

News Release

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

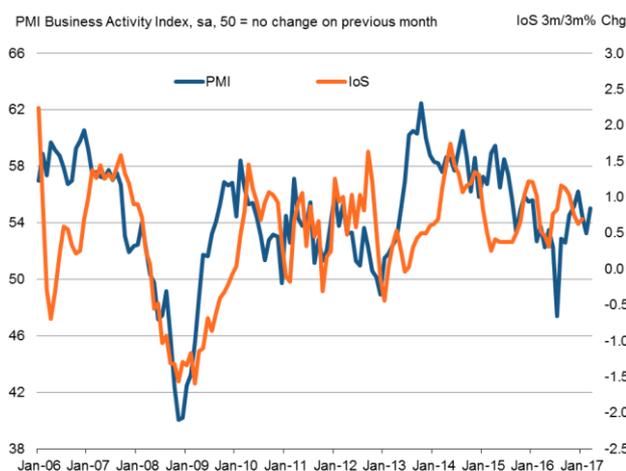
Strongest rise in service sector activity so far in 2017

Key findings:

- Business activity growth hits three-month high in March
- New work increases at a strong pace, but job creation slows
- Strongest prices charged inflation since September 2008

Data collected March 13-29

Markit / CIPS UK Services PMI



March data pointed to a rebound in UK service sector growth, with business activity and incoming new work both rising at the strongest rates so far in 2017. Survey respondents also remained optimistic about the year-ahead business outlook, with almost half of the survey panel forecasting growth while only one-in-nine expect a fall in activity. However, intense cost pressures continued in March, which led to the fastest rise in prices charged by service sector firms since September 2008.

The headline seasonally adjusted **Markit/CIPS Services PMI® Business Activity Index** picked up from 53.3 in February to 55.0 in March, and therefore above the 50.0 no-change value for the eighth consecutive month. Moreover, the latest reading signalled a marked increase in business activity and the fastest pace of expansion since December 2016. This signalled a marked rebound from the five-month low seen in February.

Stronger activity growth was linked to supportive UK economic conditions and greater client demand. Some companies continued to cite Brexit-related uncertainty as a factor holding back investment decisions. However, there were also reports that exchange rate depreciation had led to new sales enquiries from abroad and improved demand from overseas clients (especially the US).

Within the service sector, the worst performance so far this year has been seen in consumer-oriented sectors, notably hotels and restaurants, as well as personal consumer services (which include businesses such as sports centres, gyms and hairdressers). The greatest resilience has been seen in financial services.

Service providers recorded the sharpest overall increase in new business for three months in March. The latest expansion of new work was also slightly faster than the long-term survey average. Anecdotal evidence suggested that new product launches, improving client demand and increased

confidence regarding the global economic outlook had all helped to boost sales in March.

Despite a marked and accelerated expansion of new work, the latest survey indicated that service providers added to their payrolls at a slower pace in March. Moreover, the rate of job creation was only marginal and the weakest recorded since August 2016. A combination of rising workloads and softer employment growth contributed to a renewed accumulation of backlogs across the service economy. Some firms noted that squeezed margins and rising wage bills had led to the non-replacement of voluntary leavers.

Average prices charged by service sector companies increased at the fastest rate for eight-and-a-half years in March. This was overwhelmingly linked to higher input costs during recent months. Survey respondents also noted that resilient demand had provided scope to pass on some of their increased costs to clients.

Although still rising sharply in March, the rate of input price inflation eased to a four-month low. Service providers cited the weak sterling exchange rate, alongside increased fuel and energy bills. A number of firms also commented on stronger salary pressures and higher food prices in March.

Comments

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

“The survey data indicate that UK business activity growth regained some momentum after having slipped to a five-month low in February, but the upturn fails to change the picture of an economy that slowed in the first quarter.

“The relative weakness of the PMI survey data compared to that seen at the turn of the year suggests the economy will have grown by 0.4% in the first quarter, markedly lower than the 0.7% expansion seen in the fourth quarter of last year.

“Much of the disappointment in growth so far this year has been evident in consumer-oriented sectors, in part linked to spending and incomes being squeezed by higher prices.

“The March uptick in the PMI surveys merely brings the data in line with a neutral policy stance at the Bank of England. As such, the data add to the sense that, with economic and political uncertainty likely to intensify as the Brexit process gets underway, policymakers are likely to continue to stress the need to look through any further upturn in inflation and focus instead on the need to keep policy on hold to support economic growth.”

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

“Taking March in isolation, the service sector defied the slowdown experienced by construction and manufacturing firms. A stronger end to the first quarter from the biggest contributor to UK GDP will provide some relief to the UK economy as a whole, shaken and stirred by continuing highs and lows since the Brexit vote.

“The weak pound gave reasons to be cheerful for exporters who reported renewed interest from overseas markets, especially clients based in the US.

“A dark blot on the sector’s performance was the lifeless job creation. At its lowest level since August 2016, the demand for higher wages bore down on profits and new staff hiring. So, the sector’s stalwart performance this month will need to improve significantly, before businesses raise their headcounts further.

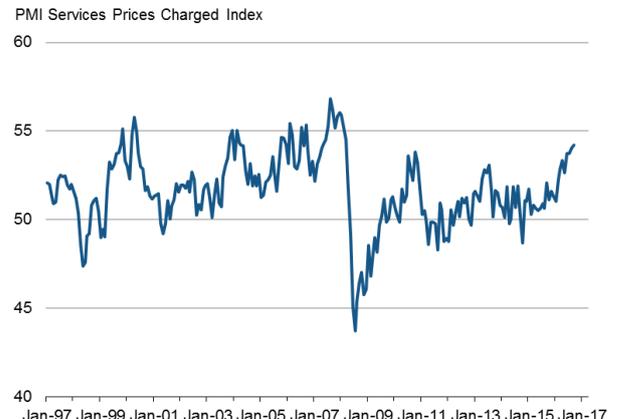
“With input cost inflation still close to February’s eight and a half year peak, higher prices are likely to trickle further down the supply chain to consumers. Businesses will stop absorbing additional costs for basics such as energy and food, to remain profitable.”

- Ends -

UK Services Business Expectations



UK Services Prices Charged



For further information, please contact:

For data queries, please call:

IHS Markit

Joanna Vickers

Tel: +44 207 260 2234

Email: joanna.vickers@ihsmarkit.com

For industry comments, please call:

CIPS

Trudy Salandiak

Tel: +44 1780 761576

Email: trudy.salandiak@cips.org

Note to Editors:

The April UK Services PMI will be published on Thursday 4th May 2017 at 09:30 UK (08:30 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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