

# News Release

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## IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT / CIPS UK COMPOSITE PMI®

### Rebound in new work underpins strongest growth of service sector activity since September 2018

#### KEY FINDINGS

Business activity rises for the first time in five months

Robust and accelerated increase in new orders

Growth expectations continue to improve in January

January data pointed to a solid recovery in the performance of the UK service sector, with business activity, new work and employment all expanding at a faster pace than seen at the end of 2019. Survey respondents widely commented that improved business and consumer confidence had translated into rising client demand.

At 53.9 in January, up from 50.0 in December, the seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered in expansion territory for the first time since last August. The latest reading was the highest for 16 months and above the earlier 'flash' estimate of 52.9 in January, to signal a solid increase in service sector output.

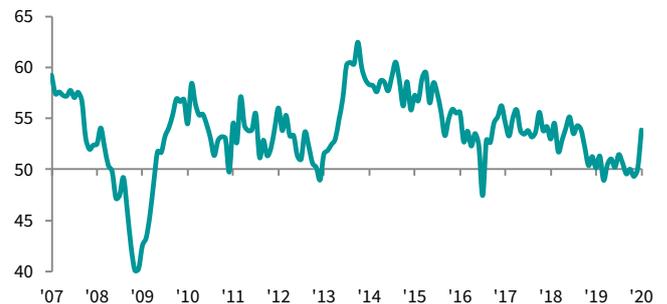
Survey respondents noted that the headwind from delayed decision-making had lifted since the general election and helped to deliver a return to business activity growth in January. This was also reflected in a robust improvement in order intakes, with the rate of new business expansion accelerating to its strongest since June 2018.

Service sector firms suggested that higher levels of consumer spending and business investment had both contributed to the overall rise in new work. Meanwhile, export sales returned to growth in January, but the rate of expansion was only marginal.

Backlogs of work decreased again at the start of the year, which was often attributed to sufficient business capacity to meet current order books. However, the latest reduction in unfinished business was the slowest recorded since October

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

2018.

A number of firms commented on the need to hire additional staff in January, driven by an expected rise in workloads and signs of an upturn in clients' willingness to spend. Higher levels of employment have now been recorded in each of the past three months and the pace of job creation reached its strongest since July 2019.

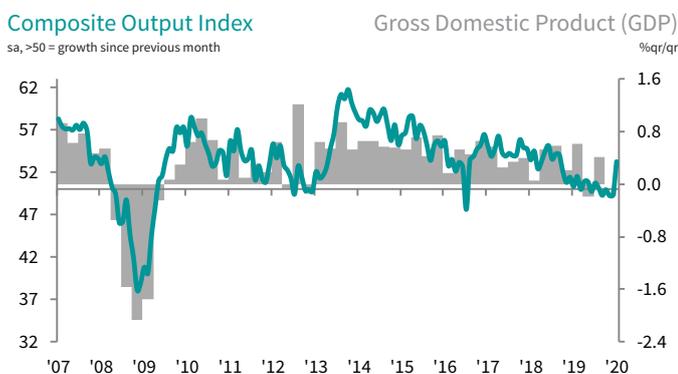
Robust demand for staff continued to push up operating expenses at the start of 2020. Service providers also cited increased fuel and transportation costs at their business units. Measured overall, the rate of input price inflation was the strongest for four months. A combination of squeezed margins and improved client demand led to the fastest rise in average prices charged by service sector firms since June 2018.

Service providers meanwhile reported an upturn in their projections for activity growth during the next 12 months. Latest data signalled that the degree of positive sentiment reached its highest level since May 2015.

The recovery in confidence was supported by signs of a rebound in domestic economic conditions since the general election, according to survey respondents. Some firms noted that rising business optimism remained contingent upon a more stable political backdrop and receding Brexit uncertainty, which had already helped to boost client spending since the end of last year.

## IHS MARKIT UK COMPOSITE PMI®

## Private sector growth hits 16-month high, driven by service activity



Sources: IHS Markit, ONS.

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 53.3 in January, up from 49.3 in December, the seasonally adjusted IHS Markit/CIPS UK Composite Output Index posted above the neutral 50.0 mark for the first time since last August. The latest reading signalled a faster pace of growth than the earlier 'flash' estimate (52.4 in January) and was the highest for 16 months.

The solid increase in private sector output was driven by a return to growth in the service economy (index at 53.9) and supported by a broad stabilisation in manufacturing production at the start of 2020 (index at 50.1).

## COMMENT

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

*"January's PMI surveys give a clear signal that the UK economy has picked up since the general election, as a diminishing headwind from political uncertainty translated into rising business and consumer spending. We maintain our nowcast of UK GDP rising by approximately 0.2% in the first quarter of 2020, which represents an improvement on the sluggish conditions seen at the end of last year."*

*"A solid return to growth in the service sector was the main factor behind the recovery in the UK economy, with survey respondents commenting that a rebound in sales enquiries had quickly translated into rising workloads so far this year."*

*"Signs of greater willingness to spend and renewed positivity about the domestic economic outlook has helped lift service providers' growth projections to the highest for just under five years. However, this sub-index was the only measure in the final UK Services PMI dataset to drop since the earlier 'flash' estimate, which may suggest that business expectations tailed off towards the end of the month."*

*"With the vast majority of PMI survey data collected prior to 23rd January, we've yet to see any overall impact on business conditions from the Wuhan coronavirus outbreak, but disruptions to global supply chains and international travel could present risks to the UK economy and key trading partners in the coming months."*

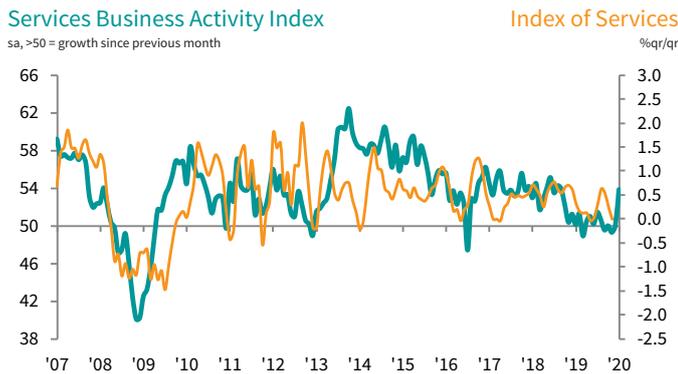
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

*"The UK service sector leapt into action in the New Year with a welcome return to stronger business activity and an optimism not seen for almost five years. New work flowed in at a surprisingly sharp rate as businesses started to invest and previously uncertain consumers parted with their cash. Orders held back by political uncertainty were uncorked at the fastest rate for around a year and a half."*

*"This renewed pipeline of work was powered primarily by a rise in domestic activity as export business remained fairly hesitant with only modest improvement. European orders in particular were slow and clients cited continuing Brexit-related uncertainty for holding them back."*

*"This uplift in success also created some business pressures as the rush to increase staffing levels resulted in demands for higher salaries and input prices rose at the sharpest pace since last September. The flip side of this coin meant that businesses and consumers were also paying more for services as firms felt more comfortable in raising their own prices and at the highest rate since June 2018."*

*"All in all a positive start last month, and if political stability is maintained throughout the year with political promises becoming reality, then 2020 could become a stellar year for service companies."*



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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 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.

January data were collected 13-29 January 2020.

The final United Kingdom Services PMI follows on from the flash estimate which is released around a week earlier and is typically based on approximately 85%-90% of total PMI survey responses each month. The January 2020 flash was based on 83% of the replies used in the final data.

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

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