

UK service sector falls victim to the 'Beast from the East'

Snow over Britain in recent weeks means we'll have to wait until next month to see if the latest dip in the UK PMI signals something more sinister



51.7 UK services PMI

Lower than expected

At face value, the latest UK services PMI looks very concerning. The sharp fall from 54.5 to 51.7 means the index is now at its lowest since the immediate aftermath of the Brexit vote. But it seems cold, snowy weather, dubbed the 'Beast from the East' played a big role in this miss, with the Markit/CIPS press release littered with references to the torrid weather conditions seen through March.

In reality, this means that policymakers will likely choose to look through this latest data when

they meet next in May. Instead, the recent acceleration in wage growth, coupled with the agreement of a post-Brexit transition period, will be what counts for policymakers. We continue to expect a rate hike in May, and markets seem to be pretty much on-board with this idea too.

We believe the Bank will only hike once this year

But we still have our doubts that the Bank of England will be able to get away with a second rate hike later this year. Whilst we suspect this latest dip in the PMI will prove temporary, we don't expect an imminent acceleration in economic growth either. The consumer squeeze – while past its worst – looks likely to persist, with real incomes set to remain relatively flat. With consumer confidence not far off post-Brexit lows, we expect the economy to continue struggling to regain full speed.

Throw in the potential for the Brexit talks to get fairly noisy as they reach their conclusion in October, and we remain of the opinion that the Bank will only hike once this year.

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