



## THE UK ECONOMIC MONITOR

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The final composite PMI for May points to 0.25% quarter-to-quarter growth.

Firms are responding to rising output by hiring, suggesting official employment data will rebound soon.

The PMI indicates services inflation will slow ahead of the MPC's August interest rate decision.

### The MPC will be encouraged by the PMI showing inflation slowing

For the MPC, what's not to like? **Yesterday's final services and composite PMIs for May show GDP growth close to potential, employment rising and inflation slowing.**

The composite PMI dropped to 53.0 in May from 54.1 in April. Technically, that points to some loss of momentum, but April was an outlier. The composite PMI averaged 52.9 in January-to-March and is back close to that level now. **The PMI would be consistent with 0.25% quarter-to-quarter growth if it stayed at 52.9, a tad softer than our 0.3% forecast, as our chart below shows.** The big picture, though, is that GDP has been trending up solidly since the New Year.

**In any case, we take encouragement from a range of surveys showing GDP growth returning close to its 2010-to-19 average.** The Lloyds Business Barometer

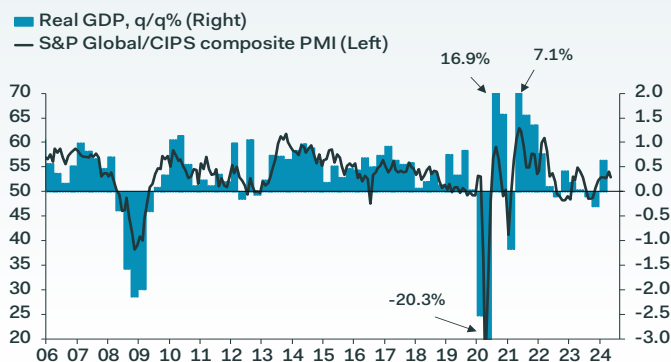
#### A RANGE OF SURVEYS NOW AGREE GROWTH IS IMPROVING



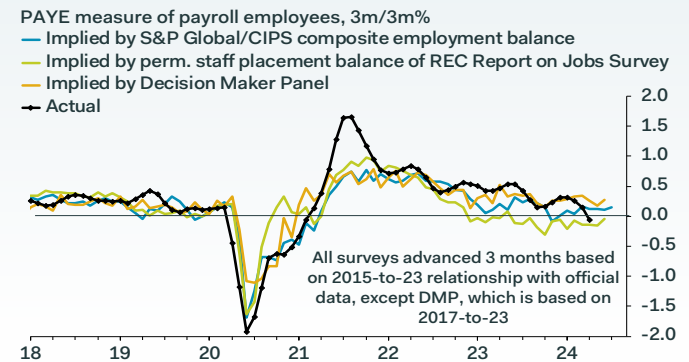
rose to 50 in May, the strongest in eight years, while the CBI monthly growth indicator leapt to its healthiest reading since July 2022 (see chart above). Consumers are also increasingly confident. The net balance of consumers expecting an improvement in their personal financial situation rose to +7 in May's GfK consumer confidence survey, the highest since August 2021.

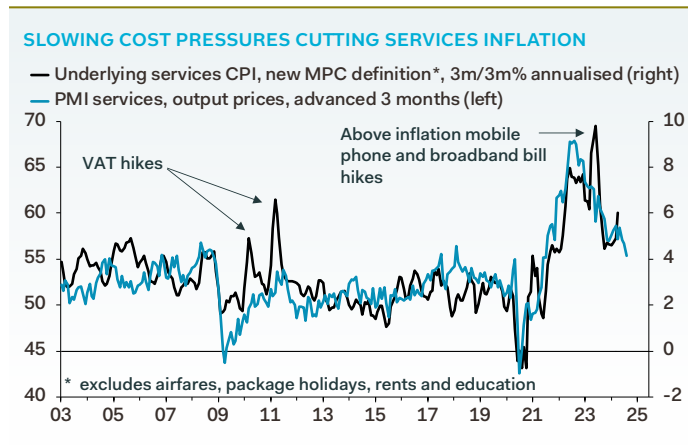
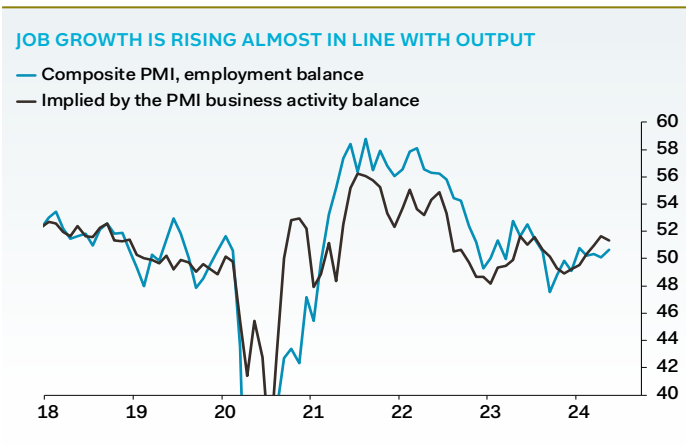
Admittedly, the composite PMI new orders index fell to 51.6 in May, from 53.5. But that is consistent with the headline composite PMI remaining at its current level. What's more, the PMI index measuring business confidence in the growth outlook rose to 73.0, well above its 68.2 average. Firms are also putting their money where their confidence is and hiring, with the PMI employment index rising to 50.6 from 50.1 in April. This suggests the official measures of employment—which

