

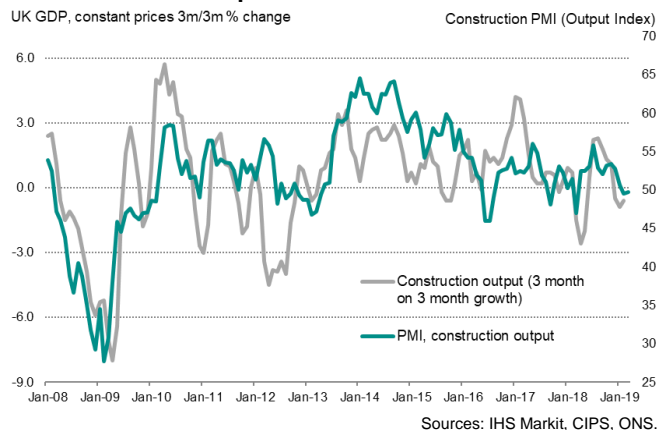
The manufacturing PMI survey's forward-looking new orders to inventory ratio has fallen sharply in recent months, highlighting these downside risks to future production numbers.

Construction downturn

In construction, the recent monthly gains mask an underlying weakness in the building sector. The construction data used in the compilation of GDP are very volatile, and the smoother three-month-on-three-month rate of change indicates that the sector has in fact moved into decline, with output down 0.6% compared to the prior three months.

A contraction is also signalled by the construction PMI which, like the official data, has deteriorated markedly since peaking in the middle of last year. The caveat is that the survey showed both new work inflows and business expectations improving somewhat in March, suggesting the building sector may see some stabilisation in the second quarter.

UK construction output and PMI



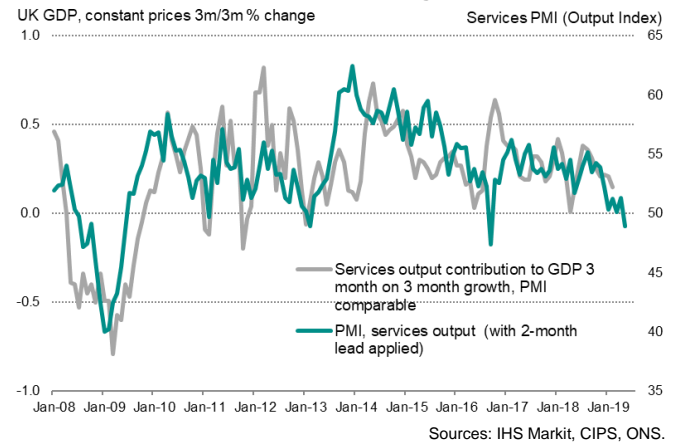
Service sector slowdown

The picture is more complicated in the service sector due to differences in survey coverage, but delving into the official data shows some tentative corroboration of the recent weakness in the services PMI. The output index from the services PMI signalled modest growth in February but has since slipped into decline in March for the first time since 2012 with the exception of the month following the 2016 referendum.

The near-stagnation of the ONS measurement of service sector output to register just 0.1% growth in February is therefore in line with the survey's findings. A more upbeat picture is portrayed by the three-month on three-month growth trend in services, which eased from 0.5% to 0.4% (though still the weakest since May of last year). But looking at the composition of this

growth, even here the trend starts to match that of the PMI more closely. A like-for-like comparison of the PMI's service sector coverage shows the contribution of services to quarterly GDP growth falling from a peak of 0.38% last July to just 0.15% in February, according to the official data. It's this contribution that the PMI indicates will fall further in coming months.

Service sector contribution to GDP growth



The retail sector, excluded from the PMI, remains a key support to the official picture of the economy, and is a key area of divergence between the GDP and PMI data. Strip out retail and the three-month GDP growth rate fell to just 0.2%, closer to the signal of 0.1% from the February PMI surveys. In either case, the rate of growth has clearly slowed markedly since last summer, with Brexit uncertainty the main culprit. Brexit developments will therefore form a key determinant of growth in coming months, with more evidence to be provided by the upcoming PMI surveys for April.

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