

UK services PMI offers faint glimmer of hope for BoE

There's little doubt the service sector is continuing to struggle as Brexit uncertainty comes to the fore once again. We don't expect a rate hike from the Bank of England this year, but with the latest services PMI hinting at stronger hiring demand and some core inflationary pressure, there are some glimmers of hope for policymakers



Source: iStockphoto

At 51, the latest Markit/CIPS PMI is a touch better than in April, but nevertheless suggests the uncertain backdrop is continuing to weigh on growth.

Beneath the headline figures though, we think there are two glimmers of light for the Bank of England.

51.0 UK services PMI (May)

Better than expected

1 Stronger job creation

Firstly, Markit/CIPS noted that the rate of job creation was the strongest for six months. On one hand, this could be a continuation of a recent trend whereby some firms appeared to increase hiring to offset lower investment, on the basis that staffing levels are easier to change in future given the uncertainty surrounding Brexit.

However, the press release noted that in this case, the hiring flurry was linked to “long-term business expansion” and “efforts to boost operating capacity”. It therefore seems more likely that the Article 50 extension and corresponding temporary dip in uncertainty has, at least to a certain extent, helped unlocked some pent-up demand for labour.

2 Firms passing on higher wage costs to customers

The other ray of hope for the Bank of England stems from costs. As has been the case for some time, the report indicates that wage costs are rising (partly linked to the tight jobs market, but also the marked increase in the minimum wage over recent years). The key thing as far as policymakers are concerned is that stronger levels of demand, coupled with “efforts to protect margins”, are prompting firms to pass these higher costs onto the consumer.

Given that wage growth has been a key pillar of the Bank of England’s argument for further tightening, this latter point suggests that a rate hike later this year shouldn’t be 100% ruled out. Don’t forget that Governor Mark Carney hinted back in May that markets are underestimating the central bank’s tightening plans.

In reality though, we think it is much more likely that the Bank keeps policy unchanged for the rest of 2019. While the recent, weaker PMIs don’t completely tally with the more resilient ‘hard data’, this latest subdued survey reading suggests that growth is likely to remain fairly lacklustre over coming months. With ‘no deal’ fears rising once again, we expect investment to continue falling, offsetting some marginally better news in consumer spending.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.