#### THE PMI POINTS TO CONTINUED ROBUST GROWTH



#### PMI AND OTHER SURVEYS POINT TO STABLE JOB GROWTH





fell off a cliff in March and April—will rebound soon. No survey corroborates the sharp deterioration in those official data, as our final chart on page 1 shows.

**Employment growth remains a little weaker than would be expected given the output increases firms are reporting, as our chart above shows.**

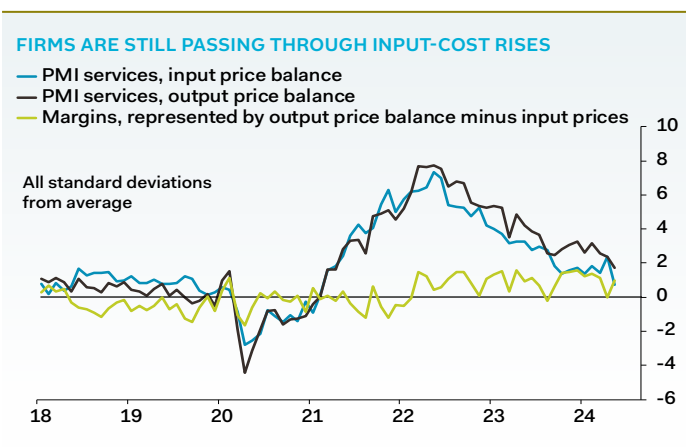
But, encouragingly, the weakness of jobs relative to output growth narrowed in May. Put another way, firms are continuing to unwind their labour-hoarding, but only gradually. This suggests no imminent surge in redundancies and unemployment, a downside risk highlighted by MPC Member Megan Greene in a speech on May 16.

**The biggest news in the May PMI was a further easing in inflation.** The services PMI input price balance collapsed to 60.8 in May, the weakest since February 2021, from 67.1 in April. That final reading was revised down 0.8 points from the flash. The services PMI output price balance fell to 55.3 in May—the lowest since April 2021—from 56.7. That was also revised down from the flash release, in this case by 0.5 points.

Admittedly, input price inflation easing more than output price inflation suggests firms are not squeezing margins, which would help inflation drop more quickly. Nor should we expect firms to do that when they report solid demand growth. That could disappoint BoE Governor Andrew Bailey, who suggested in the May *Monetary Policy Report* press conference that such a margin squeeze was underway.

Both input and output price increases are slowing, even though there is no margin squeeze to add additional disinflation. **The prices charged index of the services survey points to three-month-on-three-month annualised growth in our seasonally adjusted version of the MPC's new underlying services CPI—excluding airfares, package holidays, rents and education—slowing to 4.0% in the next three months, as our chart above shows.** That suggests April's blowout services inflation print was more a flash in the pan than a sign of inflation re-accelerating.

**The MPC will need the official inflation and wage data to show progress for it to cut Bank Rate in August; the PMI offers some evidence that progress will come.** We forecast June CPI services inflation—due out mid-July—to fall to 5.4% year-over-year. That's too high to be consistent with hitting the inflation target sustainably, but it's at least heading in the right direction after the April scare. Headline wage growth will be strong in April but should slow in May data, due out in July. That might be too late for the MPC to cut in August, but we think rate-setters are itching to get started.



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## THIS WEEK IN BRIEF

Note: "D" prefix denotes Datanotes for these releases.

### Monday, June 3

#### • D: S&P Global Final Manufacturing PMI (5)/09:30 BST

The final manufacturing PMI rose to **51.2** in May, from 50.3 in April, below the consensus and flash reading of 51.3. The manufacturing PMI output balance rose to 53.4, from 49.4 in April, revised up from 52.7 in the flash release.

