

UK service sector just about returns to growth

While consumer activity has the potential to lift service sector activity a bit over the coming months, the overall picture will continue to be clouded by Brexit. For now, we don't expect a Bank of England rate hike this year



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The UK service sector came back from the brink in April, but at just 50.4, the latest Markit/CIPs PMI also indicates that the sector got off to a fairly rocky start in the second quarter.

While businesses were reportedly a little more upbeat, perhaps following the recent extension to Article 50, new orders and backlogs of work slipped. Some of that is reportedly down to subdued consumer spending, which has the potential to perform a little better in the near-term. Real wage growth has begun to rise, while a reduction in dramatic Brexit headlines may help lift confidence a little, perhaps when it comes to purchasing bigger ticket items.

50.4

UK services PMI

(April)

Better than expected

This may give the economy a little support over coming months, but overall we expect growth to remain fairly sluggish. Admittedly, it will be a bit tricky to get a clear picture from the official data over the coming weeks. Next week's GDP data is likely to be distorted by the frenzy of stockpiling activity, which will unwind in the subsequent second-quarter figures.

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Noise aside, we think the outlook for business investment, in particular, remains challenging. While we think a 'no deal' Brexit now seems relatively unlikely, firms have to continue planning for the worst – especially as there is a good chance no meaningful Brexit progress will be made before October. As we noted earlier in the week, goods producers/suppliers will either need to unwind the elevated levels of inventory and rebuild them again closer to the October deadline, which will come at a cost for near-term production/activity. Alternatively, companies may opt to keep inventory elevated, which of course is expensive.

In either case, firms will need to extend or source extra warehousing space again, which has reportedly been complicated by seasonal demand for storage ahead of Christmas.

Wrapping that together, we don't expect the Bank of England to hike rates this year. However if Article 50 is extended beyond October, which we certainly wouldn't rule out, then some of Governor Carney's comments from Thursday's press conference suggest a November move isn't out of the question – particularly if the economy is performing as the Bank of England's forecasts currently envisage.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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