Weak UK PMIs signal fragile start to 2020 despite election result

The latest decline in the Markit/CIPS UK PMIs is another stark reminder that the British economy is unlikely to be on the cusp of a sharp turnaround after last week's election result

Source: Shutterstock

The significant Conservative victory at last week's election will inevitably spark discussion about whether the UK economy can step up a gear in 2020. After all, the Brexit deal will now almost certainly pass through Parliament in January, enabling the UK to leave the EU smoothly after all.

Even so, we aren't convinced that next year will see a full investment revival.

48.5 UK Markit/CIPS composite PMI

Lower than expected

Firstly, the latest data suggests the economic case for investment is not currently compelling. Both the manufacturing and services PMIs have fallen further below the break-even 50 level in the latest flash readings.

While the stall in service-sector demand in itself is partly a symptom of reduced investment appetite, the ongoing reduction in order backlogs and resulting decline in capacity utilisation doesn't point to an imminent need for firms (on aggregate) to expand.

Secondly, the uncertainty surrounding Brexit won't fade entirely, even if the UK does leave the EU on schedule in January.

True, the removal of the imminent 'no deal' risk will lift one key cloud of uncertainty for firms – the PMI's gauge of future expectations rose to the highest since June. But pretty quickly into the new year, focus will turn to the transition period and the fact that an extension will likely be required to the 31 December 2020 end-date.

While the jury is out on whether the bones of a very basic free-trade agreement can be achieved by then (it seems unlikely given past EU third-country negotiations), it is extremely unlikely that there will be enough time will be needed to allow businesses and border infrastructure to position for potentially big changes in trading regime. Without an extension, firms could face an abrupt single market exit at the end of next year, which in many cases will not look dissimilar to a 'no deal' exit.

An extension is ultimately likely in our view, but until this is agreed, the lingering uncertainty could continue to cap on investment appetite in the early stages of the new year. This will also subsequently raise questions over the health of the jobs market, which has been showing tentative signs of deteriorating.

> For the time being, we aren't convinced all of this will translate into a Bank of England rate cut. But it does at least suggest that a meaningful hawkish tilt from policymakers this week is unlikely.

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