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## UK ECONOMIC UPDATE: SERVICES PMI SURPRISES TO THE DOWNSIDE

### Berenberg Macro Flash

#### Markit/CIPS Services PMI, Aug 2015

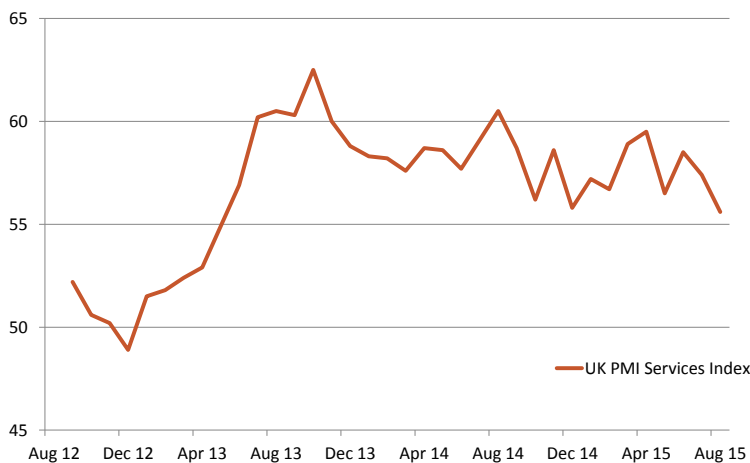
<b>Actual</b>	<b>55.6</b>
Previous	57.4
Consensus	57.6
Berenberg	57.6

**Key services indicator points to slight dip in August.** The Markit/CIPS PMI index for August came in at 55.6, below expectations of 57.6 and at its weakest rate for 27 months. The headline figure was below the average rate (57.5) for the year so far, but broadly in line with its historical average. This is not a serious cause for concern. A figure above 50 indicates expansion, 55.6 therefore, suggests that the service sector is moving along at decent pace. And, within the survey there were a number of bright spots. There was an easing of input costs, new business increased for the 32<sup>nd</sup> month in a row and business expectations remained robust, with more than half of respondents expecting growth going forward.

**Is this really a big surprise?** Let's face it; August was not a pretty month and a number of downside events will have weighed down on business sentiment and activity. The services sector accounts for almost 80% of UK GDP, and a large proportion of the sector is financial services. The very large selloff in equity markets, caused by fears over the impact of a slowdown in China and crises in emerging markets has clearly left markets bruised. It will have implications for third quarter growth and as a result, last week we revised down our near-term outlook. Following 0.7% qoq growth in Q2, our outlook has been revised down to 0.6% qoq expansion in Q3, from a previous estimate of 0.7%. Most importantly, today's data is consistent with this 0.6% rate of expansion. If anything, this data suggests that recent events are showing up a little sooner than expected but that despite these risks, the on-going expansion is robust and can withstand external shocks.

Index levels	AUG	JULY	JUNE	MAY	APR	MAR
UK Services PMI, sa	55.6	57.4	58.5	56.5	59.5	58.9

Chart 1: Index at lowest rate since May 2013



Source: Markit/CIPS



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## MACRO NEWS

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