November UK rate hike still likely, despite sluggish PMI

UK service-sector data is unlikely to deter the Bank of England from hiking in November, but we think any tightening after that could be limited

Source: iStockphoto

53.6

UK Markit/CIPS Services PMI

(Previously 53.2)

Better than expected

At 53.6, the UK services PMI was a little better than hoped. But dig a little deeper, and the key takeaway for us was new business growth is at a 13-month low. With the current PMI roughly indicating growth in the 0.3% region, this latter point means growth over the next couple of quarters could be equally as sluggish.

Once again, political uncertainty was a key factor holding back growth. It's possible we see some recovery over the next few months. The fact the UK government is more united behind the idea of a transition period could help unlock some short-term investment. But a lack of full agreement on the terms or length of such an arrangement, or indeed the ultimate Brexit deal, is likely to keep businesses cautious.

Interestingly, the survey suggests consumer spending has been slightly more resilient recently. This corroborates the latest retail sales numbers, but with inflation set to stay noticeably above wage growth for at least the next few months, we suspect consumers are unlikely to resume their position as a major growth driver.

> All of this is unlikely to stop the Bank of England hiking rates in November. We think the Bank is keen to get out of "emergency mode" as the initial Brexit shock fades, and also wants to avoid getting left behind in the global race to hike rates.
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> But what this does mean is that any tightening after that could be fairly limited. At this stage, we feel current market expectations of two hikes by September next year may be a little steep.

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