### Tuesday, June 4

#### • D: BRC Retail Sales (5)/00:01 BST

Year-over-year growth in the British Retail Consortium measure of total sales values rose to **0.7%** in May, from -4.0% in April, below the consensus, 1.2%. We judge the BRC data—post-deflation and seasonal adjustment—are consistent with a month-to-month rise in the official measure of retail sales volumes of 2.5% in May.

### Wednesday, June 5

#### • D: Car Registrations (5)/09:00

Private sales dropped **12.9%** year-over-year, taking the 12-month average of monthly private registrations to 64.9K, the weakest since October 2021. Total registrations rose 1.7% year-over-year in May, up from a 1.0% increase in April and the 22nd consecutive gain.

#### • D: S&P Global Final Composite PMI (5)/09:30 BST

The S&P Global composite PMI fell to **53.0** in May, from 54.1 in April, above the consensus and the first estimate, 52.8. The services PMI fell to **52.9**, from 55.0 in April, matching the consensus and the first estimate. Encouragingly for the MPC, the services output price balance dropped to 55.3, revised down from 55.8 in the flash release and the lowest since April 2021.

### Thursday, June 6

#### • D: S&P Global Construction PMI (5)/09:30 BST

The construction PMI activity index has been trending up since last autumn, but April saw a large 2.8-point jump to 53.0, the strongest since February 2023. That looks partially erratic, so we expect a modest correction to **52.5** in May. **Consensus: 52.5.**

#### • D: BoE Decision Maker Panel Survey (5)/ 09:30 BST

We expect the three-month average of output price expectations to decline to **4.0%**, from 4.2%. We look for one-year-ahead CPI expectations to fall to **2.7%** from 2.9%. **Consensus: output price expectations, 3.9%, CPI expectations, 2.8%.**

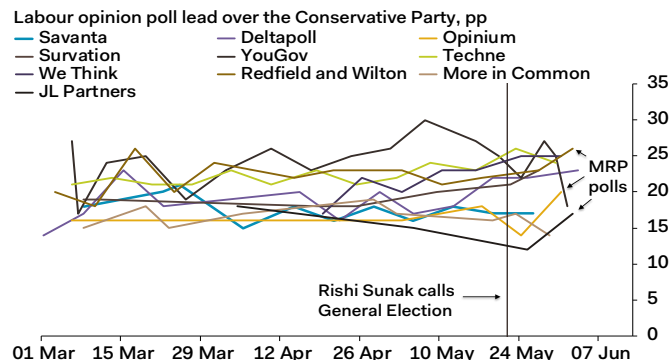
### Friday, June 7

#### • Halifax House Price Index (5)/07:00 BST

Forward-looking indicators continue to suggest gradual house price increases, and Nationwide's house price index rose in May after two consecutive falls. Accordingly, we look for the Halifax House Price Index to edge up **0.2%** month-to-month in May, following April's 0.1% rise.

**Consensus: N/A**

## LABOUR HAS A LARGE LEAD IN ALL OPINION POLLS



## PANTHEON'S FINANCIAL FORECASTS

	End-month:					
	5pm Wed.	Mar 24	Jun 24	Sep 24	Dec 24	Dec 25
Bank Rate	5.25	5.25	5.25	5.00	4.75	3.75
2-year Gilt	4.37	4.40	4.40	4.20	4.00	3.60
10-year Gilt	4.19	3.90	4.20	4.10	4.00	3.90
30-year Gilt	4.61	4.40	4.60	4.50	4.50	4.30
FTSE 100	8270	7953	8500	8600	8700	8800
GBP/USD	1.28	1.28	1.30	1.30	1.33	1.33
GBP/EUR	1.18	1.15	1.18	1.15	1.13	1.13

## PANTHEON'S ECONOMIC FORECASTS

	Period average:						
	Q1 24	Q2 24	Q3 24	Q4 24	2023	2024	2025
GDP, q/q%	0.6	0.3	0.3	0.3	-	-	-
GDP, y/y%	0.2	0.5	1.0	1.6	0.1	0.8	1.3
Employment, y/y%	-0.6	-0.3	0.0	-0.1	0.7	-0.2	0.6
Unemp. rate, %	4.3	4.4	4.6	4.7	4.0	4.5	4.7
Wages, ex. bon., y/y%	6.0	5.7	5.1	5.5	7.2	5.6	3.7
CPI, y/y%	3.5	2.1	2.2	2.7	7.3	2.7	2.5
RPI, y/y%	4.6	3.2	3.8	4.4	9.7	4.0	4.2
PSNB FY, % GDP	-	-	-	-	4.5	3.0	3.1
Cur. acc't., % GDP	-2.6	-2.4	-2.5	-2.5	-2.7	-2.5	-2.2
House prices, y/y%	0.2	1.7	2.0	3.0	0.6	1.7	3.7