

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London / UTC) March 5th 2018

IHS Markit / CIPS UK Services PMI[®]

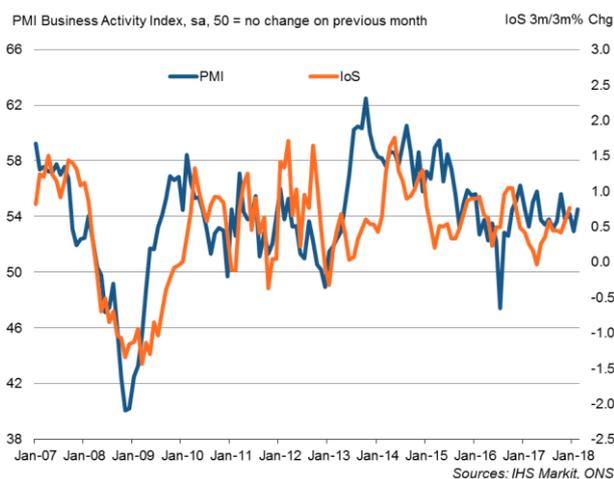
Service sector growth picks up in February

Key findings:

- Business activity rises at fastest pace for four months
- Strongest upturn in new work since May 2017
- Input cost inflation lowest for a year-and-a-half

Data collected February 12-26

IHS Markit / CIPS UK Services PMI



UK service providers experienced a modest rebound in business activity growth during February, supported by the fastest rise in new work since May 2017. The latest survey also pointed to stronger job creation across the service economy, with payroll numbers rising to the greatest extent for five months as firms sought to boost operating capacity in response to improved order books.

At the same time, cost pressures moderated to their lowest for a year-and-a-half, which contributed to a further slowdown in prices charged inflation. A number of survey respondents commented on

efforts to stimulate demand through competitive pricing strategies and new promotional initiatives.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI[®] Business Activity Index** registered 54.5 in February, up from 53.0 in January, to signal the strongest rate of service sector output growth for four months. Higher levels of business activity were attributed to the resilient economic backdrop and an associated upturn in new work.

Growth of incoming new business picked up for the second month running and reached its strongest since May 2017. Service providers commented on particularly marked business-to-business sales growth in February, helped by the improving global economic backdrop. However, there were also reports that stretched household budgets remained a factor holding back domestic consumer demand.

The solid upturn in new work was accompanied by a further increase in incomplete business across the service sector in February. Although only modest, the pace of backlog accumulation edged up to its fastest since August 2017. Anecdotal evidence suggested that difficulties recruiting suitably skilled staff were among the reasons for pressure on operating capacity.

Employment numbers were expanded to the largest degree since last September, driven by stronger-than-expected sales growth and subsequent efforts to expand business capacity. Service providers nonetheless continued to cite concerns about tight

labour market conditions and reduced candidate availability to fill vacancies.

Despite pressure on operating expenses from higher staff salaries and transport costs, latest data indicated a moderation in input price inflation to its lowest since August 2016. Some firms noted that exchange-rate driven cost pressures had stabilised in recent months. Meanwhile, prices charged by service sector companies increased at the weakest rate for six months.

Looking ahead, service providers signalled that confidence towards the year-ahead business outlook eased since January. However, the level of optimism remained higher than at any time seen in the second half of 2017.

Comments

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

“The service sector overtook manufacturing as the fastest growing part of the economy for only the second time since the referendum in February, thanks to the combination of the largest rise in services activity for four months and waning growth of factory output.

“With the construction sector also pulling out of the stagnation seen in January, the economy as a whole picked up some momentum again in February, despite the slowing in manufacturing. The PMI surveys so far collectively point to the economy growing by nearly 0.4% in the first quarter to indicate that a resiliently steady pace of expansion has been maintained.

“Selling price inflation cooled to a six-month low, adding further evidence to suggest that price pressures peaked late last year, but remain stubbornly elevated. The surveys brought further signs that shortages, notably of materials and labour are pushing up prices.

“With Bank of England policymakers sounding hawkish even following the January fall in the PMI to a one-and-a-half year low, the February upturn in the surveys surely leaves a May rate hike very much in play. The Bank seems keen to normalise interest rates even if output growth is below levels it would usually like to see when tightening policy.”

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

“A complex array of forces were at play in the UK services sector last month resulting in the fastest rise in new orders since May 2017 but also hindered by continued consumer caution over spending.

“In fact it was business customers that had the confidence to forge ahead with orders, as consumers hesitated over concerns about possible rate rises impacting on their household budgets and what the future could hold.

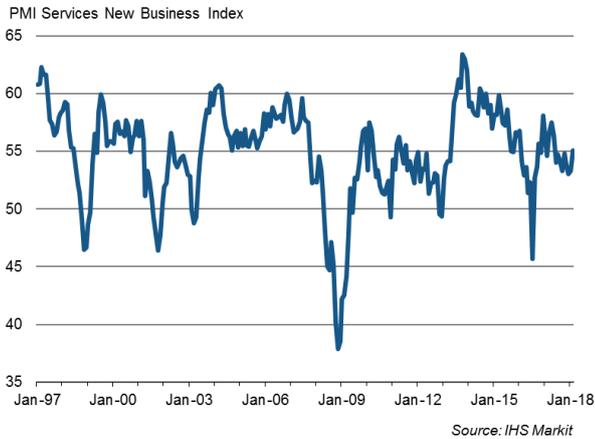
“But it was encouraging to see job seekers were the winners as hiring levels continued to rise and at the fastest rate since September 2017. Firms were eager to reduce accumulated backlogs in part created by difficulties in finding talented, skilled staff and in a period of exceptionally low unemployment.

“Although the sector had higher wage and fuel costs to contend with, February saw the slowest rise in input prices since August 2016. However, firms were still under pressure to increase investment and marketing efforts to remain competitive, and keep a tight rein on prices to their customers with the softest rise in six months.

“Though overall activity increased, it was confidence that took a dip and still remained below the long-term average. But with new order growth rising for the second month in a row, the sector is heading in the right direction unless unseasonal headwinds stop the sector in its tracks.”

– Ends –

UK Services PMI New Business Index



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Note to Editors:

The March UK Services PMI will be published on Thursday 5th April 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.

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