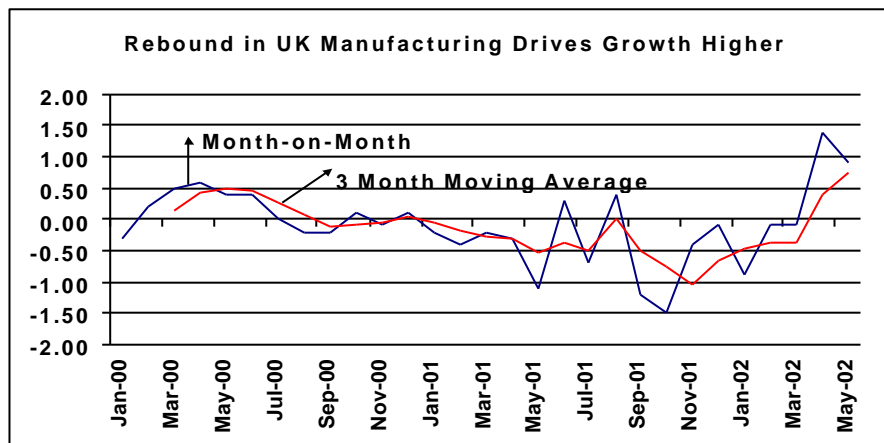


UK Economy Rebounds in Q2

		Full Economy		Services Industries	
		Q/Q	Y/Y	Q/Q	Y/Y
2000	Q4	0.4	2.2	0.7	3.1
2001	Q1	0.5	2.3	1.0	3.5
	Q2	0.6	2.1	0.9	3.6
	Q3	0.3	1.9	0.5	3.1
	Q4	0.1	1.5	0.7	3.2
2002	Q1	0.1	1.1	0.2	2.4
	Q2	0.9	1.5	0.6	2.1

The UK economy expanded by 0.9% in the second quarter of the year. This was in line with expectations and showed a considerable improvement on the two previous quarter's performance. On a y-on-y basis the economy grew by 2.1%. The upturn was led by manufacturing with industrial production estimated to have grown strongly across all the major components. The rebound in manufacturing indicates a re-balancing in the economy.



Output in the services sector is also estimated to have grown more strongly than in the previous quarter. Growth in the distribution, hotels and catering category is as a result of the strength in retail and wholesale activity. Transport activity is estimated to have declined, while growth occurred in post and telecommunications and business services.

Despite the bounce back in the economy, the Bank of England is unlikely to hike interest rates at next week's meeting or indeed in the coming months. A change in UK policy had been expected by mid year. However, it is now likely that rates will remain on hold until at least Q4. While the domestic economy remains strong and inflation is expected to tick upwards going forward, recent volatility in equity markets has increased the level of uncertainty. The minutes of the last BoE meeting show, that even at that point, the committee was concerned about the negative impact of a rate hike on business and consumer confidence. The 14% fall in the value of UK shares over the last month should consolidate these concerns.

Geraldine Concagh

26 July, 2002