

United Kingdom

Economy sees strong start to third quarter as PMI rises to highest since April

- 'All-sector' PMI rises to 59.1, highest since April
- Near-record employment growth
- Slower manufacturing growth offset by sustained buoyancy of services & construction

The growth surge in the UK economy shows no signs of abating. The three Markit/CIPS PMI™ surveys showed business activity expanding in July at the fastest rate since April.

The sustained buoyancy of the surveys indicates the country is on course for another spell of strong economic growth in the third quarter. Gross domestic product looks set to grow by 0.8% again in the three months to September, assuming the surveys hold their current levels in coming months.

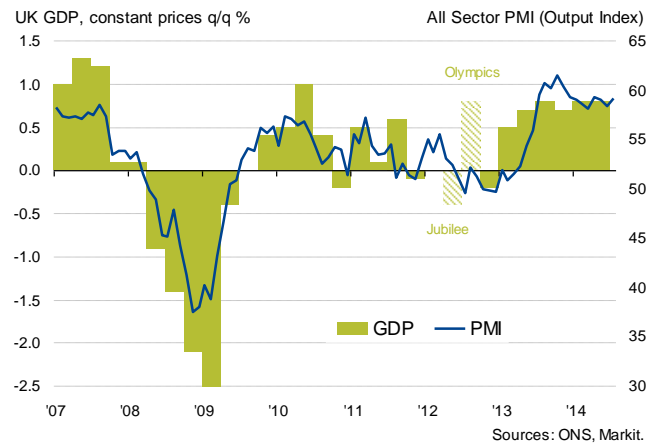
The weighted average of the Output Indexes from the three Markit/CIPS PMI surveys rose from 58.4 in June to 59.1 in July. The average index reading of 58.9 in the three months to June correctly anticipated the strong 0.8% GDP expansion in the second quarter.

The ongoing strength of growth in July reflects surging demand, which also bodes well for the current pace of expansion being sustained as we move into autumn. New orders across the services, manufacturing and construction sectors have shown consistently strong growth over the past year and remained elevated in July, once again signalling an increase in demand rarely exceeded since comparable data were first available in the late-1990s.

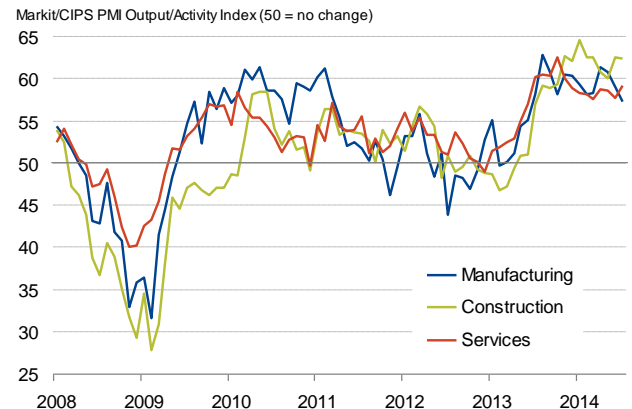
Companies took on near-record numbers of extra staff in order to expand capacity to meet the increase in new business. The rate of job creation signalled by the three PMI surveys eased from June's all-time high but remained consistent with approximately 100,000 jobs being created by the private sector in July.

With jobs being created at this pace, unemployment should continue to fall, with a strong possibility of joblessness falling below 6% by the end of the year. The latest available official data showed the unemployment rate down to 6.5% in the three months to May.

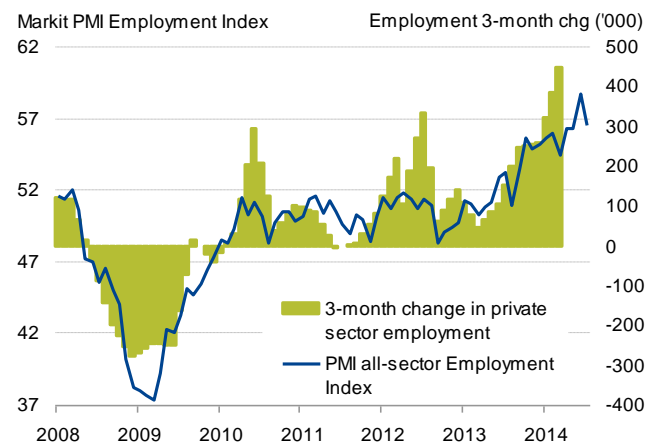
UK 'all-sector' PMI and gross domestic product



Broad-based upturn



Employment



The sustained strength of growth and the ongoing improvement in the labour market will add to calls for interest rates to start rising later this year. However, with an absence of inflationary pressures there is still a strong case for any tightening of policy to be delayed until 2015. Prices charged for goods and services rose only modestly again in July, registering the slowest monthly increase since March.

