

## News Release

**Purchasing Managers' Index<sup>®</sup>**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL 0930 (London) / 0830 (UTC) August 3<sup>rd</sup> 2018**

### IHS Markit / CIPS UK Services PMI<sup>®</sup>

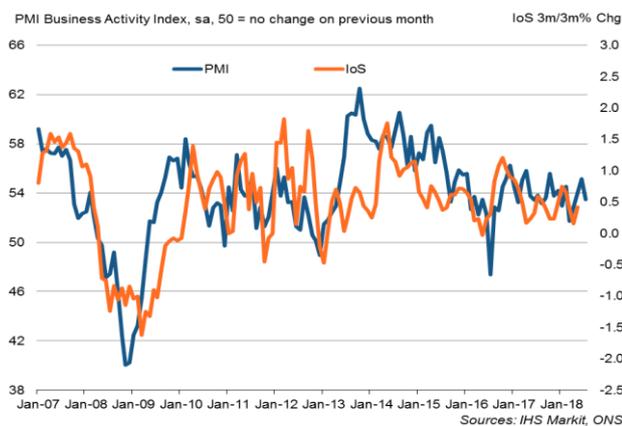
#### Service sector growth slips to three-month low

##### Key findings:

- Business activity rises at slowest pace since April
- Rate of job creation weakest since August 2016
- Inflationary pressures moderate in July

Data collected July 12-27

##### IHS Markit / CIPS UK Services PMI



July data highlighted a disappointing start to the third quarter for the UK service sector, with business activity and incoming new work rising at softer rates than in June. There were also signs that difficulties filling staff vacancies persisted in the service economy, which contributed to the weakest rise in payroll numbers since August 2016.

Higher staff wages and rising fuel bills resulted in another strong increase in average cost burdens in July. However, the rate of input price inflation eased since June, which contributed to a softer increase in average prices charged by service sector companies.

At 53.5 in July, down from 55.1 in June, the seasonally adjusted **IHS Markit/CIPS UK Services PMI<sup>®</sup> Business Activity Index** signalled the slowest expansion of service sector output since April. Nonetheless, the latest reading was comfortably above the 50.0 no-change mark and pointed to a solid upturn in business activity.

Some survey respondents noted that increased client demand and the unusually dry summer had a positive impact on their sales (especially firms operating in tourism-related industries). However, there were also reports that the hot weather and football World Cup had disrupted business operations and weighed on customer footfall.

The latest survey marked two years of sustained new business growth across the service sector economy. However, the rate of expansion eased since June and was softer than seen on average over this period. A number of survey respondents noted that delayed decision-making and greater risk aversion among clients in response to Brexit uncertainty had held back new business growth in July.

Backlogs of work increased only marginally in July, which mirrored the trend seen on average in 2018 so far. Anecdotal evidence suggested that efforts to improve productivity had helped to limit pressures on operating capacity. Where a rise in unfinished work was reported, this was generally linked to a lack of suitably skilled staff to replace leavers.

Employment growth eased to its weakest for almost two years in July. There were mixed reports about the reason for slower job creation; most firms cited

tight labour market conditions, but some service providers commented on long-term plans to automate business processes and maintain service levels with lower headcounts.

On the inflation front, latest data indicated that input cost pressures eased from the nine-month high seen in June, but remained strong in a historical context. Average prices charged by service providers increased at a solid pace, although the latest rise was weaker than the trend seen so far in 2018. Some firms noted that intense competition for new work had restricted their ability to pass on higher costs to clients.

## Comments

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

*“The service sector moved back into the slow lane in July as business activity growth lost momentum for the first time since the start of spring. While it’s difficult to quantify the precise impact of the recent heat wave on overall business performance, some survey respondents reported that a combination of hot weather and the World Cup had weighed on consumer footfall. These short-term disruptions and a general slowdown in new business growth appear to have offset the boost to tourism-related activity from the extended dry period in July.”*

*“Looking at demand fundamentals, service providers commented that Brexit uncertainty had held back new project wins, reflecting risk aversion and a wait-and-see approach to investment spending among international clients.”*

*“Tight labour market conditions and rising wage pressures are also a key challenge for service sector companies, which contributed to the slowest pace of job creation since August 2016. Survey respondents are increasingly citing worries about the availability of suitably skilled candidates to fill vacancies, although this is also helping drive efforts to boost productivity across the service sector.”*

*“Meanwhile, input cost inflation eased back from June’s nine-month high, which helped to moderate the rate at which service sector firms increased their own charges. The combination of slower output growth and softer price pressures during July will reinforce expectations that any further Bank of England rate rises will be both gradual and limited.”*

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

*“The UK services sector experienced a few bumps in the road in July as consumer and client confidence remained persistently half-hearted, and pessimism around the performance of the UK economy along with Brexit concerns lingered.”*

*“Levels of new orders and jobs growth were affected along with business optimism which remained below the long-term average even with July’s three-month improvement.”*

*“Several factors came into play to impact this level of job creation which was the weakest since August 2016. Respondents highlighted the lack of skills availability and higher salary demands contributing to higher operating costs. Growth opportunities were also obstructed with higher fuel prices, but strong competition mostly prevented a parallel rise in prices charged to consumers.”*

*“The sector appears to be bumping along a seesaw path with ups and downs, but with the most disappointing performance since April no one can hide the underlying dangers that still remain in the biggest contributor to the UK economy.”*

– Ends –

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### Note to Editors:

The August UK Services PMI will be published on Wednesday 5<sup>th</sup> September 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](mailto:economics@ihsmarkit.com).

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#### About CIPS

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