

UK PMI highlights easing cost pressures and slowing growth

Despite signs of reduced input cost pressure and weaker growth in the latest UK PMIs, we think the Bank of England is still narrowly more likely to follow through with its first 50bp rate hike at the August meeting



Source: Shutterstock

There's something for everyone at the Bank of England in the latest UK purchasing managers index from S&P Global/CIPS.

What leaps out from their [press release](#) is that input cost inflation has “eased considerably” to a 10-month low. Commodity prices, including diesel (an often-ignored part of the cost of many goods/services) have begun to fall from recent highs. We know from a recent [ONS business survey](#) that even in services industries, energy and commodity prices are often cited as a more common factor in firms' decisions to raise prices over recent months than labour costs.

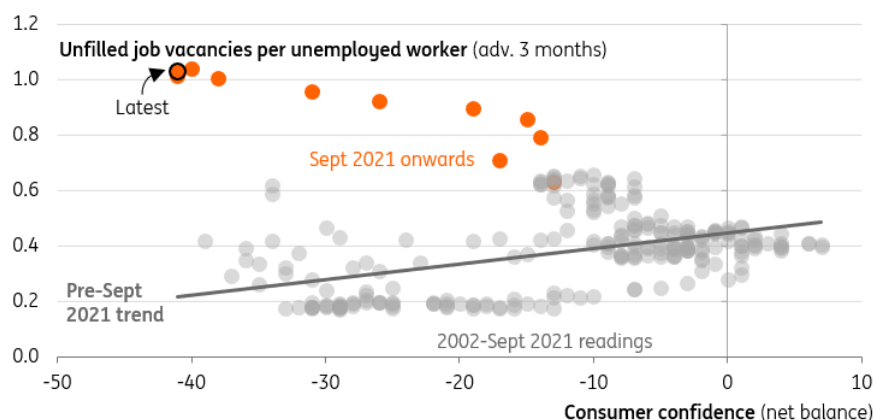
That will bolster the case of Bank of England doves, as will the further decline in the overall composite PMI. At 52.8 (down from 53.7), the picture appears less bleak than in the eurozone, though in practice the correlation with actual GDP figures is unlikely to be that strong in the near

term. Monthly GDP figures have been thrown around by the winding-down of Covid testing and vaccine programmes, and June’s data will be hit by the extra bank holiday. For that reason, second quarter GDP will probably come in slightly negative or flat, and the bank holiday effect means we could see a 0.5% rebound in the third quarter.

Still, the recent rise in wholesale natural gas prices covering next winter suggests that recession risks are rising. The fourth quarter looks like a better candidate for negative growth, as by then we’ll have seen another 60%+ increase in the household energy price cap. It’s not inconceivable that we could see more widespread demand destruction in heavy industry, too.

Consumer confidence also stayed at an all-time low in July, though we’d note this is highly unusual at a time when the jobs market is so tight (see chart below). The latest PMIs hint that staff shortages continue to be a serious issue for firms, as do several other surveys. That suggests a strong incentive for firms to avoid layoffs in the coming months, even as margins are squeezed. That hopefully means we can avoid a sharp rise in unemployment, and if that’s the case, it suggests there’s a limit to how bad the downturn can get, in our opinion.

Unusually, UK consumer confidence is at all-time lows despite a very tight jobs market



Source: Macrobond, ING

The tight jobs market – and an explicit reference in the PMI to the weaker pound having lifted some input costs – means the hawks will continue to argue for a 50bp rate hike at the August meeting. And we suspect they will win the argument. A 50bp hike is priced in, and decisions by the European Central Bank yesterday and Federal Reserve next week will pile on the pressure for the BoE to follow suit.

Still, we think the window for further Bank of England tightening is gradually closing and we expect Bank Rate to peak around 2% or slightly above.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.