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IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Service sector returns to growth in April, but subdued demand continues

KEY FINDINGS

Marginal rise in service sector business activity

New work dips for the fourth month in a row

Input cost inflation accelerates to its highest since January

UK service providers recorded a rise in business activity during April, thereby signalling a return to growth following the marginal decline seen during the previous month. However, the rate of expansion was only slight, and another fall in new work highlighted that subdued underlying demand conditions persisted. Employment numbers were broadly unchanged during the latest survey period, with companies reporting that higher wage costs and weaker sales had led to cautious staff hiring policies.

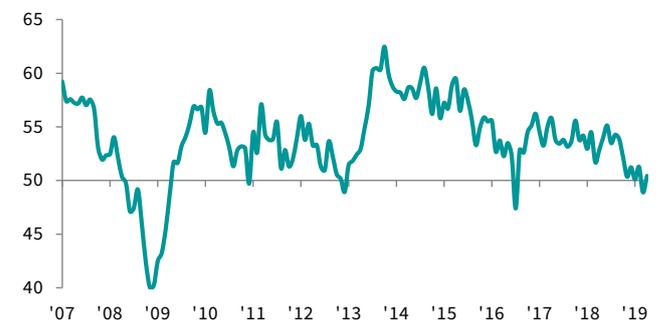
The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** posted 50.4 in April, up from March's 32-month low of 48.9. Despite a change of direction for service sector activity, the rate of expansion was much softer than on average in 2018. Survey respondents continued to report that Brexit uncertainty and concerns about the UK economic outlook had encouraged clients to postpone spending decisions.

April data indicated a fall in new business for the fourth consecutive month. Although service providers pointed to only a marginal reduction in sales, the current period of decline is the longest since 2009. The latest drop in new work was mainly linked to subdued domestic consumer and business spending.

New sales to overseas customers also softened in April, which continued the downward trend recorded since September 2018. A number of firms noted that Brexit uncertainty had a negative influence on demand from European clients. Where

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

a rise in new export work was reported, service providers often commented on greater sales to US markets.

The latest survey suggested a lack of pressure on business capacity across the service economy, as highlighted by a fall in backlogs of work for the seventh month in a row. Efforts to align capacity with softer demand conditions continued to hold back job creation in April. Employment was broadly unchanged since March, and the recent phase of staff hiring has been the weakest since the end of 2012.

Despite subdued demand for staff and lower volumes of new work, latest data revealed a rebound in optimism about the year ahead outlook for business activity. Service providers signalled the greatest degree of positive sentiment since September 2018. Survey respondents mainly cited more favourable projections for their sales and marketing initiatives, linked to product launches and the recent progress of new business opportunities.

Meanwhile, there were signs of pressure on margins amid a sharp increase in average cost burdens during April. The rate of input price inflation accelerated to a three-month high, with greater operating expenses linked to fuel costs and a rise in the National Living Wage. Prices charged by service providers increased only moderately, with the rate of inflation close to March's 21-month low.

IHS MARKIT UK ALL SECTOR PMI®

Marginal rise in UK private sector output

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 50.9 in April, up from 50.0 in March, the seasonally adjusted All Sector Output Index revealed a return to growth for private sector business activity.

Manufacturing was the strongest performing sector in April, while services and construction posted only marginal rates of expansion.

COMMENT

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

“A near-stagnant service sector in April means that all three major parts of the economy were struggling to grow in April. Although the service sector joined construction in reporting a return to growth, in both cases the expansions were only marginal. An upturn in manufacturing is meanwhile showing signs of waning, as a temporary boost from Brexit-related stockpiling faded in April.

“The resulting rise in business activity signalled collectively by April’s PMI surveys was only marginal, suggesting the economy remained more or less stalled at the start of the second quarter.

“The disappointing start to the second quarter follows a first quarter in which the average PMI reading was the lowest since late 2012 and indicative of the economy flat-lining.

“Although business grew more optimistic about the outlook, linked in part to more favourable prospects amid the reduced threat of an imminent ‘no deal’ Brexit, forward-looking indicators such as order books and backlogs of work hint at a near-term sustained weakness of demand, which has already filtered through to a reduction of employment.

“Both GDP and labour market numbers could therefore disappoint in coming months, as the weakness of the survey data feeds through to official data.”

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

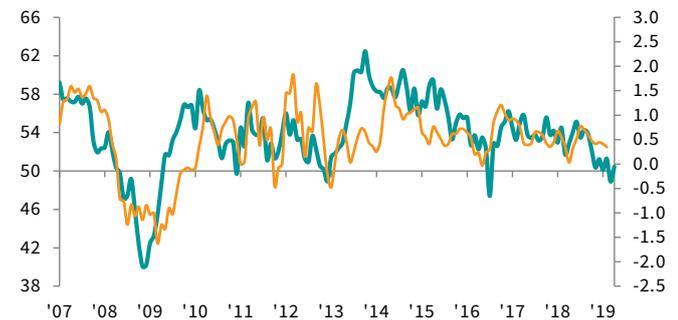
“Though elements of stability returned this month with a small improvement in the sector’s fortunes, both consumers and corporate clients continued to be apathetic about spending on services with a fall in new orders for a fourth consecutive month. Sales from overseas customers also declined, continuing the trend seen since September 2018, so there was little sign of a boost to business from outside the UK.

“This is more bad news for a sector worn out by rising costs for fuel and salaries with inflation at the highest level since January. Firms anxious about remaining competitive in this shrinking market had limited scope in passing on costs to their customers so absorbed much of the hit themselves. Offsetting this financial burden, they placed tighter controls over company purses including recruitment with the third fall in job numbers in four months. Though this was more about not replacing staff than actively shedding jobs, this stagnation in job creation is a worrying development.

“One positive note appears to be the rise in optimism about the future possibly related to the postponement of the Brexit deadline. Whether this is triumph of hope over experience, or grim tenacity, the sector has a poor environment of support as the Brexit fog continues to envelope the UK economy. It is worth pointing out that this present period of deteriorating new business volumes is the longest since the last recession in 2009.”

Services Business Activity Index

sa, >50 = growth since previous month



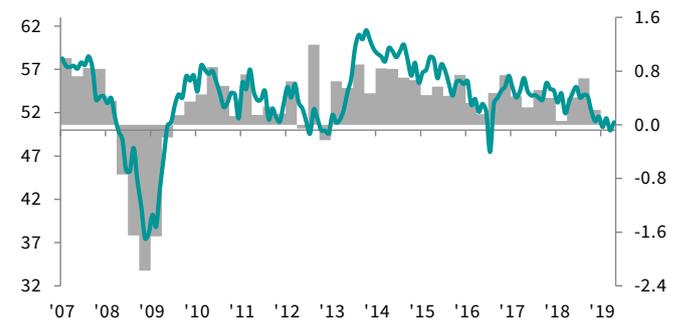
Sources: IHS Markit, ONS.

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.

April 2019 data were collected 10-26 April 2019.

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

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