

UK service sector at a virtual standstill

The UK PMI avoided slipping into contractionary territory in February, but the underlying details make it clear the economy is stalling as firms continue to batten down the hatches ahead of Brexit



Source: Shutterstock

At 51.3, the UK February Markit/CIPs purchasing managers' index (PMI) is a little better than hoped and means the sector has avoided slipping into contraction territory. That said, the accompanying [press release](#) makes for fairly grim reading, and adds to the picture of an economy being held at a virtual standstill, as consumers and businesses put-off big decisions ahead of 29 March.

Probably the most alarming detail – if perhaps not the most surprising – is that employment numbers are slipping at their fastest rate in seven years as firms put the brakes on hiring ahead of Brexit. We'd caution against assuming the tide is completely turning in the jobs market, which has generally been fairly solid since the 2016 referendum. However, there is a risk that the current uncertainty surrounding hiring continues to creep further into the consumer mindset.

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There is some evidence of this in the latest British Retail Consortium sales figures, and we suspect at the very least, households may opt against making some big-ticket purchases over the next few weeks, and instead choose to maintain savings levels.

The bottom line is that growth will continue to stall over coming weeks, particularly as we may not get complete certainty on the possible Article 50 extension until a little over a week before the 29 March deadline. Parliament will vote on delaying Brexit on 14 March, assuming [MPs choose to vote down May's deal on Tuesday](#). It will take a few more days still for Prime Minister Theresa May to return to Brussels and seek the necessary unanimous approval from EU leaders.

With that in mind, we suspect growth will be capped at 0.2% or below for the first quarter as a whole. What happens after that depends heavily on whether May's deal passes - or if there is an Article 50 extension, [how long it is slated to last](#).

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