

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit / CIPS UK Services PMI[®]

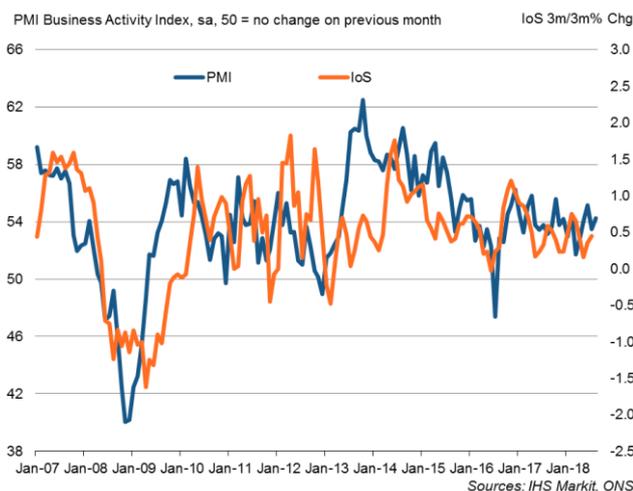
Stronger upturn in service sector activity during August, but business optimism hits five-month low

Key findings:

- Stronger rises in business activity and new work
- Input cost inflation accelerates, led by fuel prices and wage pressures
- Optimism towards the year-ahead business outlook at lowest level since March

Data collected August 13-29

IHS Markit / CIPS UK Services PMI



UK service providers experienced a stronger increase in business activity and incoming new work during August. Improving business conditions helped to underpin a rebound in employment growth to its fastest for six months.

However, survey respondents widely noted that a lack of suitably skilled candidates to fill vacancies had held back staff hiring and constrained business expansion plans. Meanwhile, business confidence

regarding the year-ahead outlook dropped down to its lowest since March, which was attributed to political uncertainty and the unpredictable impact of Brexit on clients' business operations.

At 54.3 in August, up from 53.5 in July, the seasonally adjusted **IHS Markit/CIPS UK Services PMI[®] Business Activity Index** reached its second-highest level since February. The headline index has posted above the 50.0 no-change mark in each month since August 2016, and the latest reading was slightly above the average seen over this period (54.0). Service providers linked higher activity to resilient business and consumer demand.

Growth of incoming new work picked up slightly since July, but was still softer than the trend since the current phase of expansion began in August 2016. Anecdotal evidence suggested that Brexit uncertainty continued to hold back business-to-business spending, especially in relation to large scale projects. Some survey respondents also cited subdued demand from clients operating in the UK retail sector.

Backlogs of work increased for the fourth month running in August, which pointed to sustained pressure on operating capacity at service sector companies. A number of firms linked rising volumes of unfinished business to difficulties replacing departing staff.

August data revealed a moderate expansion of payroll numbers across the service economy as a whole. The rate of job creation was the fastest

since February, reflecting efforts to boost business capacity and meet increased workloads. There were widespread reports that tight labour market conditions had constrained employment growth during the latest survey period.

Difficulties recruiting suitably skilled staff contributed to higher salary payments in August. Survey respondents also commented on rising fuel costs and energy prices. Despite a sharp and accelerated rise in average cost burdens, intense competitive pressures meant that prices charged inflation was only modest and remained well below the peak seen in November 2017.

Meanwhile, business optimism eased to a five-month low and remained subdued in comparison to the long-run survey average. Brexit uncertainty featured prominently in the comments from survey respondents, especially the near-term impact on clients' business investment plans.

Comments

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

"Faster service sector growth comes as much-needed welcome news after disappointing manufacturing and construction PMI surveys in August. The survey data indicate that the economy is on course to expand by 0.4% in the third quarter, a relatively robust and resilient rate of expansion that will no doubt draw some sighs of relief at the Bank of England after the rate hike earlier in the month.

"Faster service sector order book and employment growth also offset slowdowns of both in the manufacturing and construction sectors, but also highlights the extent to which the economy has become more reliant on services to support growth, and in particular an especially strong financial service sector. Financial services have outperformed all other sectors so far this year.

"Business expectations for the year ahead meanwhile sank markedly lower, down across all three sectors to one of the lowest levels seen since the EU referendum, largely reflecting increased anxiety over Brexit negotiations.

"Given the increasingly unbalanced nature of growth and the darkening business mood, risks to the immediate outlook seem tilted to the downside."

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

"The services sector was a little more upbeat than the other sectors this month maintaining a steady level of activity growth, and the number of new orders ticked higher.

"Despite this, optimism was more subdued and lower than the survey average. With the weakest business optimism since March, uncertainty around the UK's decision to leave the EU continued to dampen client operations. Struggles around securing talent and the right skills were also a drag on a sector highly-dependent on trained staff even though job creation rose to its highest levels for half a year.

"Despite input prices rising as service providers paid more for fuel and higher salaries, output charges were up only modestly as businesses hesitated to pass on costs. With consumers already challenged by an interest rate hike and higher living costs, competition and promotional discounting by service providers at least spared households from an even sharper erosion of their budgets.

"In summary, though the sector remained in positive territory, the dark clouds of political indecision are still having an effect and preventing more business activity. Service providers are likely to continue along this vein for the rest of the year until those clouds have cleared."

– Ends –

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Note to Editors:

The September UK Services PMI will be published on Wednesday 3rd October 2018 at 09:30 UK (08:30 UTC).

Where appropriate, please refer to the survey as the IHS Markit/CIPS UK Services PMI[®].

The IHS Markit/CIPS UK Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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