

## Weak UK PMIs bolster chances of November BoE pause

The latest UK purchasing managers indices undoubtedly vindicate the Bank of England's decision to keep rates on hold this month. We think the Bank's tightening cycle is over



We've had the latest purchasing managers indices for the UK and it's another dismal outcome. The services PMI now stands at 47.2, down from 49.5 and that's lower than had been expected by economists. There's little doubt from the [accompanying S&P Global press release](#) that the economy is weakening, and the comments on the jobs market stand out in particular. The survey indicates that employment is now falling at the fastest rate since October 2009, when you exclude the volatility during lockdowns. And prices charged by firms are increasing less rapidly too.

All of this supports the wider body of evidence from the data that the jobs market is weakening and that domestically-generated inflation is likely to slow over coming months. Admittedly, the Bank of England has been more reluctant to base policy on surveys while actual inflation and wage data have (at least until recently) been coming in consistently hot. But with lower gas prices taking pressure off the service sector to lift prices aggressively, in an environment where demand appears to be cooling, inflation in the service sector should continue to fall over coming months. Services CPI – currently 6.8% – should end the year below 6%.

We therefore think the Bank will remain on hold in November and that August's rate hike marked

the top in this tightening cycle.

Remember that we only have one inflation and wage data release before November's meeting. So if the Bank felt it had enough evidence to pause yesterday, then barring any big surprises in those data releases, it's unlikely that much will have changed by the next meeting. Remember, too, that one official who voted for a rate hike this week – Jon Cunliffe – now leaves the committee and there's no guarantee his successor – Sarah Breeden – will vote the same way. That suggests the decision in November could be a little less contested than it was this month.

Bigger picture, the Bank is also acutely aware that the impact of past hikes is still feeding through, and it's made it abundantly clear that the length of time rates stay high is now more important than how high they peak in the short-run. That said, we expect the first rate cuts by the middle of next year.

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