News Release

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

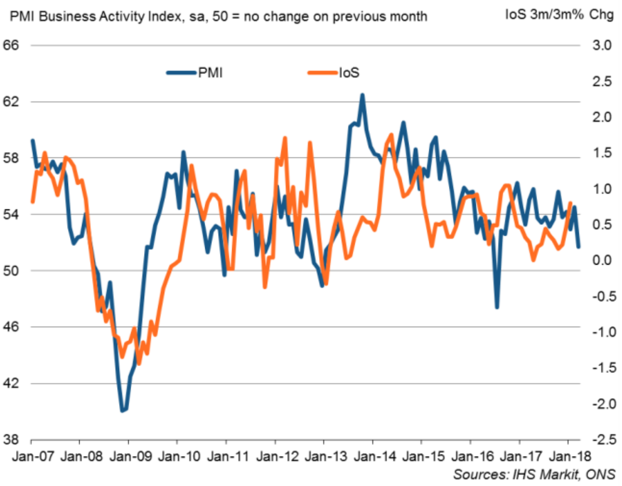
Weakest rise in services activity for 20 months in March, partly linked to snow disruption

Key findings:

- Modest upturns in business activity and new work
- Employment growth slips to three-month low
- Strong rate of input cost inflation continues in March

Data collected March 12-27

IHS Markit / CIPS UK Services PMI



March data signalled a slowdown in business activity growth across the UK service sector, with the latest expansion the weakest for over one-and-a-half years. However, survey respondents noted that snow disruption and unusually bad weather conditions in March had been a key factor holding back business activity growth.

Meanwhile, input cost inflation remained strong, with the latest rise in operating expenses the fastest since December 2017, which contributed to another marked rise in average prices charged by service sector firms.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** dropped from 54.5 in February to 51.7 in March, to signal the weakest service sector performance since July 2016. Anecdotal evidence suggested that usually bad weather had disrupted business operations and contributed to subdued consumer spending in March. There were also reports that heightened economic uncertainty continued to act as a brake on growth during the latest survey period.

Mirroring the trend for business activity, latest data revealed a slower upturn in new work received by service sector companies. The latest rise in new business volumes was the weakest seen for 20 months. In addition to bad weather, survey respondents often cited subdued consumer demand, while there were also some reports that Brexit-related uncertainty had led to delayed decision-making and risk aversion among clients.

Employment numbers increased at only a moderate pace in March, with the rate of job creation the slowest seen so far in 2018. Companies reporting a rise in staffing levels generally cited efforts to boost operating capacity and long-term expansion plans. However, some survey respondents commented that tight labour market conditions had led to difficulties filling vacancies at their business units.

At the same time, backlogs of work increased for the third month running in March, which was linked to weather-related disruption and, in some cases, delays in staff recruitment.

Service providers recorded another sharp rise in their average cost burdens during March, with the rate of inflation the strongest seen for three months. Higher input prices were attributed to greater staff salaries, rising utility bills and increased raw material costs (particularly food and drink). Average prices charged also increased at a robust pace across the service economy, with the latest rise the fastest since December 2017.

Looking ahead, service sector firms are optimistic about their prospects for business activity over the next 12 months. However, the degree of positive sentiment eased to its lowest since June 2017. Reports from survey respondents cited heightened economic uncertainty as a key factor weighing on business confidence in March.

Comments

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

"The UK economy iced up in March, suffering the weakest increase in business activity since the Brexit vote amid widespread disruptions caused by some of the heaviest snowfall in years. As a result, first quarter economic growth will likely have been adversely affected. The PMI surveys collectively signal a quarterly GDP growth rate of just under 0.3%, down from 0.4% in the fourth quarter, albeit with the rate of growth sliding to just 0.15% in March alone.

"Inflationary pressures meanwhile picked up again in March. Although running below the peaks seen late last year, rates of both input cost and selling price inflation suggest consumer price inflation could remain stubbornly high in coming months.

"The latest dip in the survey indicators is comparable to prior months in which the country saw heavy snow, and so will probably do little to alter policymakers' view on the underlying health of the economy. The indications of solid employment growth and stubbornly high price pressures therefore leave a widely-touted May rate hike very much in play.

"A strong rebound is nevertheless likely to be needed to ensure the majority of policymakers feel the economy is ready for another hike in interest rates. Encouragingly, in January 2010 and December 2010, the PMI fell sharply due to heavy snow but in both cases the decline was more than reversed in the following month. Some caution is warranted this year, however, as a drop in business expectations about the year ahead during March suggests the underlying trend remains one of weaker economic growth compared to that seen late last year."

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

"Momentum stalled in March as the Beast from the East struck again causing consternation with the slowest new order growth for 20 months and impacting on overall business activity.

"As UK services remains the largest driver of economic growth, the triple force of snow, inflation and Brexit-related uncertainty struck at the sector's heart, as consumer buying dwindled, bad weather halted business operations and optimism was at its lowest ebb since June 2017.

"The pressures continued to intensify with the swiftest rise in business costs for three months as businesses raided their coffers for higher wages to attract talent, bigger utility bills and rising raw material costs. This in turn impacted on higher prices paid by consumers, as inflation remained relatively high resulting in low spending confidence, and shoppers tried to clutch on to their shrinking household finances.

"Not much to be enthused about all in all, but the question remains whether this will be a sign of a more entrenched slowdown or whether the unpreparedness for unseasonal weather conditions was the root cause. As further rises in cost burdens for the sector seem inevitable, and the Brexit shadow remains, there will have to be an injection of confidence and stronger economic performance next month to conclude March was just a glitch."

– Ends –

UK Services PMI New Business Index

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Note to Editors:

The April UK Services PMI will be published on Thursday 3rd May 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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About PMI

Purchasing Managers' Index® (*PMI*®) surveys are now available for over 40 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 https://ihsmarkit.com/products/pmi.html.

About CIPS

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