

## UK services PMI plunges on 'no deal' fears

November's services PMI reinforces our belief that the economy will continue losing momentum over the winter



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At 50.4, the latest UK services PMI now sits at the lowest level since the immediate aftermath of the 2016 referendum. As was the case back then, it's worth stressing that the PMIs do not necessarily tell us anything about the extent of any slowdown, simply that more firms are reporting worsening conditions. But even so, this latest survey demonstrates fairly clearly that the elevated risk of a 'no deal' Brexit is beginning to have a tangible impact on growth.

According to Markit/CIPS, "delays with clients' business investment decisions" was a key reason for the decline, and we expect this trend to persist over the winter. If the government's Brexit deal is rejected by Parliament, then we're unlikely to know for sure whether 'no deal' has been averted until much closer to the UK's scheduled leave date in March (or later if article 50 has to be extended). This is likely to see an increasing number of firms implement contingency plans – various surveys point to the fact that a reasonably high proportion of firms are yet to do so. At the very least, investment and hiring plans are likely to be put on hold until there is greater clarity.

As we move into the critical Christmas trading period, there's also a risk that this sentiment begins to spill over into the consumer sector. There's already some evidence in the most recent confidence numbers that households are growing more cautious about the general economic situation, which makes for a tough few weeks for retailers and will act as a further drag on overall economic momentum.

The bottom line is that fourth quarter growth is likely to be noticeably lower than in the third, and [as we noted on Monday](#), we have our doubts that this will be heavily offset by pre-Brexit inventory building. While recent Bank of England commentary has made it clear that policymakers would like to resume tightening fairly soon given the stronger wage growth backdrop, we don't expect a rate hike before May 2019 – with a clear risk that this could be pushed back later into 2019.

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