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## UK: AUGUST SERVICES PMI ADDS TO SIGNS OF POST-BREXIT RESILIENCE

### Berenberg Macro Flash

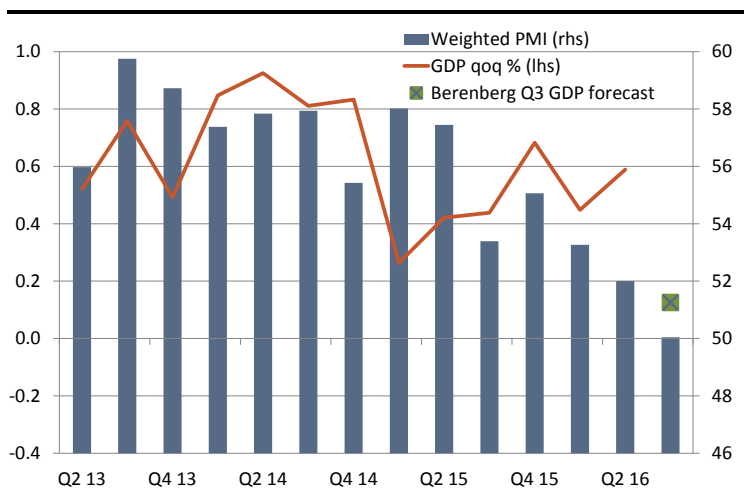
The services PMI recovered strongly to 52.9 in August (exp. 50.0). This followed the sharp drop to 47.4 in July after the Brexit vote. The 5.5 monthly gain is the largest in the survey's 20 year history. Companies linked the improvement to a recovery in confidence, higher tourism and a pick-up in exports from the weaker sterling. On the downside from the weaker sterling, firms reported the sharpest rise in input price inflation for 33 months, in line with our - and the market's - expectation that UK inflation is set to rise sharply in the coming months.

**The services PMI rebound makes it hat trick for August.** The construction PMI was 49.2 versus expectations of 46.2, and the manufacturing PMI was 53.3 versus expectations of 49.0.

**The v-shaped recovery between July and August suits our above-consensus calls** for the second half of the year that the UK will dodge a recession. If we take the July/August average of our weighted PMI for services, manufacturing and construction at face value, it points to stagnation in Q3. However, taking the PMIs at face value would ignore the trend that started in Q3 2015 of the PMIs underestimating the quarterly growth rate – see chart.

Importantly, whereas the PMIs indicated that the economy slowed in Q2 to a growth rate of around 0.2% qoq, official data showed the economy actually expanded by 0.6% qoq. If we apply the same difference of +0.4ppt to the Q3 PMI prediction of 0.0% qoq, it points to a significant upside risk to our already above-consensus forecast of 0.1% in Q3.

**Chart: weighted PMI versus GDP**



Quarterly data. Weights: 80% services, 15% manufacturing and 5% construction. Q3 PMI is July/Aug average. Source: Markit/CIPS, Berenberg calculations.



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## MACRO NEWS

| Index         | AUG  | JUL  | JUN  | MAY  | APR  | MAR  |
|---------------|------|------|------|------|------|------|
| Services      | 52.9 | 47.4 | 52.3 | 53.5 | 52.3 | 53.7 |
| Manufacturing | 53.3 | 48.3 | 52.2 | 50.3 | 49.5 | 50.7 |
| Construction  | 49.2 | 45.9 | 46.0 | 51.2 | 52.0 | 54.2 |

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