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Western European Indicators and Insights

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UK: Services growth plummets.

Providing very much a downside surprise, the services PMI slumped in August, dropping 4.3 points to 51.1, the lowest so far this year, with the M/M fall the second largest on record and actually larger than those seen in the immediate months after the Lehman collapse.

It is unclear the extent to which the August plummet is a reflection of financial market turmoil adding to existing economic woes, or whether the sharp tumble last month is a an unwinding of unrealistic upbeat readings in the two previous month, exacerbated in the latest reading by the impact of the recent riots and disorder. Indeed, tempering the ill message of the headline drop in the PMI, the slowing in new orders was not nearly as marked.

Even so, the survey pointed to a weak underlying trend in activity and general economic uncertainty, with the results very much corroborated by other alternatively sourced survey data covering UK services.

On the price front, input cost inflation continued its recent steady slide in August but nonetheless remained at an elevated level. Higher energy and utility bills, supply chain pressures and increased food costs were reported as the principal drivers of inflation. Meanwhile, output price inflation also weakened.

Interpreting this fresh slump remains difficult given the continuing complications in the economic backdrop. Regardless, these services survey numbers, alongside weaker numbers for construction and the factory sector, provide more signs that the UK economy is teetering near recession. This, together with the increasing domestic headwinds of fiscal austerity alongside the on-going restraint provided by the weak banking sector, still suggest that the economy faces risks, albeit ones that the BoE probably feel it not need to address at this juncture.