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IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Business activity declines for the first time in more than two-and-a-half years

KEY FINDINGS

Slight reduction in service sector activity

New orders fall for the third month running in March

Prices charged increase at the slowest pace since June 2017

March data signalled a marginal reduction in business activity across the UK service sector, which ended just over two-and-a-half years of sustained expansion. The downturn in service sector output reflected a lack of new work to replace completed projects so far in 2019. Survey respondents noted that corporate clients had opted to delay spending decisions in response to intense political uncertainty. There were also some reports that Brexit concerns and worries about the economic outlook had held back household spending.

At 48.9 in March, down from 51.3 in February, the headline seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** posted below the 50.0 no-change mark for the first time since July 2016. Aside from the brief dip seen after the EU referendum, the latest reading was the joint-weakest seen over the past decade (equalling the previous low point recorded in December 2012).

There were widespread reports that domestic political uncertainty had constrained demand in March, with clients hoping for clarity about Brexit outcomes before committing to new projects. New order inflows have deteriorated in each of the past three months, which represents the longest sequence of falling sales volumes since the first half of 2009. Export demand was particularly subdued, as highlighted by another marked drop in new work from abroad.

Reduced capacity pressure meant that service providers were able to bring down their volumes of unfinished business in March. Backlogs have now decreased for six months running,

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

which is the longest period of decline since early-2013.

The latest survey provided positive a sign in terms of staff recruitment, following the job shedding reported during the opening months of this year. Employment numbers were up slightly in March, although the rate of expansion was softer than seen on average in 2018. Service providers continued to note that shortages of labour had restricted their scope to hire additional employees.

Higher staff wages were often cited as a factor pushing up operating expenses across the service economy in March. Reports from survey respondents also pointed to rising transport costs and energy prices. However, the overall rate of input price inflation was unchanged from February's nine-month low.

Average prices charged by service providers increased only marginally, with the rate of inflation the slowest since June 2017. A number of firms suggested that subdued demand conditions had led to squeezed margins and pressure to match discounting by competitors.

Meanwhile, latest data indicated that business expectations for the year ahead remained subdued. That said, the degree of optimism edged up to its highest since last October, with some companies citing hopes of greater clarity about the path to Brexit.

IHS MARKIT UK ALL SECTOR PMI®

UK businesses signal worst quarter for output growth since Q4 2012

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.

At 50.0 in March, down from 51.4 in February, the seasonally adjusted All Sector Output Index signalled that private sector business activity stalled during the latest survey period.

A robust upturn in manufacturing production was offset by reduced levels of output at services and construction firms in March.

The average reading for the first quarter of 2019 was only slightly above the 50.0 no-change mark (50.6), which indicated the weakest quarterly performance for the UK private sector since Q4 2012.

March data pointed to a further decline in new business received by UK private sector companies. Meanwhile, employment numbers increased for the first time in three months, but the rate of workforce expansion was only marginal.

COMMENT

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

"A drop in service sector activity indicates that UK GDP contracted in March, with the economy stalling over the first quarter as a whole and at risk of sliding into a deepening downturn in coming months. Both the services and construction sectors are now in decline and manufacturing is only expanding because of emergency stockpiling ahead of Brexit."

"The underlying picture of demand is even worse than the headline numbers suggest. Service sector order books have contracted at the steepest rate since the height of the global financial crisis in 2009 so far this year, with companies reporting that Brexit uncertainty has dampened demand and led to cancelled or deferred spending, exacerbating a headwind from slower global economic growth."

"A stalling of the economy in the first quarter will therefore likely turn into a downturn in the second quarter unless demand revives suddenly which, given the recent escalation of Brexit uncertainty, seems highly improbable. Such a scenario leaves the current consensus forecast for the UK economy to grow 1.3% in 2019 looking far too optimistic. IHS Markit currently expects to see just 0.8% growth in 2019, and even this modest performance is perhaps somewhat hopeful given the recent lack of any Brexit developments."

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

"With the headline index posting just below 50 for the first time since July 2016 this month's results are a seriously worrying development. New orders fell for the third consecutive month and a drop in overall business activity for the first time in two and a half years has left the services sector facing a bleak near-term outlook."

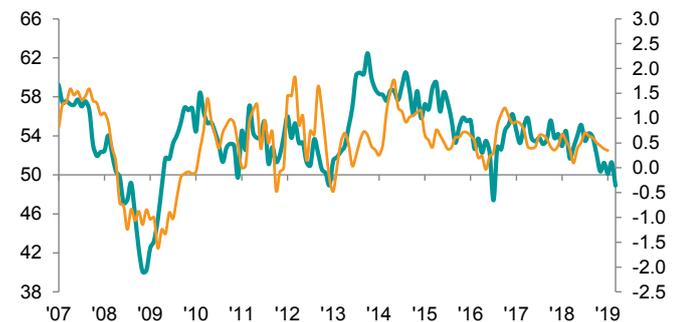
"Worried consumers fearful of rising living costs stayed away from discretionary spending and corporate clients held back on major decisions, preferring to defer big ticket projects until the Brexit deadlock is lifted."

"There was also no respite from strong inflationary pressures as the sector bore the brunt of higher salaries and fuel costs. Service providers were unable to pass these on to customers, hampered by stiff competition and the threat of discounting to retain market share, and resulting in the slowest rise in output charges since June 2017."

"A fight for survival beckons if this market stagnation becomes entrenched, the global economy remains downbeat and the Brexit cloud is not lifted. With business expectations in the sector still close to the weakest seen over the past decade, this inertia will fast become the new normal unless some major change pulls the sector out of the quicksand."

Services Business Activity Index

sa, >50 = growth since previous month



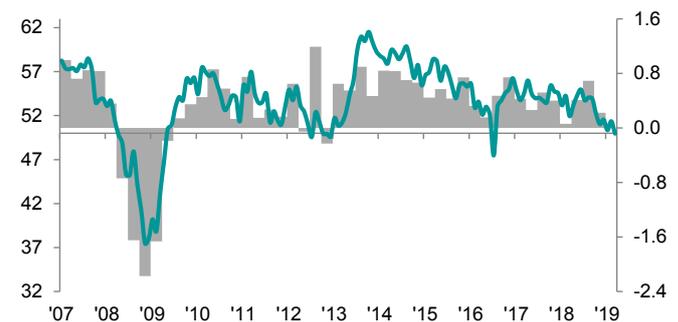
Sources: IHS Markit, ONS.

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.

March 2019 data were collected 12-27 March 2019.

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

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