

5 March 2018
Snap

UK PMI suggests economy may be slowly gaining traction

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

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.

James Smith

Developed Markets Economist

+44 20 7767 1038

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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.