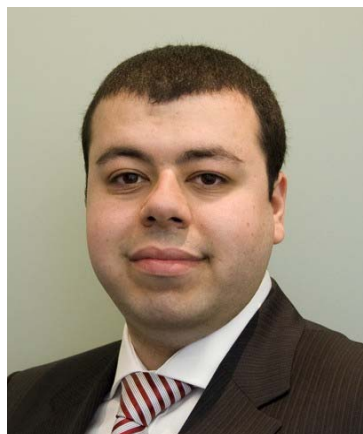


Schroders Quickview

UK economy strengthening 03 March 2010



Azad Zangana
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— Today's strong UK survey data suggests a reduced probability of a double-dip recession

— However, we remain cautious over growth prospects for 2010

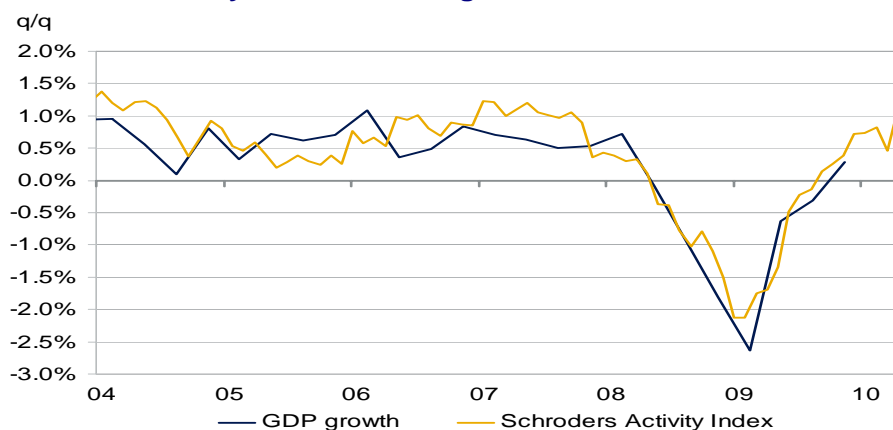
— Although business activity is picking up, weak labour market conditions and the prospect of fiscal tightening are likely to weigh on the consumer

Survey data released this morning suggests the UK economic recovery is gathering momentum. The Markit service sector Purchasing Managers Indices (PMI) survey reported business activity in February growing at its fastest rate since January 2007. The index rose from a balance of 54.5 to 58.4, beating market expectations of a small rise to 55.0.

In addition, this morning's Nationwide Consumer Confidence survey showed consumer confidence hitting a two-year high while the latest Confederation of British Industry (CBI) distributive trade survey also showed a strong improvement following a dip in January.

The rise in reported activity in February more than offset the dip in the previous month, which had sparked fears of a double-dip recession. The Schroders Activity Index — a GDP-weighted composite of manufacturing, construction, services and retail sales surveys — reached its highest level since August 2007 based on the latest data. The index is now signalling quarterly GDP growth of around 0.5-0.7% for the first quarter of 2010, as illustrated in the below chart.

Schroders Activity Index vs. GDP growth



Source: Markit, CBI, Schroders, 3 March 2010.

It now appears that the poor weather in January played a large role in the slowdown in activity at the turn of the year, and the stronger-than-expected February data shows that it was a pause, rather than a reversal, in an otherwise improving trend.

We think that the stronger data shows a reduced probability of a double-dip recession, although we remain cautious over growth prospects for 2010. Although the details of the survey show that business activity is picking up in response to increased consumer confidence, firms are continuing to shed staff. Shaky labour markets and the prospects of fiscal tightening over the next few years are likely to weigh on consumer activity.

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