

News Release

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

Service sector growth continues to strengthen

Key findings:

- Growth accelerates to ten-month high
- Business sentiment weakest since July
- Input price inflation remains sharp, but eases for first time since May

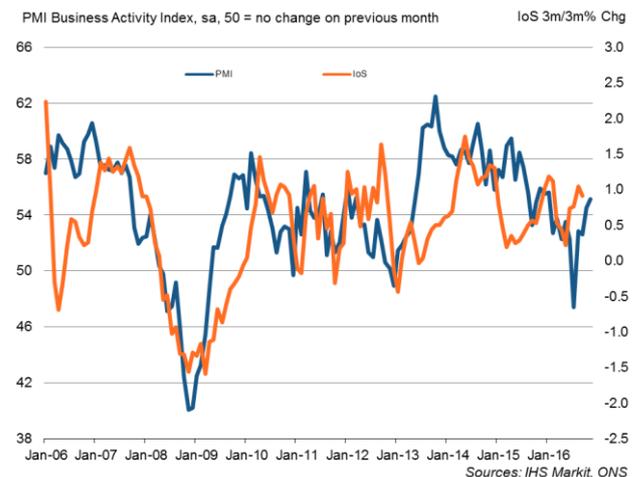
Data collected November 11-28

November *PMI*® survey data from IHS Markit and CIPS signalled that the UK service sector remained on a firm growth path towards the end of 2016. The rate of expansion of total activity accelerated further to the strongest since January. Employment growth picked up to the fastest since April, partly fuelled by the sharpest build-up of outstanding work since July 2015. The strength of long-term business sentiment weakened for the first time since July, however, attributed to ongoing political uncertainty and inflationary pressures.

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.

The Index remained above 50.0 for the fourth consecutive month in November, indicating a continued recovery in growth following a contraction in July linked to the EU referendum. Moreover, the Index rose to 55.2, from 54.5, signalling the fastest expansion since January. The rate of growth was broadly in line with the 20-year long-run survey average.

Markit / CIPS UK Services PMI



Growth of total business activity was supported by a further solid increase in new work. New business rose for the fourth successive month, and at the second-fastest rate since January. The pace of expansion eased slightly since October but was nonetheless in line with the long-run survey average. The weak pound was reported to be a factor boosting international demand, while firms also reported marketing efforts and new products.

The volume of outstanding business in the service sector increased for the third time in four months in November. Moreover, the rate of growth in backlogs was the fastest since July 2015.

Growth of both new business and outstanding contracts encouraged service providers to take on more staff in November. The rate of job creation hit the highest since April, but remained weaker than the marked pace shown during 2014 and 2015.

Anecdotal evidence highlighted ongoing uncertainty among service providers linked to Brexit, the value of sterling and the unexpected result of the US presidential election. Business expectations for activity levels over the next 12 months remained positive overall – linked to resilient domestic demand, new contracts, export opportunities and new markets – but weakened to the lowest since July.

Input price inflation remained sharp in November despite easing for the first time since May, and a similar trend was evident for prices charged by service providers. Companies widely attributed inflationary pressures to the weak sterling exchange rate driving up import costs such as food, higher fuel prices, international travel (again linked to exchange rates) and rising labour costs.

Comments

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

“The further upturn in the vast services sector shows that the pace of UK economic growth remains resiliently robust in the fourth quarter, despite ongoing uncertainty caused by Brexit.

“The three PMI surveys collectively indicate that the economy will grow by 0.5% in the fourth quarter.

“Rising prices – often linked to the weaker pound – are a big concern, however, and suggest that inflation is set to lift higher. The past two months have seen the steepest rise in businesses’ costs for over five-and-a-half years. These higher costs will inevitably feed through to consumers in the form of higher prices.

“The sustained improvement in the business surveys and sharp rise in prices suggest that the odds will continue to shift away from the Bank of England adding more stimulus. However, any policy tightening still seems a long way off given the uncertainty facing the UK economy. The service sector PMI data showed that business optimism about the coming year dipped in November, to the second-lowest in four years.”

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

“The services sector continued to move in the right direction with a rise in overall activity and new orders growing at the second-fastest rate since January, and for the fourth month in a row. This positive direction resulted in an increase in backlogs at the fastest rate since July 2015. However, several factors are bearing down on the economy which will have businesses and consumers concerned.

“The ongoing battle with currency fluctuations, a weak pound and the impact of inflation will continue to undermine company profits. Rising prices are already being passed on to consumers and this is likely to accelerate in 2017 as the full import costs of higher fuel, food, travel and labour costs make their way down the supply chain. If consumers respond by slowing their spending, the sector will have to upscale their efforts to sustain the current momentum of growth. However, there were some winners. Weaker sterling enabled some businesses to not only raise their charges for export customers but also continue to acquire new business.

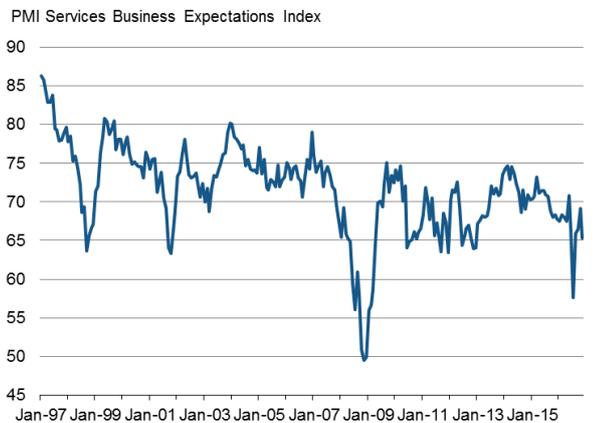
“The silent undercurrent of uncertainty also dampened the mood compared to last month, as business sentiment was at its lowest since July and the second-lowest since December 2012. This reveals how the result of the EU referendum vote, and now the recent US election continues to have an impact on future business expectations.

“But, the rise in employment levels bucked the trend of this undercurrent as job hires rose at the fastest level since April and the employment index posted above its long-term average. A closer look at the figures, however, reveals that the trend was lower by several points than those reported in 2014 and 2015, when job creation was stronger.

“With the results from all three sectors, all the signs are there for this ongoing growth to continue – at least in the short-term. But, as the risk environment becomes more challenging and volatile, with Brexit negotiations, and other socio-political events in the coming months that could influence currency fluctuations, trade agreements, the availability of jobs, and business confidence, the sector could weaken and become exposed to these challenges.”

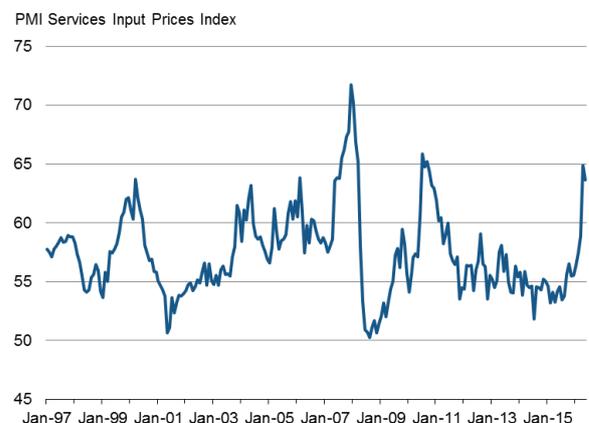
- Ends -

UK Services Business Expectations



Source: IHS Markit

UK Services Input Prices



Source: IHS Markit

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Note to Editors:

The December UK Services PMI will be published on Tuesday January 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 CIPS

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