

## News Release

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

## UK services growth weakest in over three years in April

**Data collected 12-27 April**

#### Key Points:

- Business Activity Index hits 38-month low
- Slowest rise in employment since August 2013
- Input price inflation at 27-month high

#### Summary:

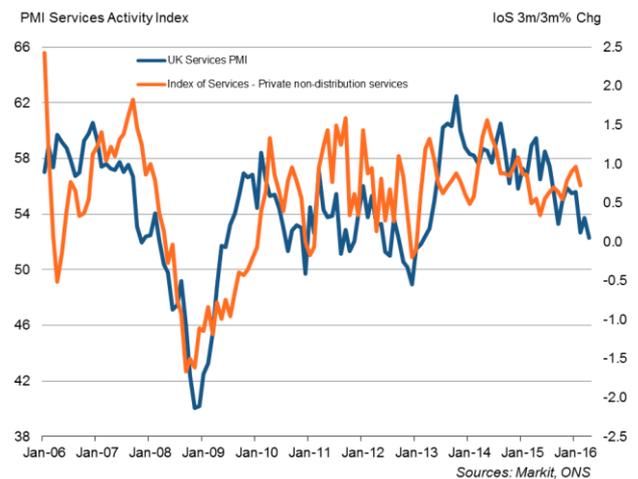
UK service sector growth weakened in April, according to the latest *PMI*® survey data from Markit and CIPS. The rate of expansion slowed for the third time in the past five months, to the weakest since February 2013. Although new business growth picked up slightly, it remained relatively subdued and business optimism was the joint-weakest in over three years.

Firms commented on prevailing economic uncertainty, partly linked to the forthcoming referendum on EU membership. The latest survey data also signalled the strongest upward pressure on input prices since January 2014, linked to the introduction of the national living wage.

The headline figure for the survey 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 fell from 53.7 to 52.3 in April, the lowest since February 2013 and indicative of only a muted rise in services output. In comparison, the index has averaged 55.2 since its inception in July 1996. That said, the current 40-month sequence of uninterrupted growth is the second-longest registered over the survey history.

#### Services growth remains sluggish



A further rise in new business volumes was indicated in April, helping to support overall growth of activity. The rate of expansion strengthened slightly from March, but was nonetheless the second-weakest in over three years. There was evidence from the latest survey that the forthcoming EU membership referendum had added to prevailing economic uncertainty, with some firms mentioning the delayed placing of new contracts by clients.

The overall level of outstanding business held by service sector companies fell for the second time in 2016 so far, reflecting the ongoing relatively weak growth in new business. The rate of decline was only marginal, however.

Service sector employment continued to expand in April, with the rate of job creation remaining above the long-run survey average. That said, the pace of growth was the weakest in over two-and-a-half years, underlining the overall subdued nature of business conditions in the sector.

The 12-month outlook for services activity according to survey respondents remained relatively subdued in April, with sentiment the joint-weakest in over three years as firms continued to report an undercurrent of market uncertainty.

The introduction of the national living wage was reported as a key factor driving up input costs in April. The rate of inflation hit a 27-month high, with cost pressures also linked by firms to rising fuel prices and the impact of the weaker pound. That said, input cost inflation remained below the long-run survey average, and firms raised their own prices at a subdued pace.

### Comment

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

*“The slowdown in the service sector follows similar weakness in manufacturing and construction to make a triple-whammy of disappointing news on the health of the economy at the start of the second quarter.*

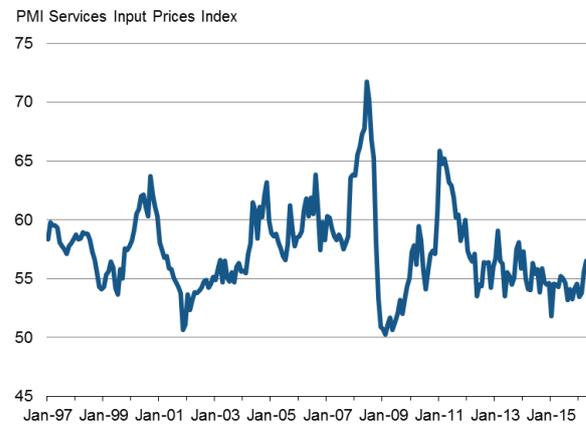
*“The PMI surveys are collectively indicating a near-stalling of economic growth, down from 0.4% in the first quarter to just 0.1% in April.*

*“Some of the slowdown may be attributable to the early timing of Easter, though April also saw an increase in the number of companies reporting that uncertainty about the EU referendum caused customers to hold back on purchases, exacerbating already-weak demand linked to global growth jitters and ongoing government spending cuts.*

*“The rate of job creation across the three sectors has meanwhile slowed to the weakest for two-and-a-half years, attributed to the combination of weakened demand, the uncertain outlook and the rise in costs associated with the introduction of the living wage.*

*“The deterioration in April pushes the surveys into territory which has in the past seen the Bank of England start to worry about the need to revive growth, either by cutting interest rates or through non-standard measures such as QE.”*

### Input price inflation hits 27-month high



Source: Markit

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

*“The UK’s services sector is stuck between a rock and a hard place. Mounting global economic uncertainty at the top of the supply chain and the reality of the new National Living Wage at the bottom mean that firms are feeling the pinch from both ends. As a result, the sector credited with being the main driver of the UK’s economic fortunes appears to be slowing down.*

*“The looming EU referendum has had a profound effect on the sector, keeping prices relatively stagnant and delaying new orders. At the other end of the supply chain, the National Living Wage has compounded cost increases, resulting in the overall rate of input price inflation hitting a 27-month high. Together, these factors have squeezed margins while fewer than half of businesses expect to grow over the next twelve months.*

*“The EU referendum and introduction of the National Living Wage are unique moments in time for the UK services sector, and indeed the wider economy. The question lingers as to how deep an impact they will both have on the sector in the long term.”*

**The May Report on Services will be published on Friday June 3 2016 at 09:30 UK / 08:30 UTC**

**-Ends-**

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### Notes to Editors:

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

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@markit.com](mailto:economics@markit.com).

### About Markit

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### About PMI

*Purchasing Managers' Index*<sup>®</sup> (PMI<sup>®</sup>) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics).

### About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues. CIPS has a global community of 118,000 in 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability. [www.cips.org](http://www.cips.org)

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