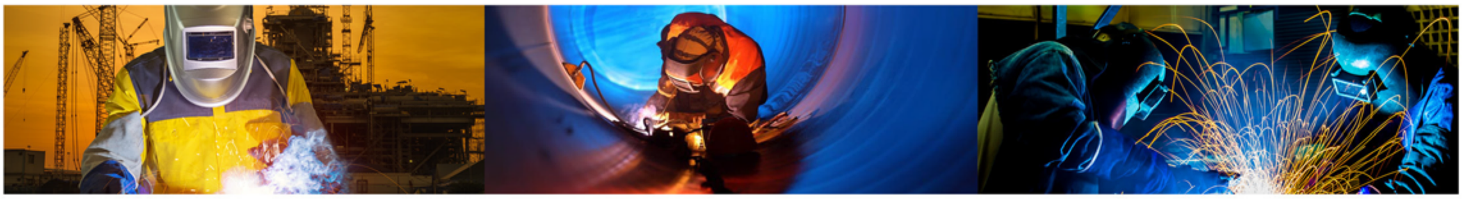

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Internet rate rise dominates current key economic indicators

The interest rate rise has dominated a recent cross-section of key economic indicators.

With inflation rising above the Bank of England's expectations, the Monetary Policy Committee raised rates to 0.5% - the first increase in a decade.

The Bank of England's Monetary Policy Committee voted 7-2 to raise the Bank rate by 25 basis points to 0.5% in its November meeting, marking the first increase in interest rates since July 2007.

The key judgement behind the decision is greater pessimism among the MPC on the economy's supply potential: with years of persistently weak productivity growth meaning that the economy's ability to grow without generating inflationary pressure has fallen. Therefore, even with the modest economic growth that the Bank are expecting, they still forecast inflation to remain above target in three years. This suggests that, going forward, rates could rise at a faster pace than financial markets currently expect (markets are pricing in around two rate rises over the next three years).

In the CBI's latest SME Trends survey, SME manufacturers saw optimism deteriorate slightly for the first time in a year. While new orders rose firmly, output growth eased over the past three months. But while firms still expect to cut back on investment in buildings and plant & machinery, investment intentions for the year ahead haven't deteriorated materially further and remain above their long-run averages. There are however signs that capacity pressures are biting hard, with the proportion of firms working below capacity falling to its lowest since April 1989. In addition, the number of firms citing labour shortages as a limiting factor on investment rose to its highest on record (since October 1988).

Meanwhile, IHS Markit's composite PMI rose to 55.8 in October, from 54.1 in September. The reading was the strongest since April 2017 and comfortably above the average for Q3 (54.1). The improvement was driven by the services sector PMI (which rose to 55.6, up from 53.6 in September), supported by rising order books and resilient client demand. The manufacturing PMI also edged slightly higher (to 56.3 in October from 56.0 in September), as manufacturing companies benefitted from strong domestic market conditions and rising inflows of new export business. The construction PMI also returned to expansion territory, inching up to 50.8 in October from 48.1 in September, though this still indicates a marginal rise in overall construction output after a marked softening in conditions over the summer months. Meanwhile, the CBI's growth indicator pointed to steady growth in the three months to October (+11%), with a similar pace of growth expected over the next three months (+12%).