

UK Economy

PMI™ survey signals stalled recovery

- All-sector PMI™ drops from 52.7 to 51.0.
- PMI model signals stagnation of GDP in October with increased risk of contraction in Q4.
- 2011 GDP growth unlikely to exceed 1.0%.

A downturn in the all-sector PMI signals a stagnation of GDP in October, and a worsening trend in new orders suggests that the survey data may worsen in coming months, adding to the risk of the economy sliding back into contraction in the fourth quarter.

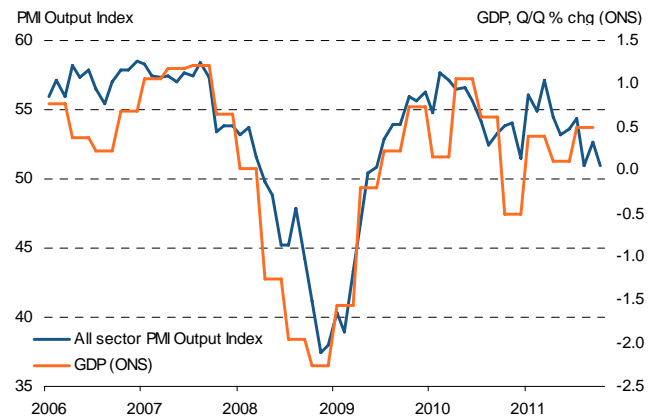
The weighted average of the Output Indices from the three Markit/CIPS PMI™ surveys fell from 52.7 in September to 51.0 in October. With the exception of August, the latest reading was the weakest June 2009.

The downturn in the survey data suggests that the private sector economy is expanding, but only at a very modest pace, and that the wider economy – as measured by gross domestic product (GDP) – probably stagnated in October. Any worsening of the PMI data in November and December would imply a contraction of GDP in the fourth quarter.

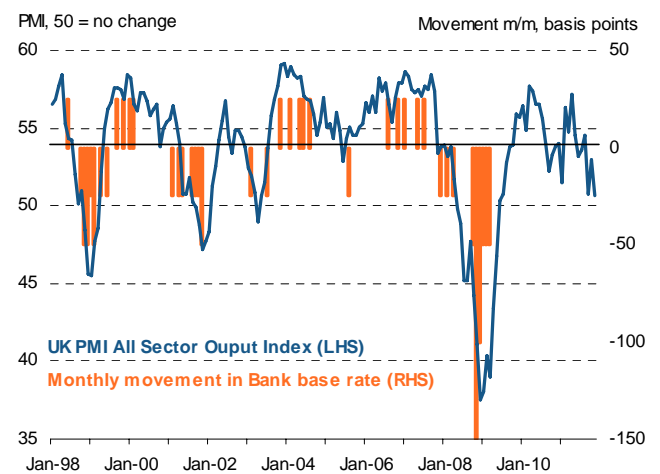
Unfortunately, the forward-looking indicators from the survey suggest that a worsening trend of business conditions is likely as we move towards the end of the year. Most worrying was a slowdown in growth of incoming new business across the three sectors to the second-weakest pace since June 2009 (only the near-stagnation caused by heavy snowfall last December was weaker).

The general downward trend in the surveys since earlier in the year highlights the weakening rate of growth of the UK economy as falling sales to struggling export markets has exacerbated subdued demand at home. The downturn in the PMI surveys has added to concerns that the UK economy required additional stimulus to help sustain the economic recovery. As our chart shows, the recent fall will add to calls that the Bank of England may need to inject further stimulus beyond the additional £75bn of quantitative easing announced in early October.

