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Western European Indicators and Insights

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Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

UK: Services slump back.

Providing something of a downward surprise this time around, the April services PMI slumped 2.8 points to 54.3, albeit failing to unwind the all of the unexpected 4.3 point surge seen in March which took the headline index to the highest in 13 months.

Complicated backdrop

Interpreting this fresh setback, actually the steepest M/M fall since October 2008 (save for the weather-induced plunge last December), is difficult given the added complications in the economic backdrop in the last month. Notably, the much weaker result merely echoes findings from other services survey data for the last month such as that compiled by the EU Commission. To what extent April activity may have been dampened by the unprecedented array of public holidays during the last month is unclear: this factor will surely temper GDP during Q2 as the additional royal wedding holiday alone will knock output back by around 1.5%. It may also be the case that activity was hit in April by the impact of the new fiscal year at the start of the month and the biting of the much more marked fiscal consolidation measures that ensued.

Perhaps the latter is as much the cause given the details of the PMI numbers this time around. Indeed, the survey asserts that companies became increasingly worried about the future, with expectations for the year ahead running at levels normally only seen in times of crisis. Unsurprisingly, firms reported a return to job cutting due to the darker outlook. Specifically, firms reported that the weaker performance could be largely linked to government spending cuts. Indeed, many companies reported that business had been boosted by government departments using up their budgets prior to the new fiscal year to a greater extent than usual in the first quarter, perhaps due to the impending closures of government departments and projects. As a result, the boost to growth seen in Q1 has seemingly gone into reverse. A further worry is that, just as with the manufacturing data, what output growth there was may have been predicated on a reduction of backlogs given that outstanding business was the weakness so far this year.

Despite this backdrop, it is puzzling why the survey also showed a further increase in new orders, actually to the highest in 13 months. In addition, and unlike in the manufacturing counterpart, there was no sign that evident consumer weakness was taking any toll. Meanwhile, costs pressures were clear, albeit with those on the input side slipping and (in spite of reaching the highest since October 2008), prices charged still grew more slowly than on the input side, developments that surely will be eroding profitability in the sector.

Fragile economy evident

Regardless, these services survey numbers in tandem with their manufacturing and construction counterparts, imply still feeble, and fragile GDP growth in the current quarter, very possibly even below the somewhat distorted pace in Q1 and therefore very much below what the BoE was anticipating in its last Inflation Report back in February.