

## Encouraging UK PMI defies household spending squeeze

It was a positive end to the first quarter, but Brexit uncertainty and lower spending could put downward pressure on PMIs over coming months.



# 55.0

Markit/CIPS UK services PMI

Previously 53.5

Better than expected

We had wondered whether the deteriorating outlook for household spending would start to weigh on sentiment. Strong activity, both at home and abroad, appear to have been a key force in driving up service sector growth.

Recall that, at 2.3%, UK wage growth is now equal to headline inflation. As CPI surges towards 3% in the latter half of this year, it could be a fairly tough year for consumers, who will have to contend with falling disposable incomes. We have seen evidence that this squeeze is starting to hit

spending and confidence figures, and Markit notes that “consumer-orientated” sectors, such as restaurants and hotels, appear to be suffering.

With that in mind, and given the heightened Brexit uncertainty now that Article 50 has been triggered, we suspect that the PMIs will trend lower over coming months. We think that the Bank of England will increasingly focus on the uncertain growth outlook as opposed to rising inflation, despite hawkish comments from some MPC members over recent weeks.

**We aren't expecting a rate hike in either 2017 or 2018.**

## Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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](http://www.ing.com).