

United Kingdom

Upcoming PMI data in spotlight after disappointing first quarter GDP numbers

- GDP up just 0.1% in Q1
- Bad weather only partly to blame
- April PMI surveys will be important in gauging underlying growth trend

UK economic growth slowed to near stagnation in the first quarter, casting further doubts on the health of the economy and seriously knocking the case for the Bank of England to raise interest rates again in May. April's PMI data will likely be key to monetary policy decisions.

Data from the Office for National Statistics showed gross domestic product up 0.1% in the first three months of the year, down from 0.4% in the fourth quarter of last year. The economy was just 1.2% larger than a year ago, the weakest rise for nearly six years.

Not just a dose of bad weather

A deterioration in the pace of growth had been signposted in advance by a steady flow of disappointing monthly economic data, including the [IHS Markit/CIPS PMI surveys](#), though the GDP numbers have come in even worse than expected.

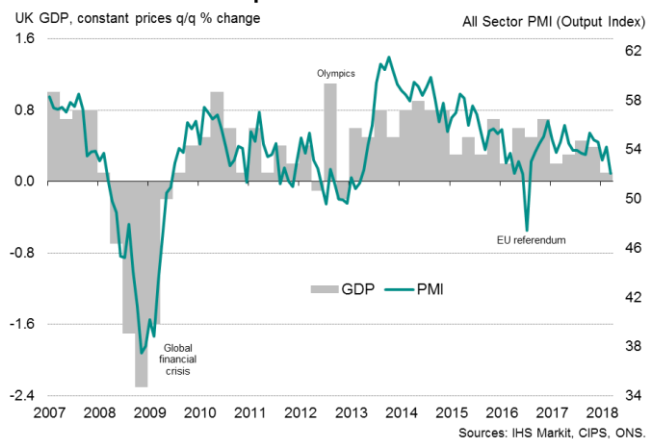
Bad weather as the 'Beast from the East' struck the country was partly to blame, but both the official data and survey evidence suggest the slowing was not just the result of heavy snowfall. Increased energy production to combat the cold weather in fact helped boost the numbers, offsetting some of the snow impact.

Some scope for upward revision is possible as these are only initial estimates, but it's clear that the disappointing GDP numbers in the first quarter confirm that the economy started the year on a far weaker footing than the Bank of England had been expecting.

Policy on hold

The fact that the GDP numbers have clearly been distorted by weather effects confuses the picture for policymakers. Even with the sharper than expected slowdown, the Monetary Policy Committee may be inclined to look through what may well prove a temporary slowdown, and instead focus on signs that pay growth is improving.

UK PMI and GDP compared



Recent official data showed regular private sector pay growth accelerated to 2.9% in the three months to February, and the unemployment rate slipped back to 4.2%, its lowest since the 1970's, underscoring the tightness of the labour market. As such, a May rate hike would still be on the cards.

However, it's likely that it will require a solid rebound in April to persuade the majority of the MPC that the economy has regained sufficient growth momentum to warrant higher interest rates. Next week's PMI data will therefore be especially closely watched in order to help gauge the extent to which the economy has recovered in April from the weather impact.

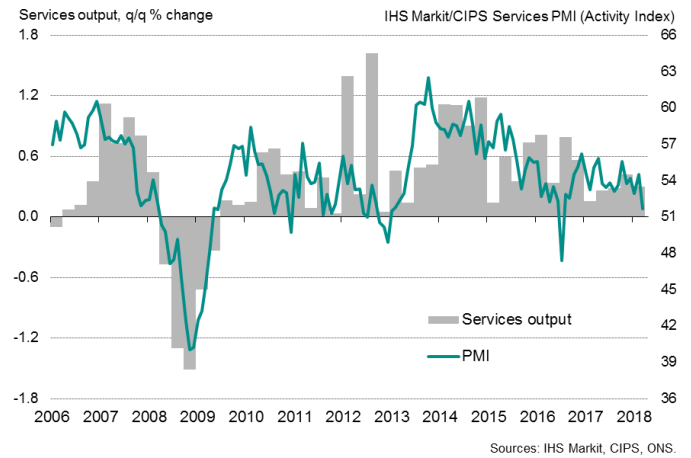
Initial signs are not encouraging. Perhaps partly as a result of [eurozone PMI](#) data failing to recover lost ground in April, optimism of a strong rebound in the UK is being tested. A poll by Thomson Reuters indicates that economists are on average not expecting the April services and construction PMI surveys to have regained February's levels, while manufacturing is forecast to have lost further momentum. Such a scenario would leave the PMI surveys in territory more consistent with a loosening rather than tightening of monetary policy.

Broad-based weakening

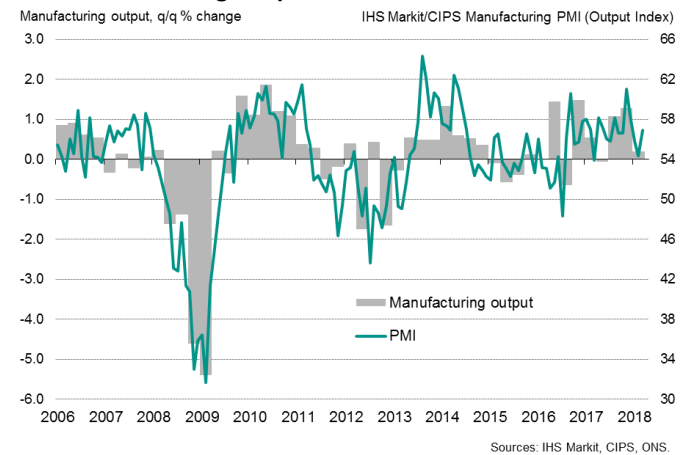
In the detail, the latest GDP numbers showed construction output falling 3.3%, the downturn building

on a 0.1% fall in the fourth quarter of last year. Industrial production was up 0.7%, buoyed by higher energy production as a result of the adverse weather, but the manufacturing sector recorded a mere 0.2% quarterly increase, down sharply from 1.3% at the end of last year. The vast service sector saw growth slow from 0.4% to 0.3%. The trends in all major sectors were broadly in line with recent signals from the PMI surveys.

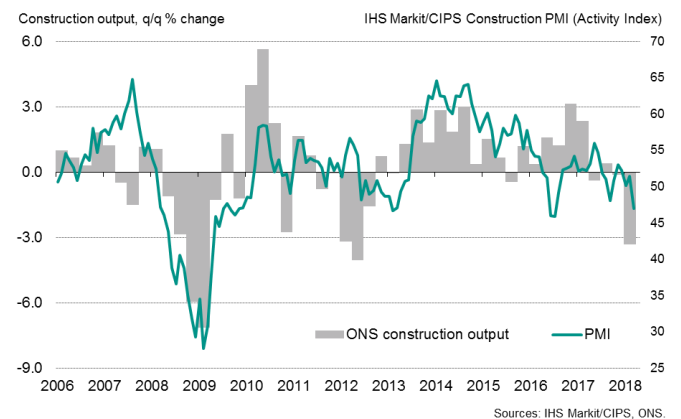
UK services output



UK manufacturing output



UK construction output



Chris Williamson

Chief Business Economist

IHS Markit

Tel: +44 207 260 2329

Email: chris.williamson@ihsmarkit.com

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