

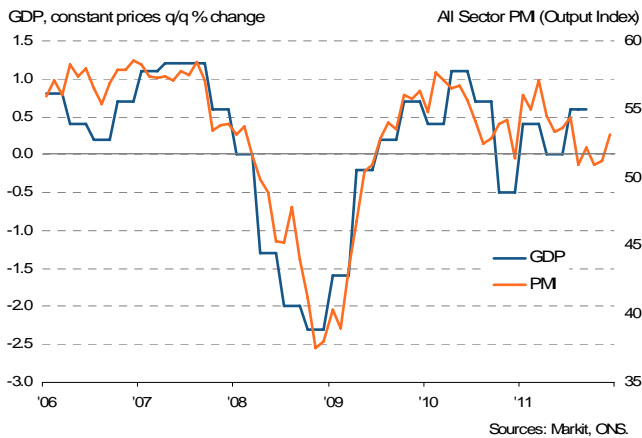
UK economy

PMI™ surveys signal December upturn, but economy likely stagnated in Q4

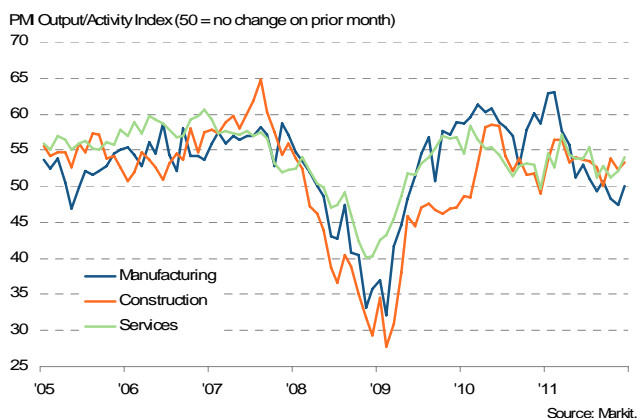
- **PMI surveys suggest the UK economy saw no growth in Q4, despite upturn in December**
- **Faster growth of services and construction outweighed by manufacturing weakness**
- **Low business confidence points to tough year ahead**

Faster growth of services and construction activity, alongside a stabilisation of manufacturing output, in December suggests the pace of economic growth accelerated slightly at the end of 2011. But growth over the fourth quarter as a whole looks likely to have been the weakest since the tail-end of the recession in the second quarter of 2009. The outlook also remains uncertain, reflected in historically low levels of business optimism for the year ahead.

All sector PMI and GDP



Output by sector



The weighted average of the output indices from the three Markit/CIPS PMI™ surveys rose from 51.2 in November to 53.2 in December, signalling the strongest monthly expansion of private sector business activity since July.

However, the upturn in December was not enough to prevent the all-sector index registering the weakest quarterly expansion since the second quarter of 2009 in the final three months of the year. At 51.8, down from 52.5 in the third quarter, the average index reading for the fourth quarter is roughly consistent with a stagnation of gross domestic product (GDP).

The flat picture for the fourth quarter represents a marked deterioration in performance since the 0.6% expansion recorded by official data in the third quarter. However, the third quarter expansion was boosted by a rebound from temporary disruptions to business in the prior quarter, notably the additional public holiday due to the royal wedding, and the PMI data suggest that the underlying trend has been one of a steady weakening over much of 2011.

The strongest expansion in December was seen in the **service sector**, where growth of activity accelerated for the second month running to the fastest since July. The average expansion in the fourth quarter was nevertheless the weakest since the final quarter of 2010. The survey data are roughly consistent with the sector expanding by just 0.3-0.4% in the fourth quarter, down from 0.7% in the third quarter.

Construction sector activity also rose, albeit more modestly than services, in December. The rate of growth accelerated to push the average reading for the fourth quarter up slightly on the third quarter. The survey therefore suggests that the sector grew in the three months to December to make a small positive contribution to economic growth in the final quarter similar to that seen in the third quarter (recent official data showed the sector growing 0.3% in the third quarter compared to a prior estimate of a 0.2% contraction).

