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## IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT / CIPS UK COMPOSITE PMI®

### Renewed decline in service sector activity

#### KEY FINDINGS

Marginal fall in business activity

New work decreases at fastest pace since July 2016

Input cost inflation eases to its lowest for over three years

November data pointed to a renewed drop in business activity across the UK service sector and, although only marginal, the pace of decline was the fastest for eight months. Subdued demand continued to hold back business activity during the latest survey period, as signalled by the sharpest fall in new work since July 2016. On a more positive note, input cost inflation eased again in November and reached its lowest level for just over three years.

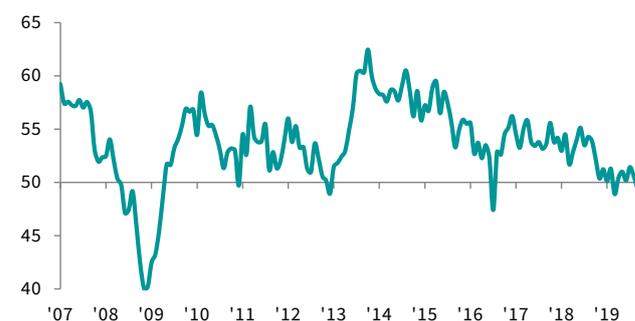
At 49.3 in November, down from 50.0 in October, the seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index signalled a marginal reduction in service sector output. Although the index was up from the earlier 'flash' reading of 48.6 in November, it still pointed to the steepest decline in business activity since March. Survey respondents noted that domestic political uncertainty once again led to cautious business and consumer spending.

Incoming new work decreased for the third consecutive month in November and the rate of contraction accelerated to its sharpest for over three years. Demand from export markets was particularly weak, with the latest drop in new orders from abroad the fastest since this index began in September 2014. A number of firms reported that a lack of clarity in relation to Brexit had resulted in delays to business investment decisions among overseas clients.

An extended period of subdued customer demand continued to alleviate pressure on capacity at service sector companies. This was indicated by a solid reduction in backlogs of work in

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

November. Lower volumes of unfinished business have been recorded in each month since October 2018.

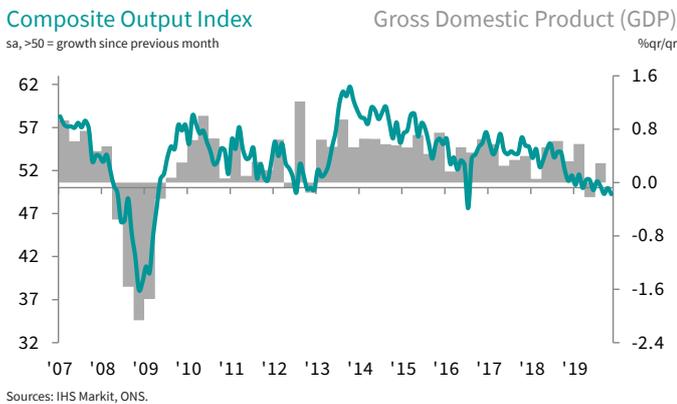
Despite a sustained decline in workloads, latest data revealed a stabilisation in staffing numbers across the service economy. Some firms noted that higher operating expenses had led to the non-replacement of voluntary leavers, but other survey respondents commented on plans to hire additional staff to support new product launches in the year ahead.

Business optimism edged up further from the low point recorded in September, with the degree of confidence reaching a four-month high. However, service providers' growth expectations remain subdued in comparison to its long-run average. Moreover, survey respondents reporting a positive outlook for business activity in the next 12 months often noted that this was contingent on hopes of a more stable political and economic landscape.

Meanwhile, latest data pointed to a slowdown in input price inflation for the third consecutive month. The latest increase in average cost burdens was the weakest since August 2016. Companies reporting a rise in their operating expenses mainly cited higher salary payments and increased costs for imported items. At the same time, prices charged by service sector firms rose only modestly in November, which suggested that subdued demand conditions continued to squeeze operating margins.

