

UK growth headwinds build as PMIs slip further

While the UK PMIs maybe aren't the best place to look for guidance on where GDP is right now, they nevertheless emphasise that the recovery is stalling as we head into winter. The challenges posed by rising energy prices, tighter fiscal policy and potential for some post-furlough turbulence suggest a Bank of England rate hike is still some way off



The latest UK purchasing managers indices (PMIs) are, at face value, not a great sign of where activity is headed for the winter months. The services index came in a tad below expectations and indeed August's level, at 54.6 – a marked difference from May's peak of 62.9.

In reality though, these figures don't help us refine our growth estimates for the next few months all that much. While some of this decline will be linked to the Delta variant, it's also a simple reflection that the reopening-linked boost is fading. The PMIs are a diffusion index after all, and we shouldn't be that surprised that a greater proportion of firms were signalling stronger activity in May/June than they are now.

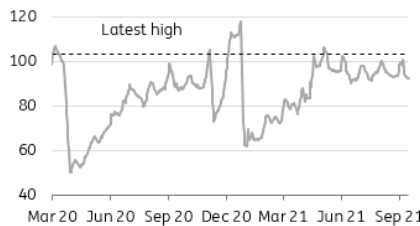
Indeed, the high-frequency data is consistent with a slightly higher rate of GDP growth in August than we saw in July (which was essentially flat). We're probably looking at 0.3/0.4% growth for August, and something slightly higher for September – though the latter is virtually all down to the return of schools (child attendance effectively feeds into GDP). For the third quarter as a whole, we're looking at 1-1.5% quarterly growth, considerably below what the Bank of England was forecasting at its August meeting.

UK economic dashboard

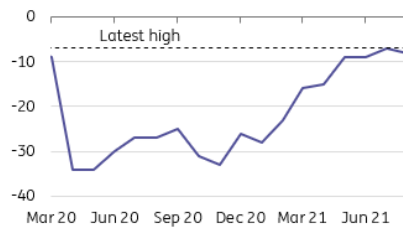
Google Mobility* (pre-virus=0)



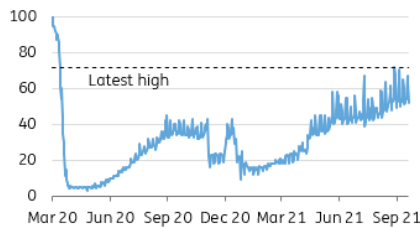
Aggregate card spending (CHAPS, pre-virus=100)



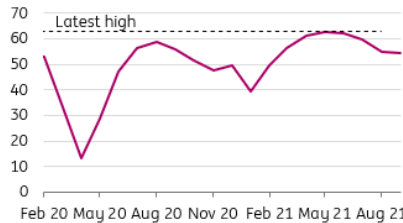
GfK Consumer Confidence (pre-virus = -9)



London Underground usage (pre-virus = 100%)



Services PMI (pre-virus = 53.9)



Catering/hospitality job adverts (pre-virus = 100)



Source: Macrobond, ING

*Google mobility is a simple average of the retail/recreation, groceries and workplaces sub-indicies

Still, the decline in the PMIs is indicative of the slower recovery we're likely to see over coming months. Supply constraints for the manufacturing sector, reflected in the lower PMI, are clearly going to extend into 2022. And while the spread of the Delta variant over summer hasn't knocked consumer sentiment as much as we'd expected, a tough winter for the NHS could see households become more cautious again when it comes to socialising.

The rise in gas prices, which will start feeding through to consumer bills via a 12% hike in the household energy cap this October (and indeed another double-digit rise next April), clearly adds to this challenge. So does the cut in Universal Credit, which is likely to coincide with a modest increase in unemployment (and economic activity) when the furlough scheme ends in few days' time.

It could therefore be a few more months before the economy hits pre-virus levels. And unless we

start to see broader signs of higher wage growth, we suspect the headwinds to growth mean the first Bank of England rate hike could come a bit later than markets anticipate. We're pencilling in a hike for the second half of 2022, most likely in November.

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