

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit / CIPS UK Services PMI®

UK services economy rebounds in August

Key findings:

- Services output and new business both rise following declines in July
- Expectations improve from July's 89-month low
- Input prices rise at sharpest rate since November 2013

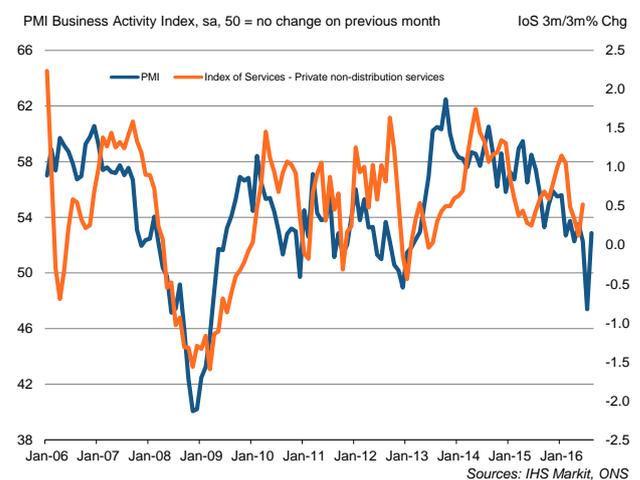
Data collected August 12-26

The UK service sector returned to growth in August, according to PMI® survey data from IHS Markit and CIPS. Following abrupt contractions in output and new business in July linked to disruption related to the outcome of the EU referendum, the latest data signalled a return to growth as companies reported that uncertainty had abated somewhat. Moreover, the forward-looking business expectations index recovered most of the ground lost in July when confidence took a knock from the Brexit vote amid political and economic uncertainty, albeit remaining weak by historical standards. The latest data also signalled rising inflationary pressure linked to the weak pound.

The survey's headline figure is the seasonally adjusted Markit/CIPS UK Services Business Activity Index, a single-figure measure designed to track changes in total UK services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

The Business Activity Index rebounded to 52.9 in August, from 47.4 in July, signalling a rise in UK services output. The month-on-month gain in the

Markit / CIPS UK Services PMI



index, at 5.5 points, was the largest observed over the 20-year survey history, following a record drop of 4.9 points in July. The rate of expansion in the latest period was the fastest since May, but weaker than the long-run survey average.

The renewed expansion of total activity was supported by a resumption in growth of new business in August. New work rose at the fastest pace in four months, having previously fallen at the strongest rate since March 2009 in July. Companies linked greater demand to new clients, higher export business linked to the weak pound, higher domestic tourism and returning confidence following initial disruption related to the Brexit vote.

New business growth was weaker than the long-run survey trend, but sufficiently strong to

generate a rise in outstanding work at service providers for the first time in five months.

Job creation in the service sector resumed in August following a pause in July. That said, the rate of workforce growth was weak.

Service sector confidence returned to its pre-referendum level in August, having spiked lower in July due to uncertainty generated by the Brexit vote. Firms linked positive output expectations over the next 12 months to export opportunities, reduced uncertainty, stable markets, product launches, expansion plans and a recovery in the energy sector. The overall strength of sentiment nevertheless remained relatively subdued amid reports of ongoing uncertainty related to Brexit.

Input price inflation accelerated to a 33-month record in August, linked to the weak pound and rising fuel and labour costs. Subsequently, service providers raised their own prices at the sharpest rate since January 2014.

Comments

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

“A record rise in the services PMI adds to the encouraging news seen in the manufacturing and construction sectors in August to suggest that an imminent recession will be avoided.

“The three PMI surveys point to a stagnation of the economy so far in the third quarter, meaning much hinges on the September data to see whether the economy contracts or ekes out modest growth.

“It remains too early to say whether August’s upturn is a dead cat bounce or the start of a sustained post-shock recovery, but there’s plenty of anecdotal evidence to indicate that the initial shock of the June vote has begun to dissipate. Many companies are seeing business return to normal either simply by customer confidence rising or a stoic determination to “Buck Brexit” and carry on regardless.

“Uncertainty has certainly eased considerably, helped by the swift settling-in of a new government and central bank stimulus. However, although improving on July’s seven-year low, business confidence is still at one of its lowest levels seen over the past four years. Many companies remain worried about the outlook and how the economy will

fare in the event of Brexit, suggesting that political and economic uncertainty is likely to prevail in coming months, subduing growth.”

David Noble, Group Chief Executive Officer at the Chartered Institute of Procurement & Supply:

“The sector’s inertia lifted in August with a rise in both new orders and overall activity after the lull following the EU referendum. Whereas in July new work fell at the fastest rate since March 2009, August saw record month-on-month increases in both the activity and new business indices.

“Staffing levels rose marginally, after July’s stagnation, where 14% of companies increased employment levels to meet the needs of long-term investments, new business and new product launches. The weaker pound was a catalyst for more companies to raise their charges, resulting in the strongest output price inflation since January 2014. Increased costs were also attributed to new demands for services and pressures on labour costs from the Living Wage.

“Business optimism ricocheted back to pre-Brexit levels, reassured by market stability and clients bringing dormant projects back to life. Whether this steadiness continues will largely depend on the sector’s reaction to the UK Government’s approach to the Brexit negotiations as the sector keeps one eye on business as usual and one eye on possible obstacles ahead.”

-Ends-

UK Services Business Expectations



The September UK Services PMI will be published on Wednesday October 5 2016 at 09:30 UK / 08:30 UTC

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Note to Editors:

Where appropriate, please refer to the survey as the Markit/CIPS UK Services PMI®.

The 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.

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 Markit. Please contact economics@ihsmarkit.com.

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About CIPS

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