UK services PMI subdued as Brexit uncertainty mounts

Despite a modest improvement in the latest UK services PMI, the underlying details highlight the challenges facing the sector over the coming months. With business investment set to fall further as Brexit uncertainty mounts, activity in the sector is likely to remain under pressure for some time to come

Source: iStockphoto

When the UK releases its first estimate of second quarter growth on Friday, most of the focus will be on how much the stockpiling effect unwound after the inventory-building frenzy of the first quarter.

Even when this noise is stripped out though, the underlying picture remains pretty lacklustre. Admittedly, the latest services PMI was a little better than hoped, at 51.4. This was partly driven by better flows of new orders from overseas, according to Markit/CIPS. But with Brexit uncertainty mounting, the fact that expectations for the year ahead dipped to the lowest level since March underlines the challenges facing the sector over coming months.

51.4 Markit/CIPS UK services PMI

Higher than expected

One of the major risks to the service sector – as well as the economy as a whole – comes from investment. Friday's GDP figures may well reveal that business spending resumed its downward trend, a pattern that is likely to continue for the rest of the year. Brexit uncertainty is limiting appetite to expand, but contingency planning activities ahead of 31 October may also limit resources available for possible investment projects. As the Bank of England noted last week, this appears to be reducing demand for the associated professional and financial services – and activity in these areas has slowed in recent months.

Having said all of that, one positive from this latest PMI is that retail reportedly performed a little better in July. Consumer spending appears to have been more subdued during the second quarter, despite the modest improvement in real wage growth over recent months. Sentiment among shoppers has remained fairly depressed, hinting at a reduced willingness to make bigger ticket purchases.

Away from the volatility in the production and inventory numbers, we expect underlying UK growth to remain capped at around 0.2-0.3% for at least the rest of 2019. While the buoyant wage growth backdrop means it is too early to be talking about Bank of England rate cuts, the increasingly uncertain Brexit outlook means it is very unlikely that policymakers will be looking at tightening policy in the foreseeable future either.

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