

UK Services

Service sector output fell in April with further weakness likely in May

- **1.2% fall in services output in April, blamed on special factors.**
- **Weakness set to persist into May.**
- **Sector to provide only modest contribution to economic growth in Q2.**

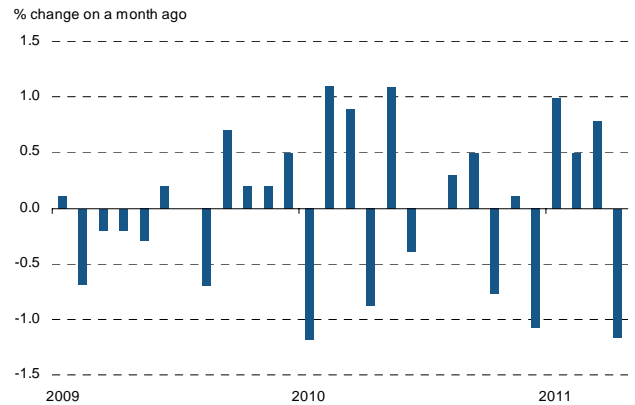
Latest data from the Office for National Statistics showed that output of the UK service sector – which represents three-quarters of UK economic activity – fell 1.2% in April, more than reversing a 0.8% increase seen in March. The fall was the biggest since January 2010, when heavy snow disrupted the economy. Special factors appear to have been at play again in April, with services sector activity hit by the Royal Wedding, an additional bank holiday and the hottest weather for the month since records began (although it is not clear whether the latter had a net negative or positive effect on the numbers).

The decline took the annual rate of growth to 0.8%, down sharply from the 1.8% pace seen at the start of the year and the weakest rate for a year, with the exception of the snow-related fall last December.

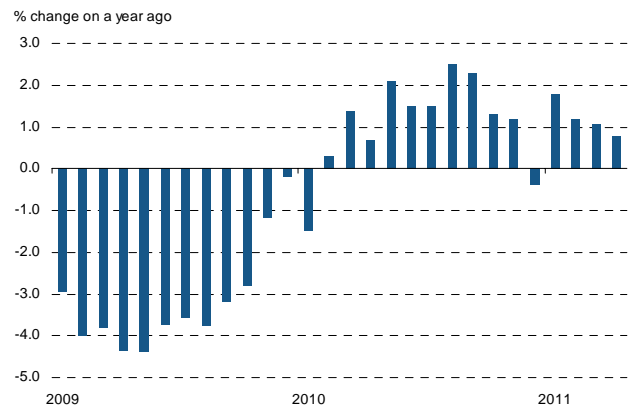
The three-month on three-month change held steady on the 0.9% increase seen in March, but it seems unlikely that this pace will hold up for long. The Markit / CIPS Services PMI (which has a close and leading relationship with the official index) signals a renewed easing in the rate of increase in the sector in May. This suggests that the weakness in the official index of services in April was not due entirely to one-off factors and further highlights the current weakness of domestic demand. Consumers and [households remain deeply concerned about falling incomes and job security](#), at the same time as the public sector continues to tighten its purse strings.

Services may therefore expand by only 0.2% in the second quarter compared to the first quarter's 0.9% rise. GDP as a whole may consequently struggle to show more than a 0.3% gain in the second quarter, down from 0.5% in the first three months of the year.

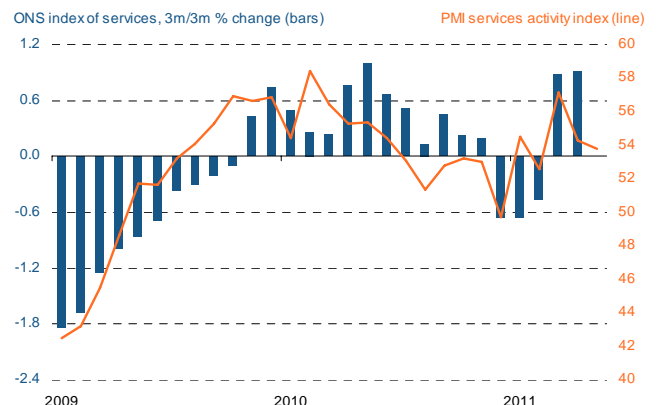
Index of Services: monthly growth



Index of Services: annual growth



Index of Services (three-month change) and PMI



Sources: Markit, ONS.

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