Recession fears grow and interest rate expectations decline after surprise slump in output

R

ecession fears stalked the City again today as a key business survey painted a grim picture of the strains in the economy this month.

The preliminary or “flash” version of the closely watched S&P Global/CIPSprivate sector output index fell far more steeply than expected by forecasters from 50.8 In July to 47.9 this month.

It was the first reading under 50 — which indicates contracting output — since January ending a six-month period of expansion as the economy shrugged off slump fears earlier in the year.

It was also the fastest rate of decline since January 2021, when the nation was in the grip of the second major Covid-19 lockdown.

However, today’s data is the strongest signal yet that crushing weight of 14 successive interest rate rises is causing major stress for businesses.

Read More

- FTSE 100 Live: ‘Heightened recession risk’ with UK private sector in shock decline
- China deflation: why are prices going down?
- The Bank of England won’t stop interest rate hikes until

unemployment is far higher

- SPONSORED

Seven underrated gin cocktails and where to get them

City markets immediately discounted the likelihood of another major interest rate rise next month with a half-point hike by the Bank now seen as impossible.

The manufacturing sector has been hardest hit with its PMI index falling from 45.3 to a 39-month low of 42.5. The services index dropped from 51.7 to a seven-month low of 48.7.

Chris Williamson, chief business economist at S&P Global Market Intelligence said: “The early PMI survey for August suggests that inflation should moderate further in the months ahead, but also indicates that the fight against inflation is carrying a heavy cost in terms of heightened recession risks.

“A renewed contraction of the economy already looks inevitable, as an increasingly severe manufacturing downturn is accompanied by a further faltering of the service sector’s spring revival. The survey is indicative of GDP declining by 0.2% over the third quarter so far.”

The survey said manufacturers saw a sharp and accelerated fall in production volumes, which extended the current period of decline to six months. Meanwhile the fall in new orders across the private sector was the fastest since November 2022, with lower levels of customer demand now seen in the service and manufacturing sectors.

The worrying figures come less than a week after grim official retail data for July showing that the High Street was badly hit by washout weather. GDP only grew by 0.2% in the second quarter, although it was a relatively perky 0.5% in June.

However, this is likely to have been flattered by a transfer of economic activity from May when there was an extra Bank

Holiday to celebrate the King’s Coronation.

Paul Dales, chief UK economist at forecaster Capital Economics said: “The fall in the activity PMI to below the boom-bust level of 50.0 in August and the further drop in the prices balances probably won’t prevent the Bank of England from raising interest rates from 5.25% to 5.50% in September, but it will encourage it that higher rates are working.”