# UK PMIs suggest rate cut will be avoided this month

While the latest PMIs probably aren't quite as make-or-break for policymakers as markets have made them out to be, the post-election improvement adds to the body of evidence suggesting sentiment has picked up in the new year. We think the Bank of England will keep rates on hold next week


Source: Shutterstock

**52.4** UK composite PMI

(up from 49.3)

Better than expected

Markets are still divided on whether the Bank of England will cut interest rates at its first meeting of the decade next week. But at 52.4, the latest UK composite flash PMI number is likely to sow further seeds of doubt among those investors looking for policy easing next week.

Admittedly, the PMI probably isn't quite as consequential for the Bank of England as markets have suggested this week. Survey-based indicators aren't always the best predictors at political turning points, and policymakers are likely to put increased emphasis on the messages they are receiving from their agents network.

> *The latest PMI numbers for the UK are likely to sow further seeds of doubt among those investors looking for policy easing*

Still, these latest PMI figures - which point to the sharpest rise in new orders since September 2018 - do nevertheless add to a body of evidence from sentiment data that optimism has increased since December's election result.

As we wrote in more detail on Thursday, we suspect the majority of the MPC will be comfortable with their cautious 'wait-and-see' stance adopted in November/December - and will opt against cutting interest rates next week.

The real question though is, can this renewed optimism translate into an upshift in UK activity over the next few months? We're not so sure. Since the election, it has become clear that the UK government's preference is not to extend the post-Brexit transition period. That sets up the tough, albeit not impossible, task of negotiating a basic free-trade agreement this year.

For both goods and service-sector businesses, this is likely to create material changes in the way they trade with the EU from next year. While there is plenty of uncertainty over how firms will react to these changes in advance, we think it is unlikely to lead to a revival in longer-term investment spending in the near-term.

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