News Release

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IHS MARKIT / CIPS UK SERVICES PMI®

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Service sector growth slows in February

KEY FINDINGS

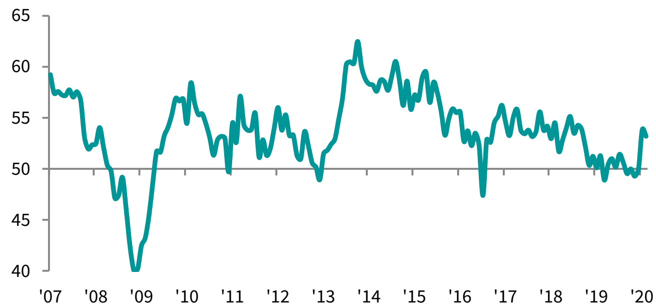
Weaker rises in business activity and new work

Job creation softens

Prices charged inflation hits a 27-month high

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

UK service providers recorded another increase in business activity and incoming new work during February, which added to signs of a rebound in customer demand since the general election at the end of last year. Survey respondents often commented on greater willingness to spend and the release of new projects that had been delayed in the run up to Brexit.

However, the latest survey indicated that business activity, new orders and employment all rose at slower rates than in January. There were a number of reports citing a negative impact on sales from the coronavirus outbreak, particularly to clients in overseas markets. The loss of momentum for incoming new business also contributed to the sharpest drop in backlogs of work since last September.

Adjusted for seasonal influences, the headline IHS Markit/ CIPS UK Services PMI® Business Activity Index registered 53.2 in February, to remain above the crucial 50.0 no-change value for the second month running. The latest reading was down from 53.9 in January, but still the second-highest since September 2018. Companies reporting an upturn in business activity widely commented on a boost from receding political uncertainty and strong domestic economic conditions.

Total volumes of new work increased for the third month running in February, but the rate of expansion eased since the start of 2020. The main headwind to growth cited by service providers was the impact of the coronavirus outbreak, through cancellations of bookings and delays to new projects among clients in Asia. Reflecting this, latest data pointed to a renewed fall in total new orders from abroad, although the rate of decline was less marked than seen in the final quarter of 2019.

Mirroring the trends seen for business activity and new work, service providers signalled a slowdown in the pace of job creation during February. The latest increase in payroll numbers was only marginal and the weakest for three months. Some firms noted that greater uncertainty about the global economic outlook had resulted in more caution towards staff recruitment.

Despite reports citing concerns about disruptions in China related to the coronavirus outbreak, latest data indicated that business optimism across the UK service economy reached its highest level since March 2015. Anecdotal evidence mostly commented on reduced political uncertainty and rising domestic demand, although there were some reports that forthcoming IR35 legislation had the potential to weigh on business operations.

Meanwhile, latest data revealed another sharp rise in average cost burdens across the service economy. Higher operating expenses were overwhelmingly attributed to increasing staff salaries in February. Pressure on margins from greater input costs resulted in the fastest rise in average prices charged by service providers since November 2017.

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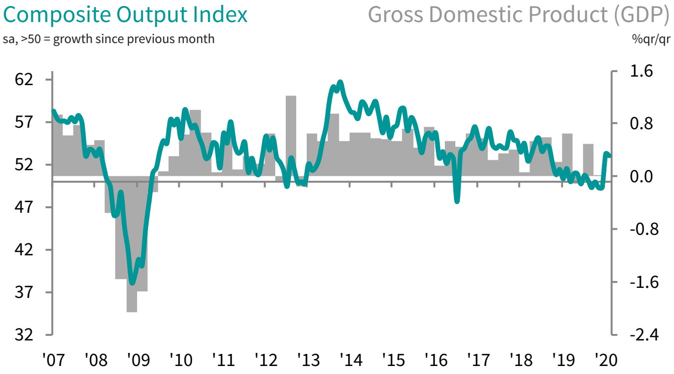
Slower service sector growth contrasts with faster rise in manufacturing output



Sources: IHS Markit, ONS.

Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The UK Composite Output Index is a weighted average of the UK Manufacturing Output Index and the UK Services Business Activity Index.

Adjusted for seasonal influences, the IHS Markit/CIPS UK Composite Output Index posted 53.0 in February, down only slightly from a 16-month high of 53.3 in January.

The latest reading signalled a further solid expansion of private sector output and was only fractionally weaker than the earlier 'flash' estimate (53.3 in February).

Manufacturing output growth reached a 10-month high in February (index at 52.2), which contrasted with a slight loss of momentum in the service sector since the start of 2020.

COMMENT

Chris Williamson, Chief Business Economist at IHS Markit, which compiles the survey:

“The post-election rebound in service sector growth lost some of its bounce in February, in part due to coronavirus related disruptions to sectors such as travel and tourism, but continued to expand at an encouragingly robust pace.

"Alongside an improvement in manufacturing and a return to growth in the construction sector, the survey data are consistent with quarterly GDP growth of just over 0.2%, up from stagnation in the fourth quarter of last year.

"Whether this expansion can be sustained in coming months is starting to look increasingly at risk. On one hand, February saw future output expectations climbing to the highest for over four and a half years as firms remained optimistic that reduced political uncertainty in particular will help drive further growth. On the other hand, the survey also highlights the risks to the economy from the coronavirus. The outbreak was linked to reduced tourism numbers and lower travel and transport business volumes, but was also seen as having a wider hit to demand via reduced confidence and financial market volatility, as well as through supply shortages limiting the ability to fulfil orders. Uncertainty regarding the UK’s trading relationship with the EU also lurks in the background as a risk to exports.

"The survey data leave policymakers juggling between current signs of both improved economic growth and rising prices, while risks to the outlook have clearly intensified."

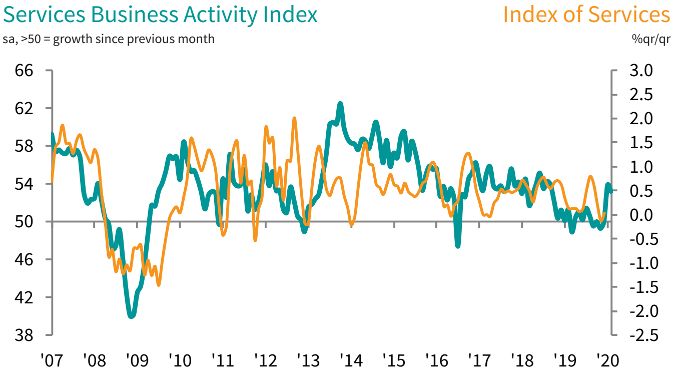
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

“The biggest driver in the UK economy put in a pleasing performance in February, retaining its growth trajectory and levels of new orders, even if some of the momentum had leaked away. With optimism at the highest levels since March 2015, businesses were also confident enough to pass on their rising costs for salaries and fuel to consumers and at the highest rate for over two years.

"However, new orders were largely driven by domestic sales, as some EU clients continued to sidestep business with the UK because of lingering Brexit concerns. The ripple effect of Covid-19 fears also affected orders from the Asia region, putting a dampener on new business and subsequently levels of job creation as businesses became cautious about their sales pipeline.

"As the sector started this period of recovery in 2020, it’s an unexpected turn of events that threatens to knock this progress back again. It feels like service companies are balanced on a set of scales where on the one hand favourable domestic market conditions and receding political uncertainty has boosted activity, but poor levels of export orders, concerns over future trade deals and now the coronavirus is likely to rob the sector of any headway.

"As shipments from China are held back, and ports closed, the consequences for supply chains are just beginning. Though we are not at the stage of very large scale disruption to businesses, a sudden escalation in coronavirus containment could restrict sourcing performance into the summer months."



Sources: IHS Markit, ONS.

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Methodology

The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

February data were collected 12-26 February 2020.

The final United Kingdom Services PMI follows on from the flash estimate which is released around a week earlier and is typically based on approximately 85%–90% of total PMI survey responses each month. The February 2020 flash was based on 84% of the replies used in the final data.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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