

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) September 5th 2017

IHS Markit / CIPS UK Services PMI[®]

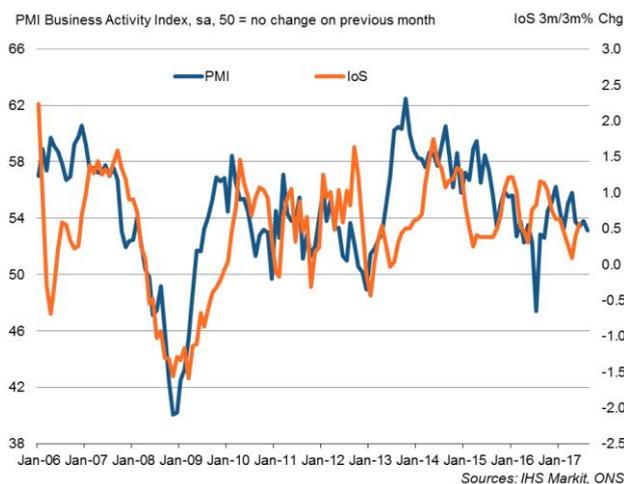
Service sector growth slips to 11-month low

Key findings:

- Weakest rise in business activity since September 2016
- Input cost pressures pick up in August
- Job creation strengthens to 19-month high

Data collected August 11-29

IHS Markit / CIPS UK Services PMI



UK service providers recorded solid rises in business activity and incoming new work during August, but rates of growth eased since July and remained notably weaker than seen on average in the first half of 2017.

The latest survey also pointed to stronger cost pressures across the service sector, with the rate of input price inflation the fastest since February. Higher staff costs, fuel bills and prices for imported items contributed to another solid increase in average prices charged by service providers in August.

At 53.2 in August, the headline seasonally adjusted **IHS Markit/CIPS Services PMI[®] Business Activity Index** registered above the 50.0 no-change value for the thirteenth consecutive month. However, the index dropped from 53.8 in July and signalled the slowest pace of business activity expansion since September 2016.

Survey respondents noted that subdued client demand and heightened uncertainty about the domestic economic outlook had weighed on business activity growth in August. Reflecting this, new order volumes increased at the second-slowest rate since September 2016. A number of service providers commented that fragile business confidence had led to delayed spending decisions among clients.

Despite a slowdown in new business growth in August, the latest survey data highlighted renewed pressures on operating capacity across the service economy. This was highlighted by the steepest rise in backlogs of work since July 2015. Service providers responded to rising workloads and pressures on operating capacity by recruiting additional staff in August. The rate of job creation accelerated for the third month running to its strongest since the start of 2016.

August data pointed to a sharp increase in average cost burdens at service sector companies. The rate of input price inflation picked up further from May's recent low and was the fastest for six months. Some firms also suggested that recent exchange rate depreciation against the euro would likely drive up costs in the near-term. Higher operating expenses placed pressure on firms to increase their

average prices charged in August. The latest rise in service sector charges was the fastest since April.

Meanwhile, latest data revealed that service providers' business confidence edged up to a three-month high, but remained subdued in comparison to those seen prior to the EU referendum last summer. Companies expecting a rise in business activity over the next 12 months generally cited organic growth, resilient client spending and new product launches. However, there were again reports that Brexit-related uncertainty continued to undermine business confidence.

Comments

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

"A summer slowdown was evident in the economy as the August PMI surveys showed slower rates of expansion in services and construction offsetting an improved performance in the manufacturing sector. The resulting overall expansion was the weakest for six months.

"Although the latest two months' data put the economy on course for another 0.3% expansion in the third quarter, momentum is being gradually lost.

"Robust manufacturing growth means the economy may be rebalancing towards goods production, aided by the weaker pound, but the slowdowns in services and construction send warning signals about the health of the economy.

"In services, the weaker growth trend was most evident in consumer-facing sectors such as hotels & restaurants and other personal services, which includes businesses such as cinemas, gyms and hairdressers.

"The overall level of optimism also remained subdued, mainly linked to Brexit uncertainty, close to levels that have previously been indicative of the economy stalling or even contracting.

"While a rise in price pressures will add to worries that inflation could pick up to perhaps 3% again in coming months, the overall level of the PMI remains more consistent with policymakers erring towards stimulus rather than hiking interest rates, suggesting the doves will continue to outnumber the hawks."

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

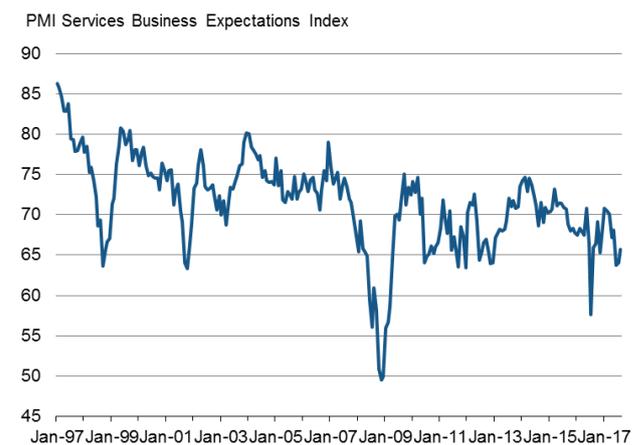
"A slowdown month as the services sector comes off the boil, challenged by a general unwillingness to spend and invest, alongside fragility in confidence amongst consumers as a result of Brexit.

"Service providers negotiated their way through more uncertain times as the weak pound gave suppliers a reason to hike their charges. With tighter market conditions and increased operating expenses, businesses had to raise their own prices to customers, reducing their pool of willing buyers.

"Going against the grain, the rate of new job hires rose to their highest level since the beginning of 2016, in an attempt to relieve capacity issues and to counteract the biggest increase in levels of backlogs since July 2015. Optimism edged up from its recent low point.

"In all, a month of two halves where some businesses were willing to launch new products and manage price increases, set against those paralysed by economic hesitancy."

UK Services Business Expectations



Source: IHS Markit

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Note to Editors:

The September UK Services PMI will be published on Wednesday 4th October 2017 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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