

Embargoed until 0930 BST (0830 UTC) 5 June 2019

IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Service sector business activity picks up in May

KEY FINDINGS

Modest increase in business activity

New work rises for the first time since December 2018

Slowest rise in input costs for 12 months

May data pointed to another marginal rise in business activity across the UK service sector, with the rate of expansion edging up to a three-month high. The recovery in service sector output was supported by a modest rebound in new business and the fastest upturn in staffing levels since November 2018. Business optimism also improved in May, with service providers signalled that growth expectations picked up to the strongest since last September.

At 51.0 in May, up from 50.4 in April, the seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** registered above the 50.0 no-change mark for the second month running. The latest reading signalled a marginal rise in service sector output, with the rate of expansion the strongest since February.

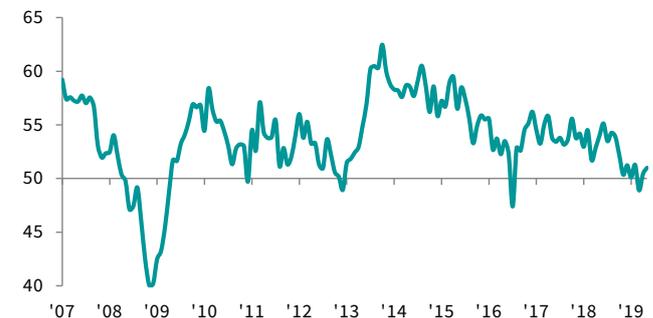
Survey respondents commented on greater intakes of new work and a slight improvement in underlying business conditions since the start of spring. However, there were again widespread reports that Brexit uncertainty had held back client demand and remained a headwind to growth.

Latest data signalled an increase in new work received by service sector firms for the first time in five months. That said, the rate of new business expansion was only marginal in May. A number of service providers noted that Brexit-related uncertainty had contributed to subdued business and consumer spending.

Staffing levels rebounded in May, with the latest survey pointing to a modest rate of job creation that was the strongest

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

for six months. Higher payroll numbers were linked to long-term business expansion plans and efforts to boost operating capacity. This contributed to another decline in backlogs of work across the service economy in May. Lower volumes of unfinished business have been recorded in each month since October 2018.

Higher staff wages and rising transport costs contributed to another strong rise in input prices. There were also reports that the weak sterling exchange rate had pushed up input costs. However, inflationary pressures eased overall in May, with the rate of cost inflation dropping to a 12-month low. At the same time, stronger demand and efforts to protect margins led to the sharpest rise in prices charged by service providers so far in 2019.

Meanwhile, service providers pointed to a sustained recovery in business optimism during May, with the degree of optimism the highest for eight months. There were reports citing cautious optimism about the outlook for customer demand, as well as confidence regarding forthcoming business expansion plans. Some firms also commented on efforts to mitigate rising staff costs through improved productivity. However, survey respondents also noted that domestic political uncertainty remained a key factor holding back their growth expectations for the year ahead.

IHS MARKIT UK ALL SECTOR PMI®

Weaker manufacturing trend weighs on UK private sector output growth

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 50.7 in May, the seasonally adjusted All Sector Output Index dropped from 50.9 in April. A sharp slowdown in manufacturing production growth and lower construction output more than offset an improvement in service sector business activity. Nonetheless, the All Sector Output Index remained above the crucial 50.0 no-change value for the second month running.

COMMENT

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

“Although service sector business activity gained a little momentum in May, with growth reaching a three-month high, the pace of expansion remained disappointingly muted and failed to offset a marked deterioration in manufacturing performance and a fall in output of the construction industry during the month. As a result, the PMI surveys collectively indicated that the UK economy remained close to stagnation midway through the second quarter as a result, registering one of the weakest performances since 2012.

“Companies reported that activity, order books and hiring were all subdued by a combination of weak demand – both in domestic and overseas markets – and Brexit-related uncertainty.

“On a brighter note, optimism about the year ahead picked up to an eight-month high, in part reflecting an easing of near-term concerns due to the extension of the Brexit deadline to 31st October. However, it is clear that many businesses remain cautious in relation to spending and investing in the uncertain political environment, which is exacerbating the impact of a wider global economic slowdown on the UK.”

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

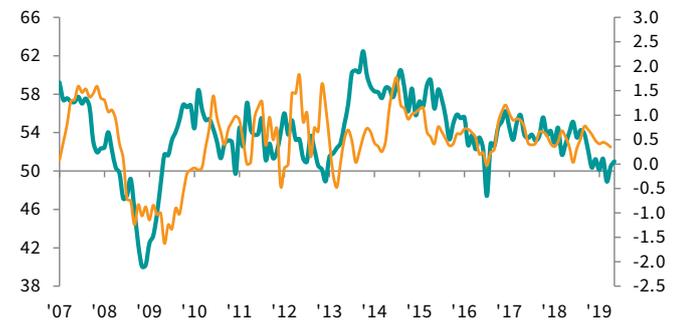
“The sector experienced the strongest, albeit still modest improvement in overall activity since February this year after a weak couple of months. However, before we bring out the bunting, a reality check is in order, as the underlying figures are still weak. Service businesses are still grappling with Brexit uncertainty, a weaker UK economy and rising operating costs.

“Input prices continue to place a heavy burden on the sector with higher salaries and rising fuel expenditure. Even the slowest input price inflation in 12 months will do little to sooth nerves as companies fought against stronger competition for the UK consumer purse. Businesses passed higher costs on to customers and some took to unfamiliar shores in search of new marketplaces.

“All in all, the sector is still suffering a potent cocktail of depressed demand and uncertainty. Even the biggest rise in optimism since September 2018 and more staff hires are unlikely to be enough for the sector to put in an average performance in the coming months let alone open the floodgates to pre-referendum rates of business expansion.”

Services Business Activity Index

sa, >50 = growth since previous month



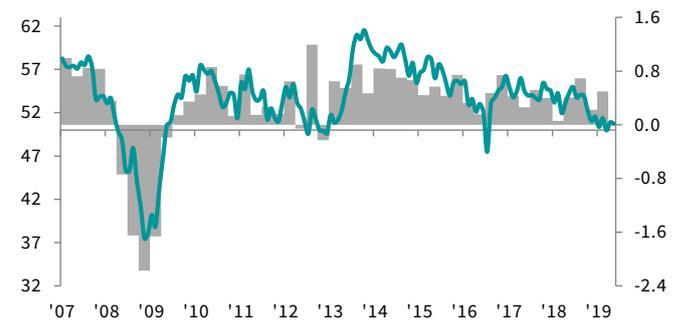
Sources: IHS Markit, ONS.

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.

May 2019 data were collected 13-29 May 2019.

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

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