UK manufacturing PMI slips, but BoE hike still a close call

PMI data was softer than thought but does follow a strong run of figures. We still narrowly favour stable rates this year

Source: iStockphoto

55.3

Worse than expected

UK Manufacturing PMI

Down from 56.2 and weakest since June 2017

The UK manufacturing purchasing managers' index has come in weaker than expected, falling to 55.3 from 56.2 – the consensus was looking for a 56.5 reading. This is the weakest reading since June last year with new orders also falling to 56 from 56.9 – again, the weakest reading since last June.

That said the index remains in healthy expansion territory, coming in above the break-even 50 level for the 18th consecutive month. We have also recently seen some better housing data, employment, confidence numbers and of course the above consensus 4Q GDP outturn. Bank of England officials also seem quite keen to tighten policy further at some stage, but there hasn't been enough to suggest that a hike next week is on the cards. However, if the BoE nudges up its forecasts a touch next week and sound open to further hikes, the current 40% market-implied probability of a May rate hike will rise.

A May BoE rate rise is increasingly looking a 50:50 call to us but for now, our House View remains that there won't be a rate hike this year. The UK economy looks set to grow at half the rate of the US in 2018 and a full percentage point slower than the Eurozone. It should be doing much better given the global upturn in demand and the competitive sterling exchange rate.

Additionally, we look for inflation to fall back towards the 2% target in the second half of the year, helped by sterling's recovery. We also remain wary of the threat from Brexit with the latest worries on the prospect of a transitional deal post March 2019 not helping. This uncertainty still has the potential to weigh on activity very broadly and deter the BoE from hiking.

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