

'No deal' Brexit risks cast shadow over UK services outlook

The latest UK services PMI indicates that the sector remains in a pretty solid state. But as the perceived risk of a 'no deal' Brexit increases, firms could face a turbulent autumn and winter



Source: iStockphoto

While slightly lower than August's reading, the latest UK services PMI figure of 53.9 suggests growth in the sector remains solid, if a little unexciting. For Bank of England policymakers, the underlying story paints a mixed picture.

On one hand, the Markit/CIPS press release again talks about firms operating at stretched capacity, given the increasing challenge in recruiting specialist staff. This, in turn, is forcing firms to lift salaries in a bid to attract/retain talent and suggests the better wage growth momentum we've seen this year is set to persist.

That makes it likely that the Bank of England officials will continue to talk up the prospects of further tightening, but with Brexit risks mounting, realistically we think another rate hike before March 2019 is unlikely.

Risks of 'no deal' could hit the service sector over coming months

As we discussed in our [Brexit blog last week](#), our base case is that a deal will be reached between the EU and UK and that this will be passed by UK lawmakers, despite the current bluster. Crucially though, we are unlikely to know for sure until the new year, suggesting that uncertainty is only likely to increase between now and then. A combination of firms becoming more vocal about the risk of 'no deal' to their operations, coupled with more news headlines about the day-to-day practicalities of 'no deal' for households, could see consumers take an even more cautious stance on spending - particularly if they begin to get more concerned about job security.

That could see economic momentum slow further as we head into the winter - and while the service sector is much broader than consumer spending alone, it could potentially see the PMIs drift lower over coming months. For this reason, we don't expect another Bank of England rate hike until May 2019 at the earliest.

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