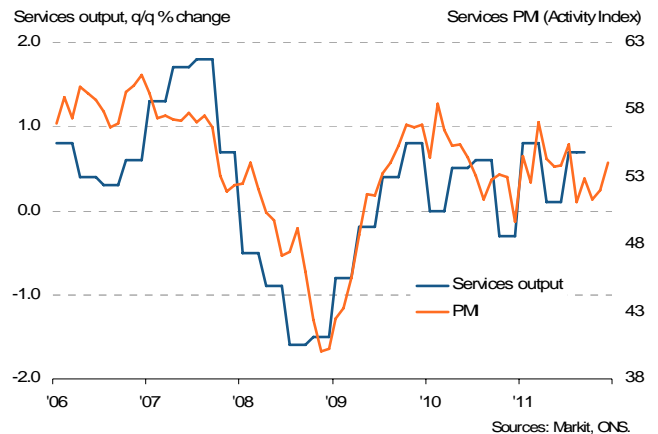
The key area of weakness in the UK private sector economy therefore remained **manufacturing**, where the PMI survey showed output rising only marginally in December, though that represented an improvement on the declines seen in the previous two months. The survey therefore indicates that manufacturing contracted over the fourth quarter as a whole, registering the worst performance since the second quarter of 2009. The survey points to a decline of approximately 1.0% in the fourth quarter, contrasting with the 0.1% increase seen in the third quarter. Note, however, that even the meagre rise signalled by the official data in the third quarter reflected a rebound from the disruptions in the second quarter, suggesting that the underlying trend in manufacturing was already negative, as indicated by the PMI, in the third quarter.

Uncertain outlook

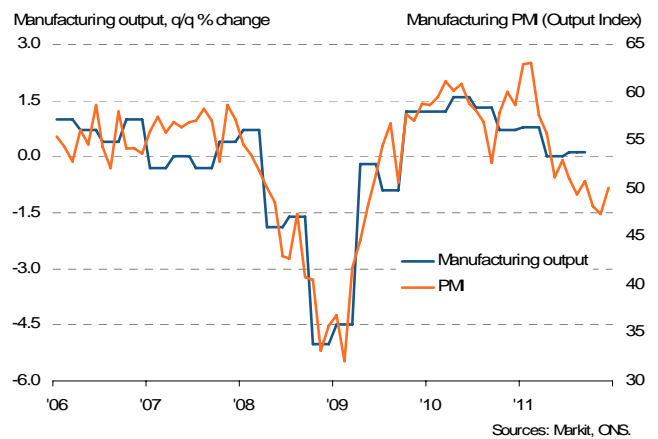
Other data from the PMIs suggest that the uplift in the rate of economic growth signalled by the surveys in December may prove short-lived, and that the first quarter of 2012 is also likely to be one of weak economic growth at best. Service providers' expectations of their business levels in a year's time slipped to the joint-lowest seen since March 2009, running at a level rarely plumbed in the 15-year series to suggest little expectation of growth accelerating again in coming months. Confidence picked up slightly in construction, but likewise remained historically low to indicate little optimism for growth.

A ray of hope for UK manufacturing was an upturn in export orders growth in December to the fastest since April, suggesting that recent signs of stronger economic growth in the US in particular may help offset some of the weakness in other export markets, notably the euro area. However, manufacturers' new orders fell again in December (albeit at a reduced rate) due to weak domestic demand.

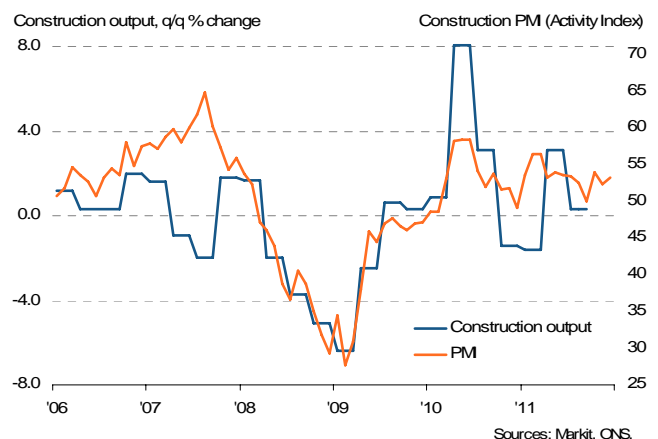
Service sector output



Manufacturing output



Construction activity



Chris Williamson Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.