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UK: Services Activity Softens?

Services PMI Still Implies Reasonable Growth

Providing a clear downside surprise this time around, the April services PMI dropped back clearly. Specifically, it decreased 2.0 points to 53.3, more than unwinding the 1.5 point jump seen in the previous month, instead falling to the lowest since last November and down afresh from the January reading of 56.0 which was the highest since this time last year.

Even though the April reading slipped a little below the long-term average of the survey, the data is hardly indicative of a sector in, or near, recession. Indeed, the details of the survey itself underlined that while the service sector started the second quarter on a weaker note than in Q1, it continued to grow at a reasonable pace. Notably, companies continued to report rising levels of new business, which helped drive business confidence to the highest for over two years. In addition, the survey pointed to tentative signs of pressure on capacity.

Regardless, the thrust of recent data makes it likely that the BoE will not extend its asset purchase program at the MPC meeting that finishes next Thursday.

DE View: While no more stimulus from the BoE is envisaged this month, a further enlargement of asset purchases is still more than likely later in the year with the MPC in no way constrained in acting purely in months (such as this one) in which the Inflation Report is drafted.