

UK PMI Surveys

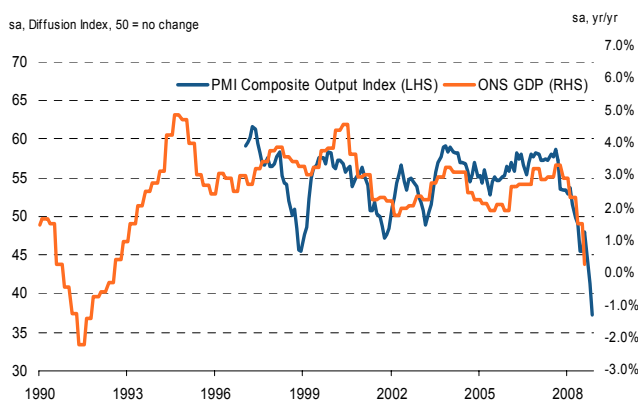
PMI surveys highlight increasing severity of recession

- **UK PMI data consistent with annual growth of just 0.8% in 2008.**
- **Survey record fall in employment points to increasing rate of corporate retrenchment.**

GDP growth at 17-year low

Today's release of the CIPS/Markit UK Services PMI signalled another sharp contraction of the private services economy, with activity and incoming new orders deteriorating at survey record rates.

Following on from equally disappointing PMI data on the construction and manufacturing sectors (record contractions in both cases), the services activity number means that the composite output index of the three PMI surveys points to a decline in overall private sector activity unprecedented in the twelve years in which data have been collected.



Source: Markit Economics, ONS

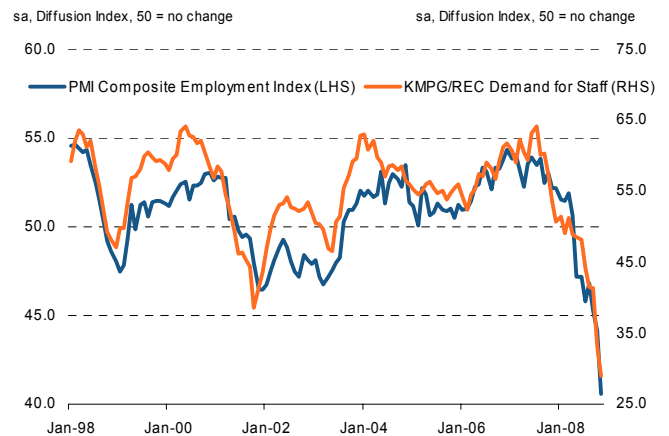
The chart above shows the PMI composite (all-sector) output index tracked against annual percent changes in GDP. A comparison of the two series suggests that PMI data are consistent with a 0.8% yr/yr drop in UK economic output in the first two months of Q4 2008 – the worst performance since Q3 1991, when the country was beginning the recovery from the grips of the last recession.

This out-turn would result in growth for 2008 as a whole of just 0.8%, in line with the Chancellor's forecast of 0.75% announced in the Pre-Budget Report last week.

Employment cut at record pace

The PMI surveys have not only signalled deteriorating activity levels, but also increasingly rapid reductions in employment. A composite measure of the three PMI employment balances hit a new record low in November, pointing to further marked increases in the number of unemployed in the run-up to Christmas.

The PMI data are consistent with the findings from today's KPMG/REC Report on Jobs survey (also conducted by Markit), which shows record contractions in placements, vacancies, and salaries.



Source: Markit Economics

Weakness to persist as recession deepens

With the rate of economic contraction accelerating at a sharper rate than most had predicted during the first two months of Q4, alongside a surprisingly steep fall in corporate demand for staff, the PMI and Report on Jobs surveys suggest that growth in Q4 may be even weaker than the 0.8% decline signalled by data up to November, and that sustained weakness will persist into the first half of next year. Even if we assume the PMI data bottom out in December and that the composite output

index turns up at a rate matching the pace at which it fell in the second half of 2008, the economy would still be set to contract by 0.9% q/q in Q1 2009 and by 0.2% q/q in Q2.

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