

UK PMIs: Brexit woes weigh on services

A disappointing service sector PMI has dragged the composite downwards. Brexit is a growing worry for business and Carney's warnings won't help



Source: iStockphoto

The July reading of the UK's composite purchasing managers' index - a survey of firms regarding their views on what is happening to orders, output employment and other factors - is pretty disappointing falling to 53.6 from 55.2 in June. The service sector PMI was mainly responsible, falling from 55.1 to 53.5 given the manufacturing PMI fell only 0.3 points to 54.0 while construction actually rose to 55.8 from 53.1. This is significant as the PMIs have historically been a really good lead indicator for GDP growth.

The consensus forecast amongst analysts was looking for little change so perhaps the 2Q activity rebound and momentum into 3Q might not be as good or sustainable as the Bank of England had been expecting when choosing to raise interest rates yesterday.

The report compiler cited Brexit worries as a key factor holding back investment. The uncertainty it generates means it's probable that businesses will become more wary about putting money to work in the UK. Mark Carney's warning this morning that the risk of a no deal Brexit is "uncomfortably high" isn't exactly going to help stimulate businesses into action either.

While there have been some signs of encouragement in Michel Barnier's suggestion of a Brexit deal that will be "unprecedented in scope and depth", there are still a lot of hurdles to overcome. As such, May 2019 is the earliest realistic point that the BoE could hike rates again, but even this is looking doubtful.

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