

Services PMI suggests UK growth remains sluggish

The chances of a Bank of England hike this year still look slim, as the latest survey of service-sector firms points to another quarter of 0.3-0.4% growth



Source: iStockphoto

The latest UK services PMI has come in above expectations, but at 53.8, it still suggests that growth hasn't picked up from the sluggish 0.3-0.4% rate seen in the second quarter. According to Markit, firms continue to cite Brexit uncertainty and the household spending squeeze as dampening factors when it comes to new orders and demand for their services.

We don't expect a rate hike this year

There is, however, some positive news for the hawks at the Bank of England, as a "number of companies" pointed to difficulties in finding skilled staff. With the unemployment rate at record lows, this development could put some upward pressure on wages. That said, we still think that uncertainty over consumer demand, combined with rising costs from higher import prices,

means that firms are unlikely to accelerate wage gains - or at least not to the extent the Bank of England hopes. Remember the Bank is currently forecasting wage growth of 3.5% in 2018 (vs. around 2% today).

That's a key reason why we don't expect a rate hike this year, although we could see a fairly mixed message today from the Bank as the hawks and the doves continue to disagree on the trade-off between weak growth and rising inflation.

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