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Snap

Uncertainty continues to cloud UK service sector

Political uncertainty and the consumer slowdown will continue to keep a lid on growth next year, even if there are some positive Brexit steps over coming weeks.

53.8 UK services PMI

Worse than expected

An unexpected fall in the UK services PMI to 53.8 suggests that the positive momentum in the manufacturing sector isn't being felt more widely. The consumer sector remains under pressure, but firms also cited Brexit uncertainty as restraining growth and confidence.

Heading into 2018, some of this uncertainty cloud may start to lift if a transition period can be swiftly agreed, thus removing the risk of a 'cliff edge' in March 2019. This should help unlock some shorter-term business spending, but there are still a number of Brexit unknowns – not least when a trade deal can be agreed (or indeed what one will look like) and whether a two year period is long enough for businesses to adjust. These unknowns mean that businesses are likely to maintain an air of caution when it comes to medium/long-term investment.

There are still a number of Brexit unknowns

Interestingly, Markit also point to a slowdown in the rate of hiring – the slowest pace since March. This echoes what we are starting to see in the official employment data and is another early sign that this year's economic slowdown may be starting to take its toll on job creation.

If this is the case, then it could have important implications for the Bank of England's optimistic wage growth forecasts. Less heat in the jobs market, combined with the "ongoing pressure on margins" highlighted by today's PMI survey, suggest pay growth may not take off quite as much as the Bank is hoping next year.

All of this means a 2018 rate hike is still not guaranteed – although a move in February or May certainly can't be ruled out.

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