

UK PMI suggests economy may be slowly gaining traction

Signs of skill shortages and job market tightness makes a May rate hike increasingly likely



We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

Some tentative signs of life

It's been a tricky 12 months or so for the UK economy. Consumers slammed on the brakes last year as inflation began to bite, while Brexit uncertainty clouded the outlook for investment.

But at 54.5, the latest services PMI indicates that the economy may slowly be starting to regain some traction. Markit/CIPS note that 'new work' is rising at the fastest pace since May 2017, and that's leading to better employment as firms look to boost operational capacity. This latter point defies some of the recent evidence from the official jobs numbers, which suggested the labour market is experiencing some turbulence.

Bank of England hawks will also be reassured by some of the anecdotes in the PMI press release – Markit notes firms are having difficulty “recruiting suitably skilled staff” and are experiencing “reduced candidate availability”.

A May rate hike looks increasingly likely

This and the stronger wage growth momentum we've seen over the past few months makes a May rate hike increasingly likely – especially if progress towards agreeing a post-Brexit transition period can be made over the coming weeks.

Having said all of this, we caution that growth still looks set to lag behind Europe and the US this year. The consumer sector is continuing to struggle (even though the real wage squeeze has passed its worst). And with plenty of uncertainty still hanging over what the ultimate Brexit trade deal will look like, business investment is likely to remain fairly subdued over coming months.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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