22 October 2021
Snap

# UK PMIs add more fuel for Bank of England hawks

The latest UK PMIs indicate that price pressures are the strongest since the late 1990s, which will further cement the markets' conviction that rates will need to rise in November. However we think investors are overestimating the scale of Bank of England tightening over the next year


Bank Of England, London

There's much for the Bank of England hawks to get their teeth into, in the latest UK purchasing managers indices. Both the manufacturing and the services PMIs increased on September's level, and the standout statistic from the IHS Markit press release, is that price pressures are signalled to be the strongest since the late-1990s across the private sector. There are also signs that wage pressures are continuing to grow amid shortages in parts of the workforce.

This will further fuel investor expectations that the Bank of England's November rate rise will need to be swiftly followed by even more tightening.

**58.0**
Higher than expected

UK services PMI
Prev: 55.4

Still, we'd caution overinterpreting today's figures. The PMIs haven't been the best predictor of economic growth through the pandemic. We still feel that fourth-quarter growth is likely to come in at around 1%, around half what the Bank of England had forecast back in August.

There's been no let-up in supply chain constraints in the manufacturing sector, which the latest PMIs suggest is barely growing.

## We continue to think markets are overestimating the scale of tightening

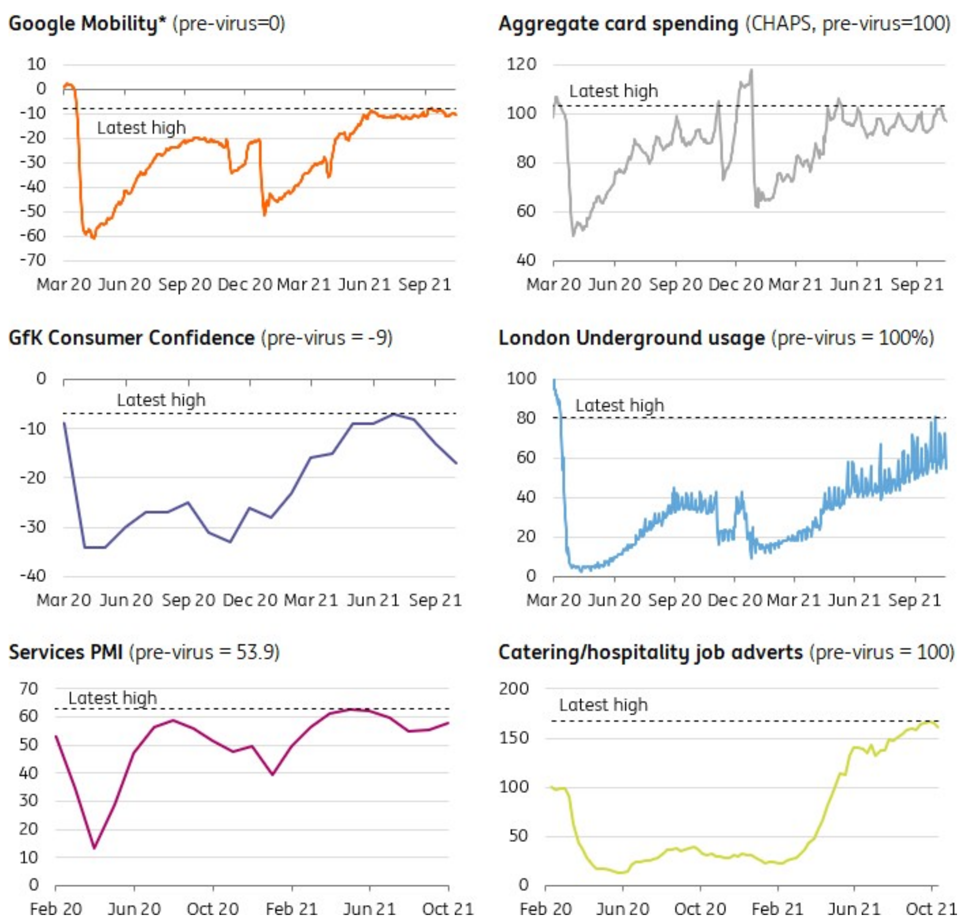
Meanwhile, rising energy prices are quickly translating into a noticeable fall in consumer confidence. The tightening of fiscal policy, via a cut in welfare payments and forthcoming tax rise in the Spring, will add a further constraint to household spending, particularly among lower earners. Add in the residual risk of greater caution among individuals if Covid-19 hospitalisations were to rise more quickly than expected over the next month or so, and we think growth momentum is likely to be gradual over the winter months.

None of this is likely to dissuade the Bank of England from increasing interest rates next month. Yesterday's FT interview with the newly-appointed Chief Economist Hugh Pill, made it clear that inflation is by far the biggest concern right now.

But this masks the fact that there is great uncertainty surrounding wage growth and where it is likely to head next year, given the recent ending of the furlough scheme.

We, therefore, continue to think markets are overestimating the scale of tightening we're likely to see from the Bank of England next year. We think one, or perhaps two, further rate rises in 2022 is likely to be the limit, particularly given these will be coupled with some balance sheet reduction. *Read our latest Bank of England article for more details*

### UK economic dashboard points to steadier growth




Source: Macrobond, ING

Google mobility is a simple average of retail/recreation, groceries and workplaces


**James Smith**
Developed Markets Economist
+44 20 7767 1038
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 NV 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 deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. 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.