

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.

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