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IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

New orders decline for the first time in two-and-a-half years

KEY FINDINGS

Business activity stagnates amid modest drop in new work

Staffing levels decline for the first time since December 2012

Strong input cost inflation persists at start of 2019

January data indicated a renewed loss of momentum for the UK service sector, with a decline in incoming new work reported for the first time since July 2016. Subdued demand conditions meant that business activity was broadly flat at the start of 2019, while concerns about the economic outlook weighed more heavily on staff recruitment. Latest data pointed to an overall reduction in payroll numbers for the first time in just over six years.

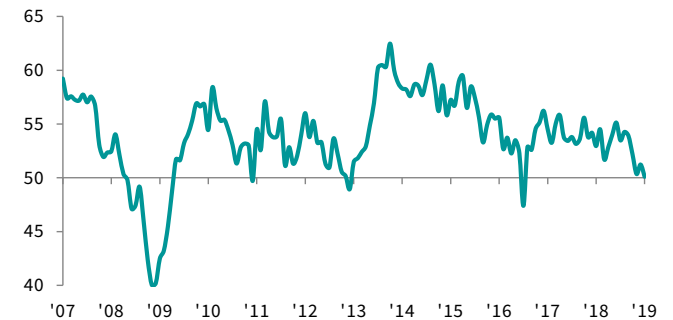
At 50.1 in January, the headline seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** was down from 51.2 in December and only fractionally above the crucial 50.0 no-change value. The latest reading was the lowest for two-and-a-half years and the second-weakest since December 2012.

Survey respondents overwhelmingly linked the slowdown in business activity growth to heightened political uncertainty at the start of 2019. A number of service providers reported that Brexit-related concerns had dampened client demand and resulted in delayed decision making on new projects. Sector data suggested that Transport & Communication and Financial Intermediation were the weakest performing areas of service sector activity.

New business volumes declined for the first time in two-and-a-half years during January, although the rate of contraction was only modest. Political uncertainty was the most commonly cited reason for lower new orders, with firms noting that Brexit concerns had led to more cautious

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

spending among clients and risk aversion in relation to new projects.

Backlogs of work decreased for the fourth month running in January, which pointed to reduced pressure on business capacity and a lack of new orders to replace completed projects. Meanwhile, service providers reported more cautious staff hiring strategies in response to subdued demand and heightened uncertainty about the economic outlook. Although only marginal, the reduction in employment numbers was the first seen since the end of 2012. This was mainly linked to the non-replacement of voluntary leavers.

Despite softer demand for staff, service sector firms continued to cite higher salary payments as a key factor driving up input costs during January. There were also reports that exchange rate depreciation had contributed to rising operating expenses at the start of the year. The overall rate of input cost inflation edged up to a three-month high. However, intense competition for new work contributed to the slowest increase in average prices charged by service providers since September 2018.

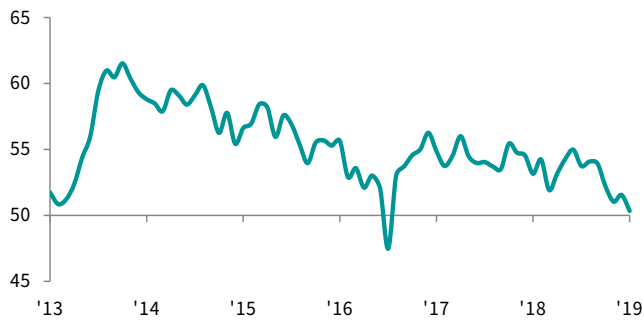
Optimism towards the year ahead outlook for business activity rebounded slightly from December's 29-month low. That said, the latest reading was still one of the lowest seen since early 2009.

IHS MARKIT UK ALL SECTOR PMI®

Output growth hits two-and-a-half year low in January

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.

Adjusted for seasonal influences, the All Sector Output Index posted 50.3 in January, down from 51.5 in December. The index has posted above the crucial 50.0 no-change mark in each month since August 2016, but the latest reading signalled the slowest pace of expansion over this period and the second-lowest since December 2012.

COMMENT

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

“The latest PMI survey results indicate that the UK economy is at risk of stalling or worse as escalating Brexit uncertainty coincides with a wider slower slowdown in the global economy.

“Service sector growth ground almost to a halt in January, matching similar disappointing news in the manufacturing and construction sectors. The last three months have seen the economy slip into its weakest growth spell for six years, and indicate that GDP likely stagnated at the start of 2019 after eking out modest growth of just 0.1% in the fourth quarter.

“With the exception of July 2016, when demand contracted briefly following the surprise Brexit vote, service providers suffered the largest drop in new business since April 2009 as customers tightened their belts.

“Service sector employment fell for the first time in the past six years in a sign that the slowdown is feeding through to the labour market.

“The survey results indicate that companies are becoming increasingly risk averse and eager to reduce overheads in the face of weakened customer demand and rising political uncertainty. Such worries were in turn most commonly linked to heightened Brexit anxiety, though wider global political and economic factors were also seen to have been taking their toll on demand.”

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

“The sector had the January blues last month, as employment dropped for the first time in over six years, and new order levels fell into contraction territory.

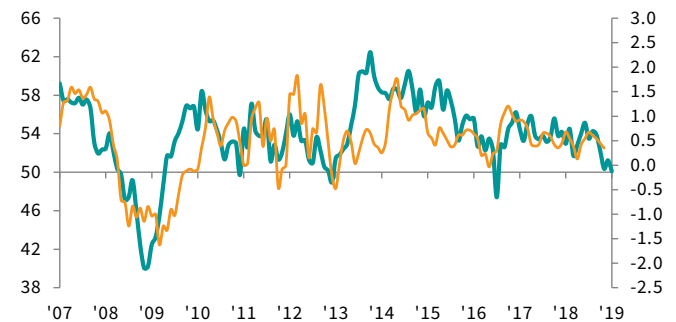
“At the risk of sounding like a broken record, Brexit uncertainty continues to be at the heart of the malaise as clients delayed orders and consumers were deeply reluctant to spend under the continuing cloud of hesitation, indecision and ambiguity.

“Staff in employment were demanding higher wages which impacted on input price inflation rising again, so there was little respite on offer.

“As optimism levels remained at some of the lowest levels since the last recession in 2009, the vice-like grip of Brexit is now taking hold of the sector, making it a very difficult start to the year and leaving little hope for improvement next month.”

Services Business Activity Index

sa, >50 = growth since previous month



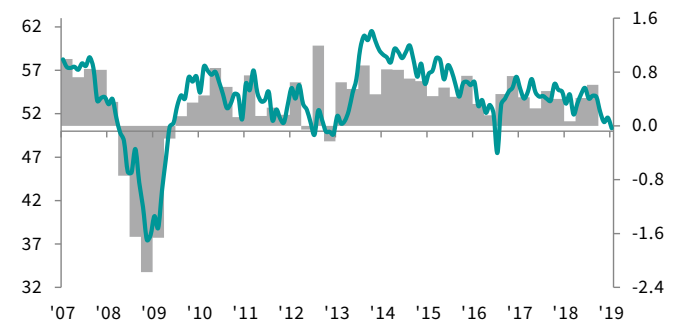
Sources: IHS Markit, ONS.

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.

January 2019 data were collected 11-29 January 2019.

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

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