

UK services PMI suggests economy struggling to pick up speed

The latest PMI was a tad better than expected, but the underlying details were slightly more concerning



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54.2

UK Markit/CIPS Services PMI

Better than expected

It's fair to say December's services PMI data was a bit of a mixed bag. At 54.2, business activity was a touch higher than expected, although this still suggests the economy is struggling to regain momentum and that fourth quarter growth is continuing to hover around 0.4%. Digging a little deeper reveals that new orders are at the lowest level since the immediate aftermath of the Brexit vote, and that the rate of hiring has slipped to a nine-month low. This latter finding tallies with what the recent jobs reports have indicated, and suggests the weaker growth we saw through 2017 may be finally catching up with the previously-resilient labour market - although admittedly, it is still very early days.

There was some brighter news on wage growth, with some firms feeling the need to boost salaries

to retain staff. This is good news for Bank of England policymakers, who are looking for a sizable pick-up in the pace of wage growth this year as skills shortages take hold. That said, other input costs are still rising sharply and squeezing margins, potentially limiting the ability of some firms to lift pay.

With overall growth likely to remain sluggish, we still feel a rate hike this year is not guaranteed - although it is a pretty close call. Whatever the Bank of England decides to do, we think they have a fairly narrow window before the summer if they want to squeeze in a hike, before Brexit heats up in the autumn.

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