

UK service sector growth stalling as Brexit risk rises

The latest UK services PMI provides further evidence that the economy has lost most (if not all) of the momentum it had last summer



Source: Shutterstock

While slightly better than November, the latest service sector PMI reading of 51.2 doesn't bode well for growth over the winter.

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The underlying details emphasise Brexit uncertainty has seen new orders drop off, hitting job creation and activity. As was the case last month, we'd emphasise PMIs don't necessarily tell us anything about the extent of any slowdown in activity, only that more firms are reporting worsening conditions. That said, it's pretty evident that Brexit uncertainty is weighing more-and-more heavily on decision-making and we, therefore, expect growth of 0.2% in the final quarter of 2018.

51.2 December services PMI

Higher than expected

If there is one ray of hope for the Bank of England, it's that firms are still reporting hiring difficulties, prompting higher wages. This is one of the reasons why policymakers have appeared keen to hike rates further once the current Brexit storm has passed.

In reality, though, that still looks quite far off. With the Prime Minister's deal likely to be voted down in a couple of weeks, we're likely to see increasing signs of firms implementing contingency plans for a 'no deal' Brexit. Unless MPs can unite around an alternative Brexit option, a 'no deal' exit on 29 March by law remains the default scenario – although we think the likelihood of a delay to this exit date (most likely via an application to extend article 50) is rising.

For this reason, it looks increasingly unlikely that the Bank of England will be able to hike interest rates again before the summer.

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