

Dip in UK services PMI takes shine off recent run of data

Latest data takes some pressure off the Bank of England, although the odds of a May rate hike are still roughly 50:50



Source: Shutterstock

53

 UK services PMI

Worse than expected

The encouraging run of recent UK data has taken a bit of a turn with the release of January's services PMI. At 53.0, the rate of growth in the service sector is now the slowest since September 2016, taking some of the shine off the latest GDP data.

Brexit continues to be mentioned as a source of uncertainty, and that's likely to persist over coming months until there is greater clarity on the future trading relationship. Some of the latest fall in the PMI is also likely to be down to the ongoing weakness in the consumer sector. Whilst core

inflation is set to return more or less to target over the summer, food and fuel prices are continuing to rise, meaning consumers are likely to continue to take a fairly cautious approach to non-essential purchases.

There was some slightly more encouraging news on the employment front. The PMI data suggests that job creation has picked-up, providing further tentative evidence that the recent dip in employment was simply a temporary blip, rather than a broader sign that slow economic growth through 2017 is starting to catch-up with the labour market.

Overall though, today's data takes some pressure off the Bank of England to hike rates later this year. That said, policymakers will take heart from the better recent news on wage growth, which is showing signs of life as skill shortages become more prevalent. This means a 2018 rate hike now largely hinges on Brexit.

We expect the Bank to keep its cards fairly close to its chest on Thursday, and we think at this stage, the odds of a May rate hike are roughly 50:50.

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.