

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.

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 www.ing.com.