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## IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

### Service sector growth eases to 28-month low in November

#### KEY FINDINGS

Marginal expansion of overall business activity

Employment growth moderates to four-month low

Business optimism weakest since July 2016

UK service sector companies experienced another difficult month in November, with both business activity and incoming new work expanding at the weakest rates for almost two-and-a-half years.

The slowdown in business activity growth was highlighted by a fall in the headline seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** to 50.4 in November. This was down from 52.2 in October and the lowest reading since July 2016. The latest figure was only slightly above the 50.0 no-change value and therefore pointed to a marginal overall expansion of service sector output.

Reports from survey respondents suggested that subdued business and consumer spending had held back growth in November. A number of firms noted that heightened Brexit uncertainty had led to delays with clients' business investment decisions.

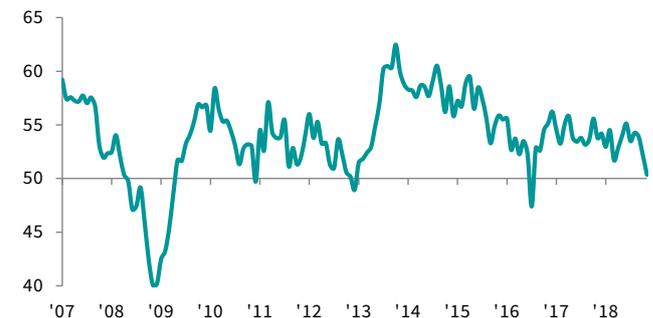
Service providers signalled a slowdown in new business growth for the third month running during November. Moreover, the latest upturn in new work was only marginal and the weakest seen since July 2016.

A lack of new work to replace completed projects resulted in reduced pressure on business capacity in November. Reflecting this, service sector firms recorded the joint-sharpest drop in work-in-hand (but not yet completed) since September 2009.

Softer demand growth and rising staff salaries contributed to

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

more cautious hiring policies in November. The latest upturn in employment numbers was only modest and the weakest recorded for four months. A number of survey respondents commented on difficulties recruiting suitably skilled staff.

On a more positive note, input cost inflation eased to a six-month low during November. Where an increase in operating expenses was reported, service providers generally commented on higher fuel costs and rising staff salaries.

Mirroring the trend for input costs, latest data indicated a slower rise in average prices charged by service sector companies in November. The rate of prices charged inflation was one of the weakest seen since mid-2017. Some firms commented that subdued demand conditions had encouraged price discounting during November.

Meanwhile, service providers' optimism regarding the year-ahead outlook for business activity moderated again in November. The latest survey pointed to the weakest degree of positive sentiment since July 2016. Anecdotal evidence mainly attributed lower confidence to Brexit-related uncertainty. Survey respondents also commented on concerns about the outlook for business investment and the availability of skilled staff.

## IHS MARKIT UK ALL SECTOR PMI®

## Slowest rise in UK private sector output since July 2016

### Composite Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

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

The UK All Sector Output Index is a weighted average of the UK Manufacturing Output Index, the UK Total Construction Activity Index and the UK Services Business Activity Index.

The seasonally adjusted All Sector Output Index posted at 51.0 in November, down from 52.2 in October, to signal the slowest rate of expansion since July 2016.

Faster rises in manufacturing and construction output were offset by another slowdown in business activity growth across the service economy during November.

### COMMENT

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

*“A sharp deterioration in service sector growth leaves the economy flatlining in November as Brexit concerns intensified. Measured across services, manufacturing and construction, the survey results suggest that the pace of economic growth has stalled. With the exception of July 2016, when business slumped in the immediate aftermath of the EU referendum, November saw the worst performance since February 2013.*

*“The surveys are so far consistent with 0.1% GDP growth in the fourth quarter, thanks to the expansion seen back in October, but growth momentum has since been lost and risks are clearly tilted to the downside.*

*“A contraction of service sector business activity in November was only avoided by firms working through backorders to an extent not exceeded since 2009. As such, unless demand revives, a slide into economic decline at the turn of the year is a distinct possibility.*

*“Both the slowdown in current business activity and the deterioration in business optimism were primarily caused by an intensification of anxieties over Brexit. Uncertainty in relation to the withdrawal agreement and the possibility of no deal was often reported to have caused companies and customers to cancel or postpone spending and investment decisions. Clarity in relation to Brexit arrangements is therefore urgently needed to help ensure the current stalling of growth does not translate into a downturn.”*

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

*“Disregarding the month immediately after the UK’s vote to leave the EU in 2016, the services sector put in its worst performance for almost six years as confidence, a lack of strength in the global economy and Brexit uncertainty took its toll.*

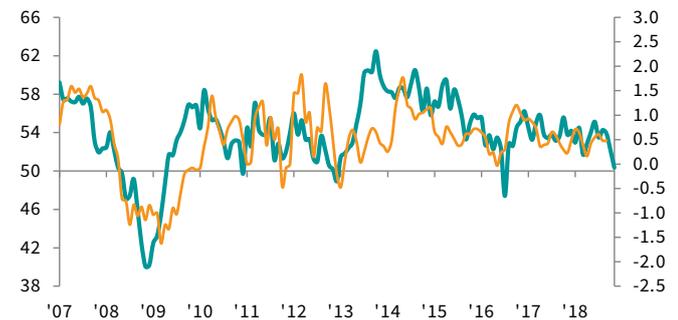
*“Service providers grappled with the lowest growth of new work from domestic and export markets for nearly two-and-a-half years as paused business contracts remained stuck and not even the temptation of discounted prices encouraged consumers to spend.*

*“If there’s any good news to be had, input price inflation was less intense but fuel and higher salary costs continued to challenge and there was a significant downturn in outstanding work not exceeded since 2009 during the last recession.*

*“With the lowest optimism about the future since July 2016 and minimal job hiring, the main driver of the UK economy looks like it’s grinding to a halt as it teeters too close to the no change mark for comfort. Respondents have provided plenty of evidence that the prime cause of this slowdown must be firmly placed on the shoulders of Brexit indecision.”*

### Services Business Activity Index

sa, >50 = growth since previous month



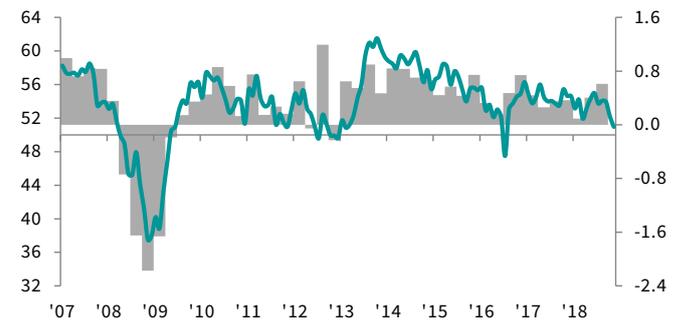
Sources: IHS Markit, ONS.

### Index of Services

%q/q

### All Sector Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, ONS.

### Gross Domestic Product (GDP)

%q/q

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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 All Sector Output Index is a weighted average of the Manufacturing Output Index, the Construction Total Activity Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing, construction 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.

November 2018 data were collected 12-28 November 2018.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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