

UK services activity plunges in March

The latest UK services PMI makes it clear that the economy is being hit hard by all the uncertainty surrounding Brexit. If there's another extension to the Article 50 process, potentially one that lasts for 9-12 months, this would continue to keep a lid on investment and growth for the foreseeable future



A delivery driver in the City of London

Amid all the noise in Westminster, the latest Markit/CIPS purchasing managers index (PMI) makes it clear the economy is being hit hard. At just 48.9, the latest service-sector reading suggests the economy contracted in March. Of course, it's important to remember that PMIs don't always precisely reflect the extent of a slowdown, merely that an increasing number of firms are reporting worsening conditions. That said, this latest reading implies that the first quarter as a whole could see near-stagnant growth.

48.9

UK services PMI

Markit/CIPS (For March)

Worse than expected

So what next? Well as things stand, our base case remains that Article 50 will need to be extended again – potentially for a long period. While this would give firms a temporary reprieve from the ‘no deal’ risk, we suspect companies will continue to make their preparations for this scenario. Depending on how long the extension lasts, it’s possible that existing contingencies will need to be repeated. On the manufacturing side, this could happen where firms have for example built up perishable stock, or don’t want the expense of holding higher inventory levels for such a prolonged period of time.

All of this is costly, and we think under the scenario of a long extension, growth would continue to suffer. In this case, a Bank of England rate hike becomes increasingly unlikely this year.

Alternatively, if a deal can be agreed soon and the transition period can begin, there is still a possibility that a rate hike could still come later in the year. Policymakers have been heavily focussed on the recent pick-up in wage growth, and may therefore be inclined to tighten policy a little further, given that interest rates are still modestly below the neutral rate. That could unlock a November move, although with global central banks moving towards a more dovish stance, this could equally get postponed.

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