

UK PMI casts doubt over recent hawkish BoE comments

The latest services PMI completes a trio of disappointing survey readings this week, making a near-term rate hike look less likely.



Source: Bank of England

The latest services PMI reading marks the second consecutive fall and suggests that the economy is losing momentum as the consumer squeeze and elevated uncertainty continue to hit growth.

The Markit/CIPs press release notes that firms are “the least upbeat” about growth prospects since the immediate aftermath of the Brexit vote last year. Firms cited heightened uncertainty and “Brexit-related risk aversion” as causing a slowdown in new work.

53.4 UK Markit/CIPS Services PMI

Worse than expected

This weaker reading pours a degree of a cold water on the latest hawkish messages emanating from the Bank of England. Governor Carney suggested last week that “some removal” of stimulus might necessary, but caveated this by saying that investment needs to offset the drag from weaker consumption.

We still think a rate hike this year looks unlikely

Given the degree of uncertainty surrounding Brexit, and now the UK political climate, we think investment is likely to remain subdued. That also has implications for the Bank’s relatively optimistic stance on wage growth.

So despite the recent comments from Carney and Haldane, we still think a rate hike this year looks unlikely, although the risks are clearly rising.

For now, we think the latest rhetoric is largely designed to encourage markets to entertain the possibility of tighter policy. But if the BoE were to vote for a rate hike, we think this will mark the removal of last August’s emergency stimulus rather than the start of a meaningful tightening cycle.

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