

Snap | 1 May 2018

UNITED KINGDOM

Worrying UK data casts further doubt over rate hikes

Today's disappointing consumer credit and manufacturing data takes a May rate hike even further off the table



Source: iStockphoto

At 53.9, the UK manufacturing PMI is now the lowest it has been since late 2016 - and unlike a large chunk of recent UK data, we can't blame the weather can't really be blamed this time. With new orders reportedly growing more slowly, it's possible that the combination of a moderation in Eurozone activity and a slightly stronger pound are beginning to drag. At the margin, protectionist sentiment may have also played a role too.

As always, it's worth remembering manufacturing only makes up around 10% of the UK economy, so it will be Thursday's services PMI that will have a much greater bearing on Bank of England policy. While some rebound from the snow is likely, we suspect it would have to increase a lot to rekindle any talk of a rate hike next week. It's clear the high street has had a particularly rough start to 2018 - perhaps the worst quarter since the financial crisis as rising minimum wage costs, higher business rates and slower demand continues to bite.

On the latter, the massive decrease in consumer credit growth looks concerning. According to data released this morning, net consumer credit increased by just £0.3 billion in March, significantly below the usual growth of between £1.4-1.8bn. While there's every chance this is

a blip, it does tally with the recent credit conditions survey from the BoE, which suggested credit availability has tightened significantly so far this year. With real incomes barely rising, such a sharp fall in consumer credit does not bode well for either the high street or the overall growth outlook.

£254m

Rise in consumer credit in March

(Lowest since Nov 2012)

Worse than expected

All of this means that a May rate hike from the Bank of England is now even further off the table.

However, [as we noted on Friday](#), we think the market reaction to the weak GDP print was a little extreme. After all, the Bank has been very clear it wants to hike rates soon to combat the potential threat of higher wage growth. An August rate hike therefore still looks fairly likely, but with Brexit talks likely to heat up in autumn, core inflation falling and growth continuing to struggle, what happens after that is much less assured.

[Weak UK growth makes a May rate hike a very tough sell](#)

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