

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.

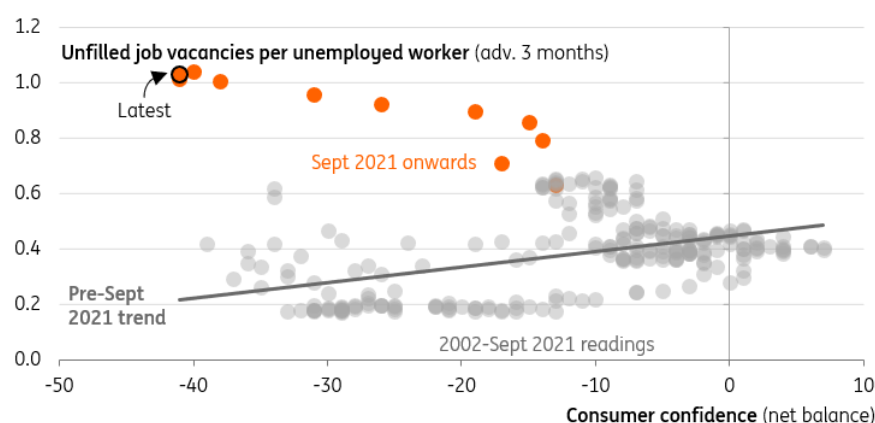
That will bolster the case of Bank of England doves, as will the further decline in the overall composite PMI. At 52.8 (down from 53.7), the picture appears less bleak than in the eurozone, though in practice the correlation with actual GDP figures is unlikely to be that strong in the near

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.

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