

Snap | 4 May 2017

UK PMI offers comfort on growth

A decent rebound in the PMIs suggests 2Q activity is starting on a much stronger footing than 1Q17.



Source: iStock

56.2

Composite PMI (Purchasing Manager's Index)

Previously 54.8

Better than expected

This is the highest reading since December last year and offers hope that 2Q GDP report won't be as soft as the 0.3%QoQ growth recorded in 1Q17.

The write-up suggested that there was weakness in the consumer sector, which presumably reflects the squeeze on spending power caused by the weak pound pushing up import prices. For now, business-to-business activity is holding up well and offsetting the consumer slowdown. Exports are performing well due to stronger global growth and the competitiveness boost from the weaker pound.

The combination of healthy growth and rising inflation is likely to lead to further calls for higher

interest rates. However, we still feel that brexit related uncertainty and weaker spending power will lead to lower growth in the UK economy overall. Also, weakening wage growth suggests there isn't any real build up in domestically generated inflation pressures. Moreover, with Kristin Forbes, who voted for a rate hike in March, set to leave the MPC in June getting a consensus behind higher interest rates will be more challenging. We continue to look for stable BoE rates until the likely outcome of the Brexit negotiations becomes clearer.

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