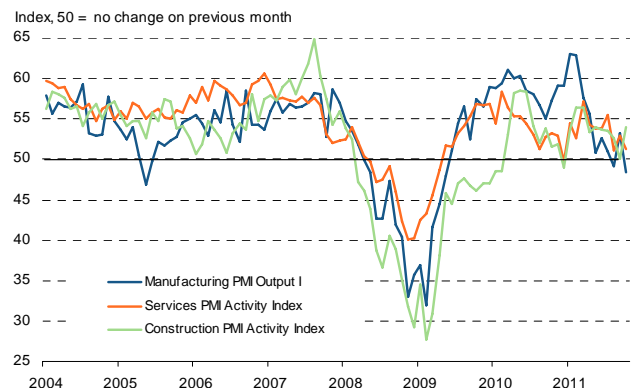
All sector PMI and GDP



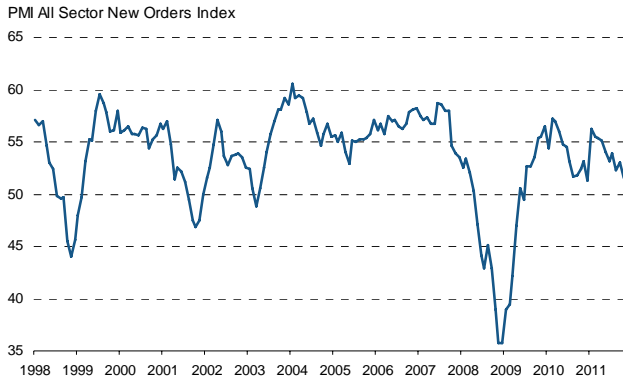
PMI and Bank of England rate setting



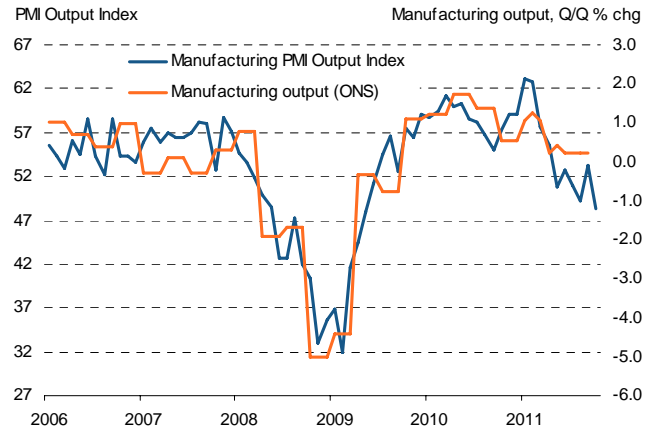
PMI Output Indices



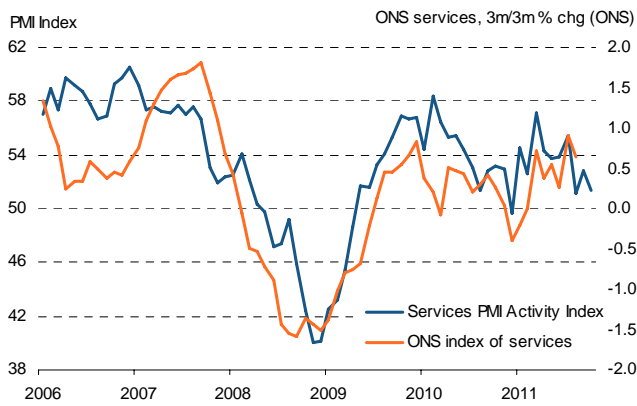
New orders and employment



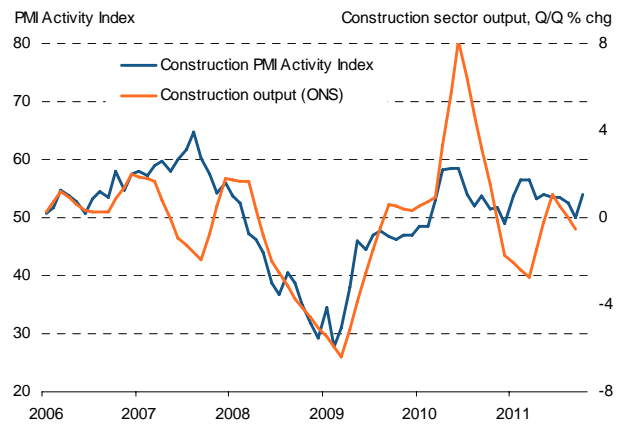
Manufacturing output



Service sector output



Construction activity



Sources for charts: Markit, ONS, Ecwin, Bank of England.

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