

## Lacklustre UK services PMI points to flat second quarter growth

While we think a 'no deal' Brexit is still relatively unlikely, the ongoing political uncertainty and the growing risk of a general election will continue to weigh on activity across the economy



Source: iStockphoto

At 50.2, the latest UK services PMI indicates that the sector barely grew in June. This completes a fairly woeful set of PMI releases, following a particularly weak construction reading earlier in the week.

First and foremost, this emphasises that second-quarter growth is likely to come in more-or-less flat. Admittedly most of the drag is likely to come from production, which has fallen back in the aftermath of a stockpiling frenzy earlier in the year. But once the noise surrounding inventories begins to fade, the fact that new orders have ground to a halt in the service sector suggests that underlying economic momentum is unlikely to increase imminently. Attention within firms will also be increasingly turning back to contingency planning for a possible 'no deal' Brexit in October, which is often a costly exercise and will inevitably draw some resources away from possible investment projects.

This means that capital spending is likely to resume its downward trend over the summer (first

quarter investment rose, although according to Bank of England Governor Mark Carney, this is down to a change in recording methods).

If there was one glimmer of light for the BoE in this latest PMI though, it is that employment has regained momentum in the service sector. We suspect this is related to the recent Article 50 extension, which may have provided the impetus to unlock some shorter-term hiring decisions among businesses.

## We don't expect a BoE rate hike this year

While we think a 'no deal' Brexit is still relatively unlikely, the ongoing political uncertainty - in particular the growing risk of a general election - will continue to weigh on activity across the economy. Throw in the potential for an escalation in global trade tensions, which Governor Carney noted again yesterday, and all of this emphasises that the Bank of England is unlikely to hike interest rates this year.

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