

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



Source: Shutterstock

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.

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>.