UK PMIs point to healthy second quarter economic rebound

Healthy PMIs tally with just about every other UK indicator, which point to economic activity above last summer's levels, when restrictions were comparably low. The biggest danger now comes from the Delta Covid-19 variant, and in particular whether it dampens buoyant confidence levels

Source: Shutterstock

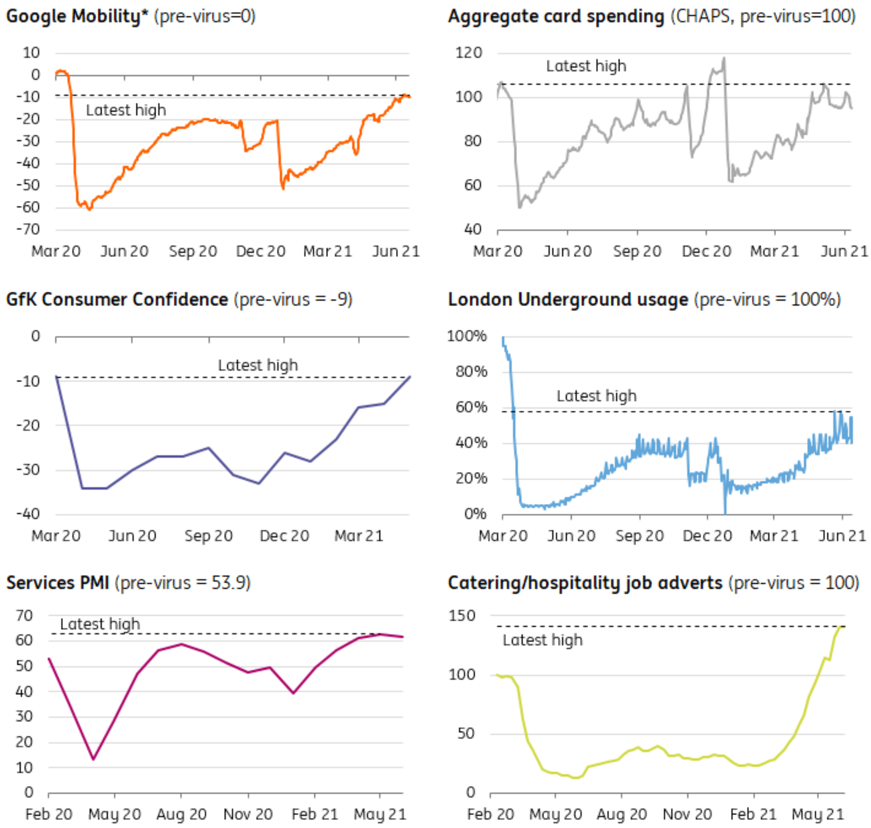
PMIs point to 5%+ second quarter growth

While the latest UK PMIs are a touch lower than they were last month, it bodes well for a healthy second-quarter growth rebound. The services index dipped to 61.7 from 62.9, while the manufacturing index slipped by roughly one-and-half points to 64.2.

Admittedly the read-across from these PMIs to GDP is still not particularly helpful. But the trend is consistent with other indicators, which from consumer confidence to mobility, show higher levels of activity than we saw after the first wave last summer. We're now expecting a little-over 5% second-quarter growth, and just shy of 2% in the third.

Importantly this is feeding into stronger hiring appetite, something which the accompanying PMI press release described as “unprecedented”, but is also evident from the number of online job adverts (catering/hospitality is now considerably above pre-virus levels).

Most indicators point to higher activity levels than last summer



Source: Macrobond, ONS, Department for Transport, ING

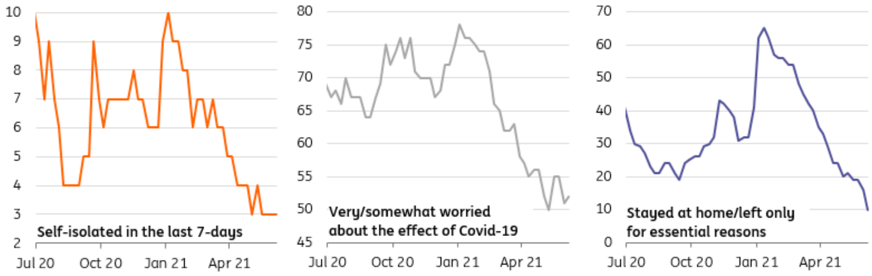
The major question now, of course, is whether the rapid spread of the Delta Covid-19 variant puts brakes on what’s so far been a vibrant second-quarter recovery.

Our view is that the delay to the final stage of the UK’s roadmap won’t make a huge economic difference – even if it is delayed further (which is possible, given where the cases/hospitalisations data are likely to be by mid-July).

Confidence remains a bigger factor, and the good news, for now, is that the rise in cases doesn’t seem to be affecting consumer optimism. An ONS weekly survey of individuals shows no uptick in concern about the virus, nor the number of people only leaving their home for essential reasons.

We suspect this will largely continue to be the case, assuming the vaccines continue to be shown effective. However even if the extreme dangers of the virus are mitigated by vaccines, higher case growth still means a greater share of workers having to self-isolate. This was an issue for firms back in January and is likely to cause further disruption over the coming weeks.

Social indicators of Covid-19



Source: Macrobond

Bank of England unlikely to offer more concrete hints of tightening timing

None of this is likely to prompt a departure from the Bank of England's recent cautious optimistic stance when it meets this week. However rising cases add uncertainty, which coupled with the fact that market rate hike expectations have risen since the May meeting, suggests that the Bank won't offer any firmer hints on when it will begin the process of tightening this week.

We're currently pencilling in a rate rise in the first quarter of 2023.

Read our Bank of England preview

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