

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit / CIPS UK Services PMI®

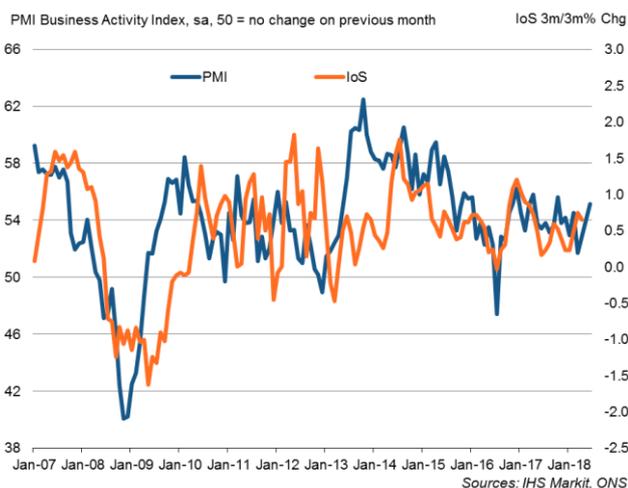
Strongest rise in service sector activity since October 2017

Key findings:

- Robust and accelerated upturn in business activity
- New work increases at fastest pace for 13 months
- Input cost inflation intensifies in June

Data collected June 12-27

IHS Markit / CIPS UK Services PMI



UK service providers indicated the fastest expansion of business activity for eight months in June, which continued the recovery in growth seen since March's snow-related disruption. The latest upturn in service sector output was supported by the strongest increase in new work since May 2017.

However, the rate of job creation remained only modest in June, reflecting difficulties recruiting additional staff and, in some cases, efforts to reduce operating expenses. Margins were again under pressure across the service economy, as

highlighted by the steepest rise in average cost burdens since last September.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** posted 55.1 in June, up from 54.0 in May, to remain above the 50.0 no-change mark for the twenty-third consecutive month. Moreover, the latest reading signalled the strongest rate of expansion since October 2017. Survey respondents commented on a general upturn in client demand, particularly for business and financial services. There were also reports that unusually favourable weather conditions had boosted consumer spending.

Mirroring the trend for business activity, latest data revealed a robust and accelerated rise in new work received by service providers. The rate of new business growth was the fastest for just over one year, which survey respondents attributed to successful product launches, new marketing initiatives and improving economic conditions. Nonetheless, there were again reports that Brexit-related uncertainty had held back business investment, particularly in relation to spending by large corporate clients.

Stronger overall demand placed pressure on operating capacity at service sector firms in June. Reflecting this, latest data pointed to the largest increase in backlogs of work since July 2015. Anecdotal evidence suggested that stronger-than-expected sales growth and difficulties recruiting

additional staff had been factors leading to rising volumes of incomplete work.

Employment numbers increased only modestly in June, with the rate of job creation holding close to the 13-month low seen in April. While survey respondents mainly commented on efforts to boost business capacity, there were also some reports that tight labour market conditions and squeezed margins had led to the non-replacement of voluntary leavers.

June data signalled a sharp and accelerated rise in average cost burdens. Service providers noted greater fuel bills and staff salaries during the latest survey period. Higher operating expenses resulted in the fastest rate of prices charged inflation since March. In some instances, service sector firms commented that high levels of capacity utilisation had provided an additional reason to pass on greater costs to new clients.

Comments

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

“Stronger growth of service sector activity adds to signs that the economy rebounded in the second quarter and opens the door for an August rate hike, especially when viewed alongside the news that inflationary pressures spiked higher.

“The survey data indicate that the economy likely grew by 0.4% in the second quarter, up from 0.2% in the opening quarter of 2018. The sharp rise in business costs, linked to surging oil prices and the need to offer higher wages, suggests inflation will also pick up again from its current rate of 2.4%.

“It remains encouraging yet also surprising that current business activity continues to show such resilience amid relatively moribund confidence regarding the year ahead outlook. The survey once again highlights how the business outlook remains clouded by widespread concerns about the impact of Brexit uncertainty in particular.

“Such a divergence between current and expected future activity stokes worries that the upturn is being fueled by short-term spending, based on hopes that uncertainty will lift, and likely masks a lack of longer-term business investment.”

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

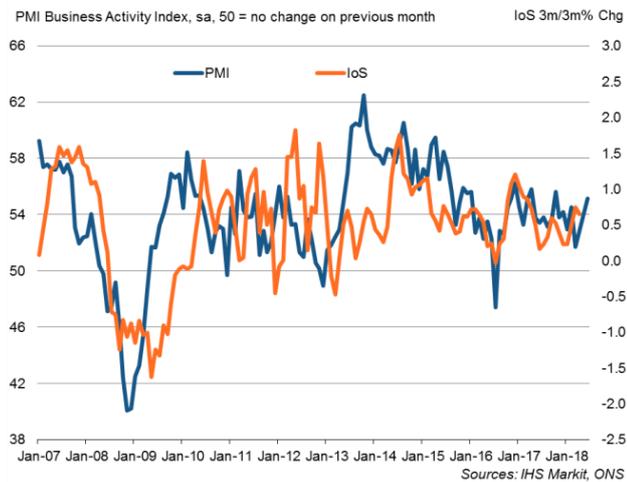
“Exceeding expectations the sector ended on a positive note at the end of the second quarter, buoyed up by the fastest rise in new orders in over a year and the strongest overall performance since last October.

“However the downside of this achievement came in the form of relentless capacity difficulties as business backlogs rose to an acute degree, not seen for around three years. Not even the minor uplift in hiring could alleviate the problem as salary pressures and the struggle to find skilled hires caused firms to hesitate to increase staff numbers further. Add increased costs for fuel, and the picture emerges of a sector experiencing the sharpest cost inflation since September last year, as well as the confidence to pass on these additional costs to their clients to maintain their margins.

“Optimism about the future remained fairly solid, possibly lifted by the effects of the warm weather. So, the sector is moving in the right direction despite the background impact of Brexit still in evidence and larger corporates holding back from placing big ticket orders.”

– Ends –

UK Services PMI New Business Index



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Note to Editors:

The July UK Services PMI will be published on Friday 3rd August 2018 at 09:30 UK (08:30 UTC).

Where appropriate, please refer to the survey as the IHS Markit/CIPS UK Services PMI®.

The IHS Markit/CIPS UK Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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