News Release

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

UK service sector ends 2016 with strong expansion

Key findings:

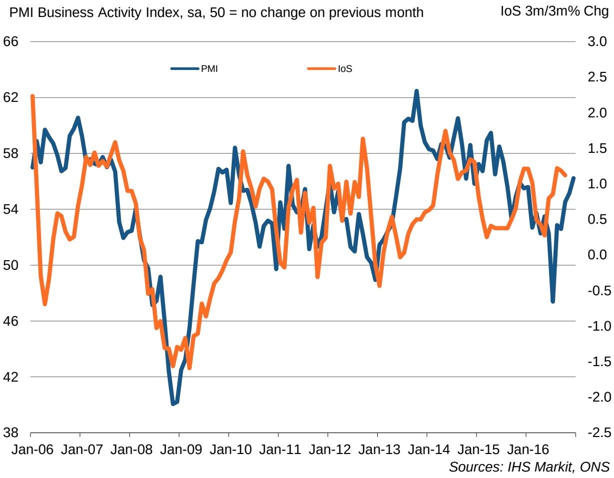
- Growth accelerates for third straight month to 17-month high
- New business increases at fastest rate since July 2015
- Output price inflation hits 68-month record

Data collected December 6-20

The final batch of UK PMI® survey data for 2016 from IHS Markit and CIPS signalled that the dominant UK service sector expanded sharply in December, rounding off the strongest quarter of the year. The rate of expansion of activity accelerated for the third month running to the sharpest since July 2015, fuelled by stronger growth in new work. Employment rose at a pace unchanged from November's seven-month high, and sentiment towards the 12-month outlook strengthened despite ongoing uncertainty regarding Brexit and European elections. The survey data also signalled that inflationary pressures in the sector remained substantial, with prices charged rising at the strongest rate since April 2011.

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

Markit / CIPS UK Services PMI



Sources: IHS Markit, ONS

The Index remained above 50.0 for the fifth consecutive month in December, indicating a continued recovery in growth following a contraction in July linked to the EU referendum. Moreover, the Index rose for the third consecutive month to 56.2, from 55.2, signalling the fastest expansion since July 2015. The rate of growth was also sharper than the 20-year long-run survey average.

December data signalled a boost to new business growth. The overall increase was the strongest since July 2015. Anecdotal evidence linked new business wins to marketing, new product launches, government contracts, export business, new accounts and mergers/acquisitions. Meanwhile, the volume of outstanding business increased for the fourth time in five months.

Growth of employment was maintained for the fifth month running in December. The rate of job creation was unchanged from November's seven-month high, remaining stronger than the long-run survey average. That said, employment growth over 2016 as a whole was weaker than the trends shown in 2013, 2014 and 2015.

Cost pressures remained elevated at the end of 2016. Input prices rose at the second-fastest rate since April 2011, again linked to the weak pound. Higher food and fuel prices were widely mentioned, while labour, IT and oil-based items such as packaging were also cited as being up in price. As a result, service providers raised their own charges at the fastest rate since April 2011.

Business expectations strengthened in December as firms reported planned marketing efforts, new products, export opportunities, acquisitions and new business premises. That said, sentiment remained weaker than the long-run survey average, weighed down to some extent by uncertainty related to Brexit and forthcoming European elections.

Comments

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

"A buoyant service sector adds to signs that the UK economy continues to defy widely-held expectations of a Brexit-driven slowdown. The faster growth of services activity follows similar news of improvements in the manufacturing and construction sectors at the end of 2016.

"Collectively, the PMI surveys point to the economy growing by 0.5% in the fourth quarter, with growth accelerating to a 17-month high at the year-end.

"At face value, this improvement suggests that the next move by the Bank of England is more likely to be a rate hike than a cut, but policymakers are clearly concerned about the extent to which Brexit-related uncertainty could slow growth this year. They will therefore consider the current resilience of the economy alongside the elevated levels of uncertainty highlighted by the historical weakness of business optimism about the year ahead. Any change in policy therefore looks unlikely in the short term, and the next move in policy could as much be a rate cut as a hike."

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

"Exceeding all expectations, the year ended on a high for the service sector, which rounded off the strongest quarter in 2016 as new business and employment levels continued to grow. The overall rate of activity growth accelerated for the third successive month to the fastest since mid-2015.

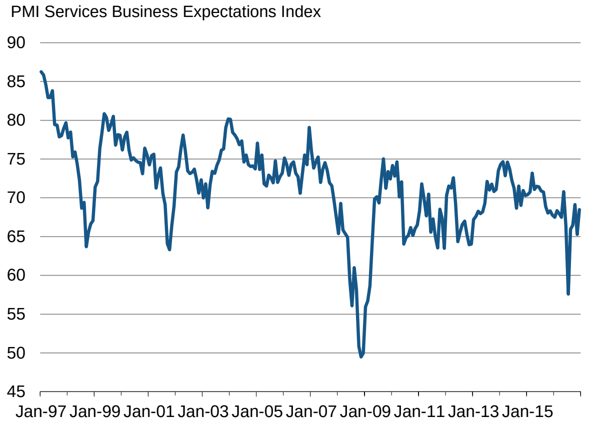
"Keeping up with levels of new work and increased activity, additions to the workforce were maintained for the fifth month running. Though, overall, 2016 proved to be the weakest year for employment growth since 2012.

"There were reports of export business buoyed by the weak pound, adding to the strength of domestic demand. However, sterling's persistent lows added more pressure to input prices, which expanded at a rate close to November's five-and-a-half year high as fuel, food, IT and wage costs went up.

"Business optimism was solid, as firms increased their marketing efforts and launched new products in readiness for improved business conditions continuing into 2017. However, sentiment was lower that the survey's long-run average, as the sector continued to stabilise after the ongoing impacts of the EU referendum result. The sector will need a persuasive argument as the terms of Brexit are negotiated for this broad-based recovery to be maintained in the New Year."

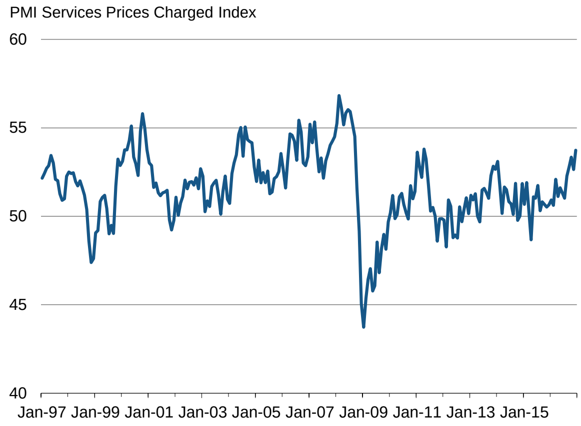
- Ends -–

UK Services Business Expectations



Source: IHS Markit

UK Services Prices Charged



Source: Markit

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Note to Editors:

The January UK Services PMI will be published on Friday February 3rd 2017 at 09:30 UK / UTC.

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 PMI
Purchasing Managers' Index® (*PMI*®) 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/product/pmi.

About CIPS
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