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IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Service sector growth slows in August

KEY FINDINGS

Weaker rises in business activity and new work

Margins squeezed by sharpest cost inflation since January

Growth projections drop to lowest since July 2016

UK service providers indicated that business activity growth lost momentum during August and remained subdued in comparison to the trends seen over much of the past decade. The latest survey also revealed slower increases in new work and staffing levels, which was often linked to sluggish underlying economic conditions.

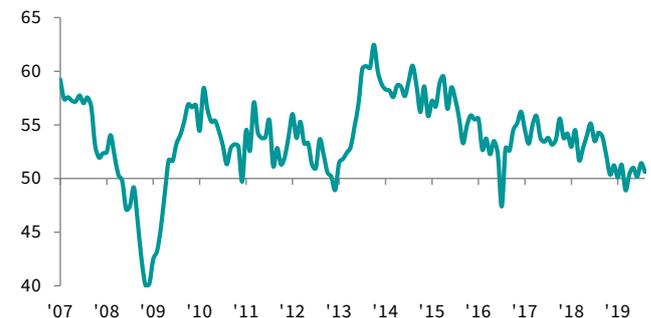
Service sector firms meanwhile indicated a sharp drop in optimism towards the business outlook. Confidence regarding activity during the next 12 months hit its lowest since July 2016, primarily reflecting concerns about the impact of domestic political uncertainty on client decision-making.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** registered 50.6 in August, down from 51.4 in July and signalling only a marginal expansion of service sector output. The index has posted above the 50.0 no-change value for five consecutive months, but the latest reading was the lowest since June and well below the long-run average (54.9).

Softer growth of service sector output largely reflected a slower rise in new business intakes during August. Reports from survey respondents cited a sustained headwind from Brexit-related uncertainty and subdued corporate spending. Moreover, new export work stalled, following a modest expansion in July. A number of firms noted a boost to overseas sales from the weak sterling exchange rate, but there were also reports that some European clients had delayed

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

committing to new projects in response to heightened political uncertainty.

Backlogs of work were reduced for the eleventh successive month, which represents the longest period of decline since 2011/12. Service providers indicated that a combination of rising employment numbers and weaker new business growth had helped to alleviate pressures on business capacity. That said, the latest rise in staffing numbers was the slowest since the current period of expansion began in May.

August data pointed to a fall in business optimism for the third month in a row. The latest survey indicated that the degree of confidence about the growth outlook across the UK service sector is now the lowest for just over three years. Survey respondents widely commented on concerns that domestic political and economic uncertainty would have a negative impact on business investment and client demand.

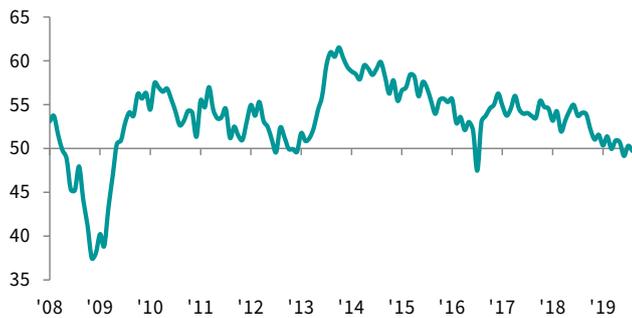
Meanwhile, the latest survey highlighted intense pressure on operating margins at service sector companies. Input price inflation accelerated to its strongest since January, driven by reports of higher staff wages, rising fuel costs and greater utility bills. However, intense competition for new work meant that prices charged by service providers increased at the slowest pace for just over three years.

IHS MARKIT UK ALL SECTOR PMI®

UK private sector output falls slightly in August

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 49.7 in August, the seasonally adjusted All Sector Output Index dropped from 50.3 in July and registered below the 50.0 no-change mark for the second time in the past three months.

The fractional decline in UK private sector output reflected a sharp drop in construction work and another fall in manufacturing production, which more than offset a marginal rise in service sector activity.

COMMENT

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

"Business activity in the service sector almost stalled in August as Brexit-related worries escalated, curbing spending by both businesses and consumers. So far this year the services economy has reported its worst performance since 2008, with worrying weakness seen across sectors such as transport, financial services, hotels and restaurants, and business-to-business services.

"After surveys indicated that both manufacturing and construction remained in deep downturns in August, the lack of any meaningful growth in the service sector raises the likelihood that the UK economy is slipping into recession. The PMI surveys are so far indicating a 0.1% contraction of GDP in the third quarter.

"While the current downturn remains only mild overall, the summer's malaise could intensify as we move into autumn. Companies have grown increasingly gloomy about the outlook due to the political situation and uncertainty surrounding Brexit, adding to downside risks in coming months. With the exception of the slump in sentiment after the 2016 referendum, August saw service sector firms at their gloomiest since the height of the global financial crisis in early 2009.

"Overall jobs growth has meanwhile also ground to a halt as worries about deteriorating order books and the gloomier outlook took their toll on firms' appetite to hire, pointing to a weakening labour market and adding to the darkening outlook."

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

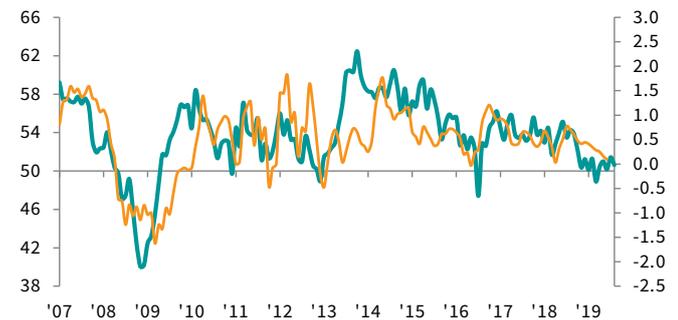
"The services sector clung on by its fingertips this month remaining just above the no-change mark as domestic and export clients abandoned spending in favour of a wait and see approach and the political environment became increasingly murky.

"There was also no respite from the increasingly lacklustre UK economy and sterling's performance did little to help as service providers reported the fastest rising costs since January for salaries and fuel which they were then unable to pass on. As competition for dwindling orders stepped up, some firms resorted to cutting prices instead to tempt customers through the doors.

"All these forces combined, was a blow to confidence, as future business expectations from service companies fell to July 2016 levels. There's only so much companies can do to absorb costs before UK consumers notice the impact to their wallets, and only so much Brexit indecision the sector can take before it is tipped into contraction."

Services Business Activity Index

sa, >50 = growth since previous month



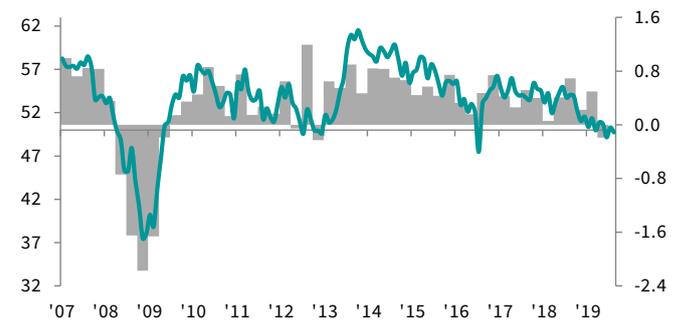
Sources: IHS Markit, ONS.

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.

August 2019 data were collected 12-28 August 2019.

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

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