

Bounce back in UK services makes August hike more likely

The latest services PMI completes the trio of more positive readings this week, and will reaffirm the Bank of England's view the economy is recovering after a weak first quarter



Source: iStockphoto

Just like the manufacturing and construction indices, the latest UK services PMI has beaten expectations. At 55.1, it now stands at the highest level since October, and despite the ongoing uncertainty surrounding Brexit, new orders are rising at the fastest rate in over a year too.

This, much like the recent data emerging from the retail sector, suggests that the economy is having a better ride in the second quarter than in the first - and for the Bank of England, this will be put a fairly big tick in the August rate hike box. Policymakers were fairly relaxed about the sharp first-quarter slowdown when they met in May, and the most recent statement from June implied that view hasn't changed. Looking at the calendar between now and the August BoE meeting, there are increasingly few obvious data points that could realistically convince the Bank to put its tightening plans on ice again. Barring a sudden and consistent downtrend in the data flow, we think an August rate hike remains likely.

But what comes after that is still uncertain. Brexit has the potential to get increasingly noisy as we head into the Autumn, while the fundamental challenges facing the retail sector haven't disappeared.

We therefore still have our doubts the Bank will raise rates more than once this year.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.