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Article

UK: That sinking feeling...

The UK's purchasing managers indicator surveys suggests that the economy is stagnating as we approach Brexit day. With no deal in sight, business and consumer caution will only intensify, risking a 1Q contraction

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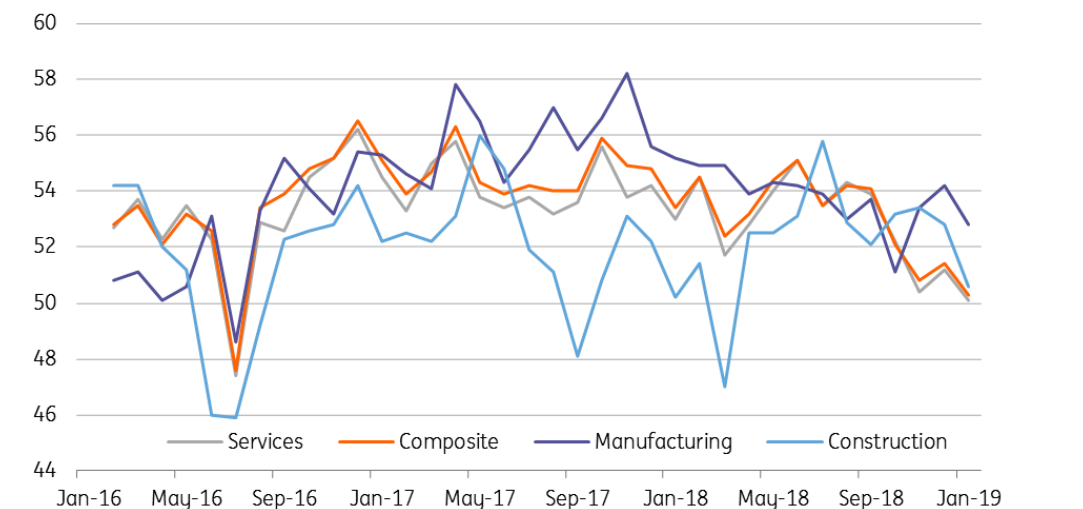
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Grim news

We already knew that the manufacturing PMI had softened, but was at least growing due primarily to Brexit-related precautionary inventory building. Yesterday's construction survey saw growth slow more markedly to 50.6 – barely above the break-even level of 50 that signals expansion or contraction. Today, we have had the services PMI and the news is even more grim.

The headline index dropped to 50.1 – the lowest level since the shock plunge that immediately followed the outcome of the Brexit vote back in the summer of 2016. Taking all the surveys together and weighting them by their economic importance to the UK, the composite index is now at 50.3, suggesting an economy that is flat-lining.

Stagnating surveys



Source: Bloomberg, ING

Get a grip

Within the services report we can see new business actually contracting, with the survey stating that political uncertainty was the key reason for lower new orders. Worryingly, the employment component also dropped into contraction territory and business optimism is near decade lows. It is clear that business is worried and with the Brexit uncertainty set to continue, the risk is that

activity softens further - firms will become increasingly risk averse and implement contingency Brexit planning. With all sectors of the UK economy now feeling pain, it is imperative the government and the House of Commons get a grip on Brexit. Meanwhile, the case for a Bank of England rate hike this year continues to recede.

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