

## 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.**

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