## IHS MARKIT UK COMPOSITE PMI®

## UK private sector output declines in November



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.

At 49.3 in November, the seasonally adjusted IHS Markit/CIPS UK Composite Output Index was down from 50.0 in October and signalled a marginal reduction in private sector output. The index was up from the earlier 'flash' reading of 48.5 in November, but still the joint-lowest figure since July 2016 (equalling that seen in September).

Manufacturing production (index at 49.1) decreased at a slightly faster pace than service sector activity during November (index at 49.3).

## COMMENT

Tim Moore, Economics Associate Director at IHS Markit, which compiles the survey:

*"November's PMI surveys collectively suggest that the UK economy is staggering through the final quarter of 2019, with service sector output falling back into decline after a brief period of stabilisation.*

*"Lacklustre demand remains centred on business-to-business spending. Service providers have attributed the recent soft patch to delayed decision-making on new projects until greater clarity emerges in relation to the domestic political landscape. Sales to export markets were hard-hit in November, as signalled by the steepest fall in new work from abroad for more than five years.*

*"Service providers reported concerns that consumer appetite for big-ticket purchases has begun to falter, while those reliant on consumer footfall and discretionary spending noted the negative impact of unusually wet weather in November.*

*"Lower manufacturing production alongside an absence of growth in the service economy means that the IHS Markit/CIPS Composite Output Index is consistent with UK GDP declining at a quarterly rate of around 0.1%."*

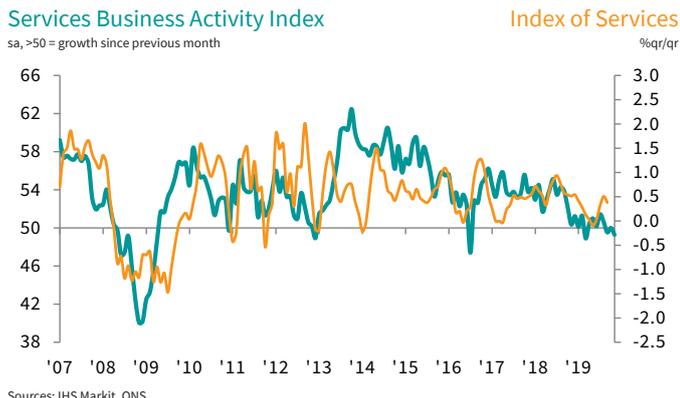
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

*"The sector was hemmed in with no room for improvement in November by the fastest fall in the pipeline of new work since July 2016, and the biggest drop in export orders since this index began in September 2014. As Brexit nerves continued to affect domestic client decision-making, a veil of silence also descended over European clients in particular who were reluctant to commit until there is more clarity in the UK's future direction.*

*"However, deeply cautious consumers already unwilling to spend in the current Brexit-infused climate, were spared the additional burden of higher prices in November. Companies raised their charges only modestly, restrained by strong competition in the marketplace and the lowest input price inflation since August 2016, giving them some much-needed breathing space.*

*"Unfortunately, this had no overall impact on job prospects which were neither improved nor downgraded, as some firms forged ahead with expansion plans whilst others held back and sought to reduce staff costs in case of more turbulence ahead.*

*"Despite this stagnation, a chink of light emerged amongst the services gloom as optimism for the future was the brightest since July 2019. With the advent of the New Year, firms were in a more hopeful mood that the trading landscape had to improve in 2020."*



## CONTACT

### IHS Markit

Katherine Smith  
Public Relations  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

Tim Moore  
Associate Director  
T: +44-1491-461-067  
[tim.moore@ihsmarkit.com](mailto:tim.moore@ihsmarkit.com)

### CIPS

Trudy Salandiak  
Corporate Communications  
T: +44-1780-761576  
[trudy.salandiak@cips.org](mailto:trudy.salandiak@cips.org)

### 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.

November data were collected 12-27 November 2019.

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

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