Markit Economic Research
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United Kingdom

Economy passes pre-crisis peak

- **UK GDP up 0.8% in second quarter**
- **Official data confirm strong growth signals sent by the PMI**
- **Interest rate hike in 2014 still likely**

A milestone in the UK recovery has been reached after a further strong performance in the second quarter brings the size of the economy above its pre-crisis peak. Any celebrations will of course also be marred by the fact that the milestone reminds us that it has taken some six years for the country to merely regain the economic might it had before the financial crisis struck*.

Data from the Office for National Statistics showed gross domestic product rising 0.8% in the three months to June, matching expectations and in line with the signals from recent upbeat business surveys. The solid pace of expansion represents a continuation of a strong upward growth trend that has been evident since early last year. This is the best spell of continuous growth that the UK has seen since 2007.

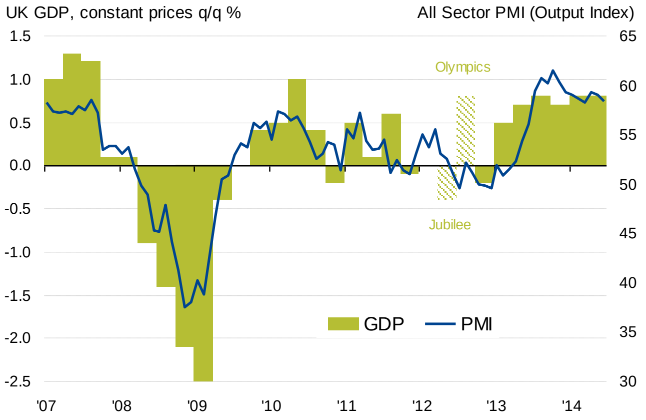
The data will do little to affect the Bank of England's decision on when to start raising interest rates, not least because the Bank is typically sceptical of the revision-prone early estimates of GDP. The Bank is expecting second quarter GDP to eventually be revised to show 0.9% growth.

More important will be the course the economy takes in the second half of the year. In particular, the Bank's expectation that interest rates will not need to be raised until next year is based on the assumption that economic growth will moderate as we move through the second half of 2014, while wage growth remains subdued.

Any signs of the economy sustaining its recent strong growth spell into the third quarter will therefore lead to a further intensification of the discussion among policymakers that an earlier rate rise would be warranted. The most likely timing of an earlier hike is November, which is when the Bank updates its economic forecasts.

* We should also remember that in September we are set to see whole-scale revisions to the UK's economic growth from the ONS, and these revisions are likely to show that the pre-recession peak was in fact passed late-last year. If these revisions also alter the Bank of England estimates of how much spare capacity exists in the economy, this could be another factor which may lead to interest rates rising this year instead of next.

UK gross domestic product



Sources: ONS, Markit.

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