

## UK PMI sets up a divisive August Bank of England decision

April's hike in UK payroll taxes and the National Living Wage are squeezing hiring but keeping pressure on inflation. We think the former is a bigger concern than the latter, but for now the bar for faster Bank of England rate cuts appears high. We expect cuts in August and November



Does higher inflation or lower hiring matter more to the Bank of England? This dilemma is setting the stage for another contentious meeting. Pictured: Governor Andrew Bailey

The latest UK Purchasing Managers' Index (PMI) perfectly encapsulate the headache the Bank of England faces right now.

Higher payroll taxes and a chunky rise in the National Living Wage back in April are exerting more significant downward pressure on staffing numbers, according to the latest PMI. That helped lower the overall services index from 52.8 to 51.2 in July, and is in line with what the BoE's own "decision maker" survey has been showing too. Remember, the official payroll figures have also consistently fallen this year, albeit fairly gradually so far.

But the PMI also suggests these policy changes are keeping upward pressure on prices. We've seen hints of this in the CPI data, principally in food, where inflation rates have picked up over and above what we've seen in the eurozone. Pressure on staffing costs also likely explains the stickiness in

hospitality inflation through the spring.

Which of these trends – higher inflation or lower hiring – matters more? This is not a new debate and one that's far from resolved, setting up another divisive August Bank of England meeting. We wouldn't be at all surprised to see another three-way vote split, akin to what we saw in May. Back then, officials narrowly voted for a 25bp rate cut, but with two officials voting for no change, and a further two preferring a 50bp cut.

In our view, the Bank should be more concerned about the ominous state of the jobs market and what it implies for wage growth. We suspect private sector pay growth will inch closer to 4% (from 5% now) as the year progresses. Services inflation should come a little lower through the second half of the year too, albeit the concentration of annual price hikes in April means we're unlikely to see materially better news until next Spring.

And that's the key – this is a gradually evolving story and suggests that the central debate at the BoE on inflation is unlikely to fully resolve itself imminently. Not enough to convince the majority of officials to rally behind faster rate cuts, anyway.

A more worrisome run of jobs data over the summer could change that. But for now, we think rate cuts in August and November are the path of least resistance, and the bar to moving faster remains set fairly high.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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](http://www.ing.com).