

## Lacklustre UK PMI indicates weakness extends beyond snow

The fact that the services PMI failed to fully rebound means a May rate hike is now completely off the table, although we think it's too early to write off a rate rise in August



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As the Bank of England tries to gauge how much of the recent dip in economic activity was temporary, the message from the latest services PMI is that the snow wasn't entirely to blame. At 52.8, the index is now at its second-lowest level in around 18 months (superseded only by last month's weather distorted figure).

The accompanying press release makes it clear that much of this has to do with weak consumer demand – and we don't expect these difficulties to fade rapidly. Whilst disposable incomes are no longer falling, higher food and fuel costs are still largely offsetting rising pay packets. And with consumer credit growth having fallen sharply in March, there are few obvious ways that shoppers can finance higher spending in the near-term. Combined with rising minimum wage costs and higher business rates, retail margins are likely to remain under pressure.

But the big question for markets is whether the recent run of weak data is enough to write-off an August rate hike. For now, we suspect it isn't. True, policymakers are likely to hold off on a rate rise next week - an increase now could be one headwind too many for the faltering consumer-facing sector.

But remember that the Bank of England is increasingly focused on combatting the threat of higher wage growth. Recent data has suggested that pay is rising more quickly (this latest PMI noted “higher salary payments”). We therefore still think policymakers have a preference for tighter policy, and they will be acutely aware that it could get more complicated to raise rates later in the year as Brexit talks heat-up.

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