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Snap

UK data boosts the case for August hike

Better consumer spending and a stronger service sector offer support to Bank of England hawks

The UK service sector purchasing managers' index has risen a little more than expected to stand at 54.0 in May versus 52.8 in April. This was above the consensus forecast of 53.0 and is the best reading since February's 54.5. With the manufacturing and construction surveys having also come in a little ahead of expectations, the overall composite index stands at 54.5, which is the highest reading since last December.

In what was a poor quarter for growth globally, the UK stood out as one of the big underperformers in 1Q, posting an expansion of just 0.1% quarter on quarter. Markit, the compiler of the PMI surveys, suggests the latest composite readings are consistent with growth of 0.3%-0.4% in 2Q18. Overnight spending data from the British Retail Consortium and Barclaycard are also consistent with an improvement in growth, boosted by better weather.

The Bank of England appears to have a preference to raise interest rates sooner rather than later based on a belief that wage growth will respond to a tight labour market, keeping inflation higher for longer. As such these data releases keep the prospect of an August rate hike firmly on the table. But, if they do indeed go for it, we doubt it will be followed quickly with additional hikes given the economic threats from rising fuel costs, stagnant real wages, Brexit uncertainty and a reluctance amongst firms to invest in the UK.

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