The surveys nevertheless pointed to price pressures building within supply chains. Manufacturers' input prices rose at the fastest rate since January and construction firms' materials prices rose at a sharp rate, in both cases often reflecting an ability of suppliers to hike prices as demand exceeded supply. There were also some signs of wage pressures building. However, rates of increase of costs generally remained subdued, in part reflecting lower import prices resulting from sterling's appreciation.

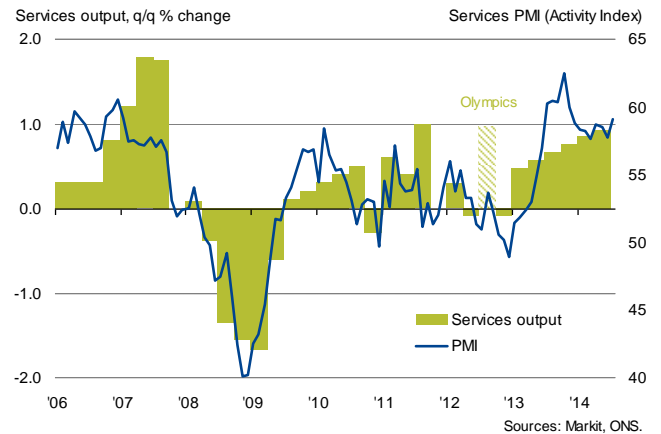
Manufacturing slowdown offset by services and construction

The downside of the stronger pound, which has risen 4% so far this year against a trade-weighted basket of currencies, is the adverse effect on exports. Manufacturers reported the weakest rise in output for just over a year in July, which coincided with slower growth of new export orders.

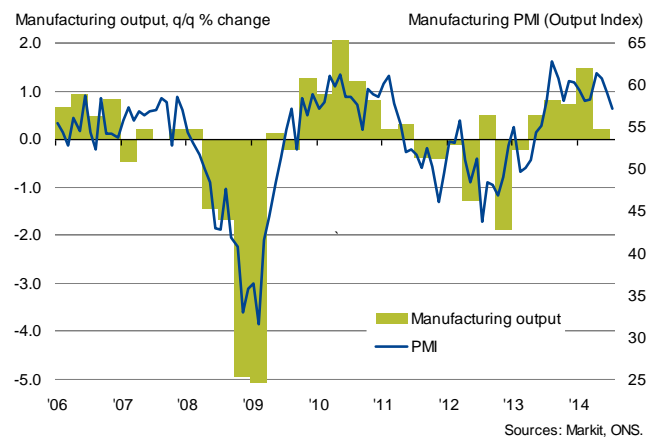
Although the [manufacturing PMI](#) showed some signs of growth cooling, as firms struggled with the strong pound and weaker demand in key export markets, the buoyancy of the services and [construction](#) sectors suggested the domestic economy clearly continued to boom in July. Service sector business activity grew at the fastest rate since November 2013 and growth of construction activity held close to the near-record high seen in June.

Reassuringly, the construction upturn was broad-based, with historically strong rates of increase for commercial activity and civil engineering accompanying a housebuilding growth spurt, pointing to rising business investment in property.

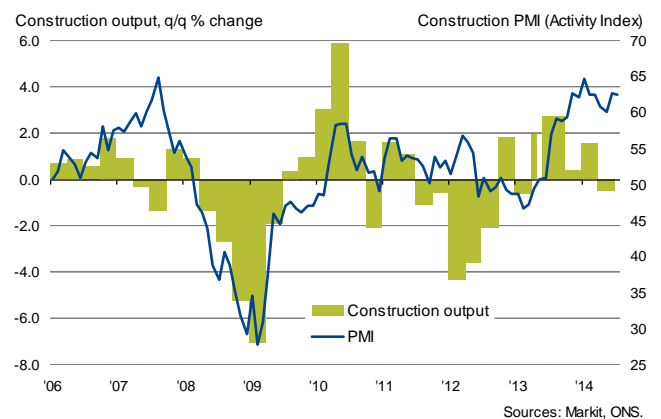
Services



Manufacturing



Construction



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