News Release

Embargoed until 0930 GMT (0930 UTC) 5 November 2019

IHS MARKIT / CIPS UK SERVICES PMI®
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Service sector flatlines in October

KEY FINDINGS

Business Activity Index posts at 50.0 no-change mark
New business falls for second month running
Expectations pick up slightly but remain subdued

The UK service sector registered no change in output in October compared with one month previously, according to the latest IHS Markit / CIPS PMI® survey data. Although this represented a slight improvement on September's contraction, business levels were supported by existing contracts as the volume of new work declined further. This led to more job losses in the sector, albeit at a slower rate. The outlook improved slightly as a number of firms expected Brexit to be resolved early next year, reducing uncertainty, but overall sentiment remained historically weak.

The seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index ticked up to 50.0 in October, from September’s 49.5, signalling no change in service sector output. The latest figure was among the lowest registered in the past ten-and-a-half years, and below each of the trend levels for the first, second and third quarters of 2019 (50.1, 50.5 and 50.5 respectively).

Service providers reported lower intakes of new business for the second month running in October. New work has now declined seven times in the first ten months of 2019. The rate of contraction in the latest period was the fastest since April, but modest overall. Companies continued to link lower new work to uncertainty surrounding Brexit.

Uncertainty around Brexit also undermined international demand for UK-based services. New export business fell at a rate unchanged from September’s near-record pace.

With demand falling further, companies continued to work on existing contracts. The level of outstanding business declined for the thirteenth consecutive month, and at one of the fastest rates in this sequence.

Fewer incoming new contracts and sharply falling backlogs led to another reduction in workforce numbers in October, the fifth in 2019 so far. While firms mostly linked lower headcounts to the non-replacement of voluntary leavers, some compulsory redundancies were also reported. The overall rate of job shedding eased since September, however.

Cost pressures at UK service providers continued to build in October, linked by survey respondents to wages and salaries, fuel, energy, foodstuffs and imported items. The rate of input price inflation remained above the long-run survey average, but eased to an 18-month low.

Pricing power remained limited in October. Charges rose on average, but at a rate little-changed from September’s 38-month low.

The 12-month outlook for service sector activity improved to a three-month high in October, as some firms mentioned that uncertainty would be reduced following any resolution to Brexit in early-2020. That said, overall sentiment remained historically weak, with only 39% of firms expecting growth at their units and 16% forecasting a decline.
**IHS MARKIT UK ALL SECTOR PMI®**

**Construction downturn weighs on UK private sector output in October**

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 Index remained below 50.0 for the third month running in October, the longest negative sequence for ten-and-a-half years and signalling a further contraction in total private sector output. That said, the Index rose to 49.5, from 48.8 in September, indicating a slower, marginal rate of contraction.

Another sharp decline in construction activity weighed on overall output in October. Manufacturing production fell only fractionally during the month, and service sector activity was unchanged since September.

All three sectors continued to register lower intakes of new business in October, the first successive broad-based decline since March-April 2009. Total new work fell for the third month running, and at one of the fastest rates for over a decade.

Another broad-based decline in workforces was also signalled, although the overall rate of job shedding was weaker than September’s near-ten year record. Construction employment again fell more sharply than manufacturing and services jobs.

Overall, private sector input cost inflation remained strong in October, but eased to a 40-month low. Notably, manufacturing input prices were unchanged from September.

**COMMENT**

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

“The UK PMI surveys collectively indicated a further overall decline in private sector output in October. Contractions have now been recorded in four of the past five months, marking the worst spell since 2009 during the global financial crisis. 

“The seasonally adjusted IHS Markit/CIPS ‘all-sector’ Output Index rose from 48.8 in September to 49.5 in October, signalling a weaker rate of contraction, but the volume of new business fell at a pace similar to that seen in September.

“The October reading is historically consistent with GDP declining at a quarterly rate of 0.1%, similar to the pace of contraction in GDP signalled by the surveys in the third quarter. While official data may indicate more robust growth in the third quarter, the PMI warns that some of this could merely reflect a pay-back from a steeper decline than signalled by the surveys in the second quarter, and that the underlying business trend remains one of stagnation at best.”

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

“Without any real expectation for significant change in October, the sector stuttered and stalled delivering a lifeless set of results as new business from domestic and export markets dried up and orders fell for the second month in a row.

“In terms of staff hiring, this is one of the worst service sector performances since 2011, as job creation became job cutting for the fifth time this year. Even the impending October deadline was not enough to stem the flow of hopelessness amongst service providers, as optimism remained at low levels.

“The sector’s main difficulties are largely of Brexit’s making and with another deadline comes more indecision and delay. Businesses are putting off their investments for happier times and consumers are saving their pennies in case rising costs have a more severe impact on their daily lives. Companies are waiting for a resolution by the UK Government to salvage the current situation so workflows can begin again at healthier levels.”
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.

October data were collected 11-29 October 2019.

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

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