Weak UK PMIs bolster case for another BoE pause next week

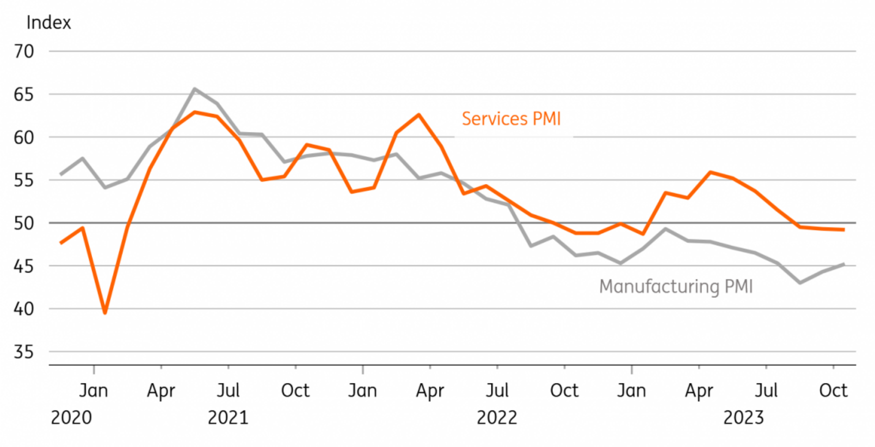
Ongoing weakness in the UK service sector adds to the case for policymakers to keep rates on hold for a second time at next week's central bank meeting

The Bank of England in London

We've had various bits of UK data today, but none of it is likely to move the dial for next week's Bank of England meeting where we – and the market – expect another pause. Both this morning's delayed jobs numbers and the latest PMI indicate that the economy is cooling, albeit gradually, but it's also clear that neither dataset should be taken too literally.

Much like the eurozone, the latest purchasing managers' index tells us that the service sector is continuing to contract – modestly – and is doing so fractionally faster than it was in September. Weaker demand is, according to the accompanying press release from S&P Global, feeding through to lower employment and reduced new orders. All of that will likely translate into a modest decline in third quarter GDP of roughly 0.1%, owing to a sharp decrease in output during July. We expect similarly stagnant growth figures later in the year.

UK purchasing managers' index



Source: Macrobond

The story is broadly similar when you look at the latest jobs numbers. We've seen a steady cooling in hiring demand and a corresponding increase in unemployment over recent months. Then again, the Office for National Statistics has made it abundantly clear that the Labour Force Survey, upon which these figures are produced, is suffering from dwindling sample sizes and is consequently less reliable. The ONS has therefore put out a set of "experimental" numbers, drawing on data from several sources to improve reliability. These numbers show that the unemployment rate stayed at 4.2% in two overlapping three-month periods between May and August, but unfortunately, we haven't got the new series prior to that so it's hard to make firm comparisons to what came before.

The recent PMIs don't appear to have been problem-free either. Last month's services PMI was revised up from the initially-released figure of 47.2 to 49.3, which was a massive revision and pretty unusual. Exactly what is behind that isn't totally clear, though it's possible some tweaks to the seasonal adjustment process explain some of it. Plenty of data, not just in the UK, has become much harder to seasonally adjust after lockdowns heavily distorted typical patterns between different months.

The bottom line is that the Bank is likely to take both the latest jobs and PMI numbers with a pinch of salt. In any case, last week's all-important wage growth and services inflation figures didn't come in materially above expectations.

Given the Bank opted to keep rates on hold in September, and we've had very little data between then and now, and what we have had hasn't moved the needle on the inflation outlook, it's hard to see the BoE moving back to rate hikes when it meets next week. Our base case is that rates remain on hold until next summer when the committee is likely to be in a position to begin gradually lowering rates back to a more neutral footing.

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