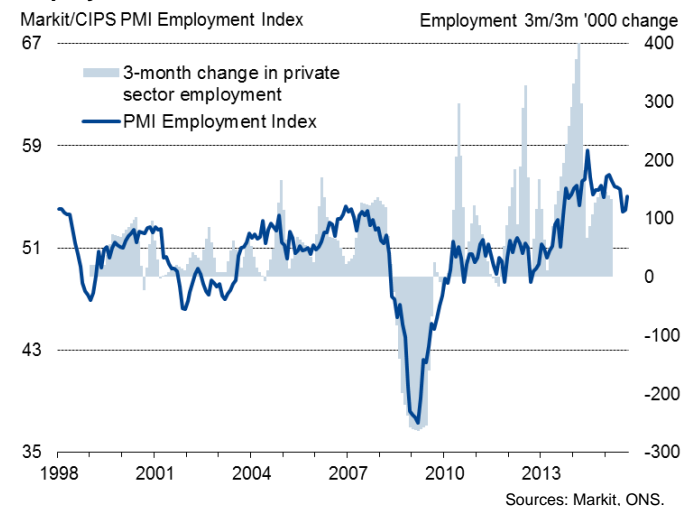
UK economic growth and the PMI



Business activity by sector



Employment



The service sector consequently reported the slowest growth of both business activity and inflows of new business for 29 months in September. Business confidence in the service sector also dropped to the lowest for just over a year. Manufacturers have also suffered a marked deterioration in growth of demand from consumers in particular in recent months, joining sluggish demand for investment goods such as plant and machinery amid still-weak capital expenditures by businesses.

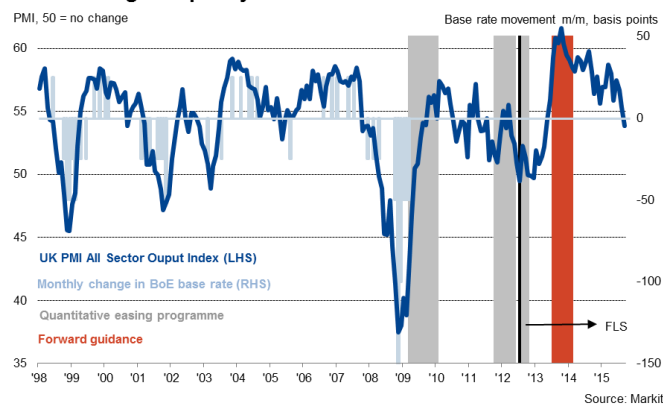
Slower growth of manufacturing and services has left construction as the fastest-growing part of the economy, although even here inflows of new business grew at the second-slowest rate since mid-2013.

Solid hiring trend, for now

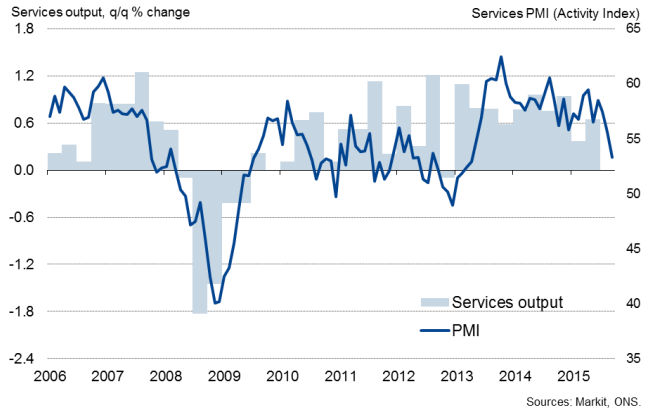
Although the pace of economic growth slowed in September, firms continued to take on staff at an impressive rate. September saw the fastest increase in employment for three months, as a pick-up in hiring in services and construction more than offset the first (marginal) decline in factory jobs for two-and-a-half years.

At the moment, the sustained strong hiring in services and construction therefore suggests that companies are generally expecting the slowdown to be short-lived. But with the three PMI surveys collectively recording the weakest inflows of new business for two-and-a-half years, there's a strong likelihood that the slowdown could intensify in coming months.

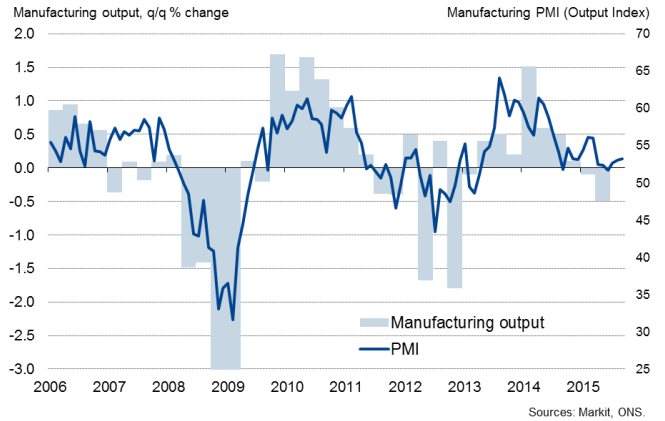
Bank of England policy decisions and the PMI



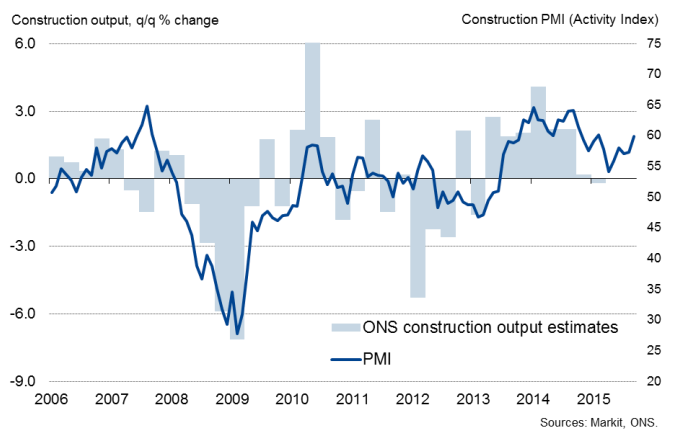
UK services: official and survey data compared



UK manufacturing: official and survey data compared



UK construction: official and survey data compared



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

Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited.