

## News Release

**Purchasing Managers' Index®**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL 0930 (London / UTC) January 4<sup>th</sup> 2018**

### IHS Markit / CIPS UK Services PMI®

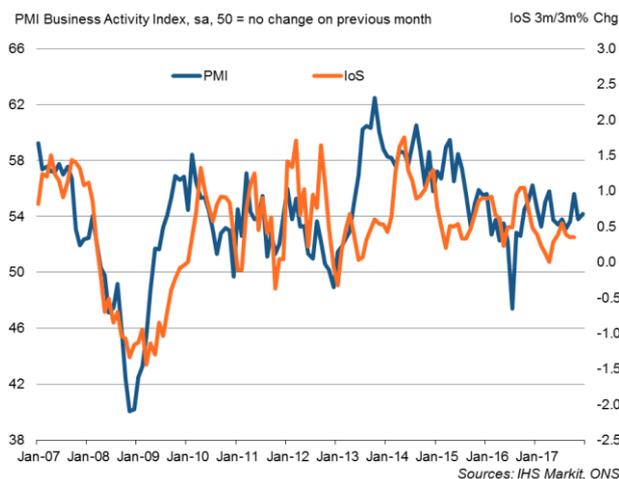
#### Business activity growth picks up, but strong cost pressures persist

##### Key findings:

- Sharper rise in business activity in December
- New order growth eases to 16-month low
- Input price inflation hits three-month high

Data collected December 5-19

##### IHS Markit / CIPS UK Services PMI



December data indicated that business activity growth picked up across the UK service sector, but the latest survey also found softer rises in new work and employment numbers at the end of 2017. At the same time, service providers indicated another marked increase in their average prices charged, which was overwhelmingly linked to strong cost pressures. Survey respondents signalled the fastest rise in operating expenses for three months, reflecting higher transportation costs, staff salaries and utility bills in December.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** registered 54.2 in December, up from 53.8 in the previous

month, to signal the second-fastest upturn in service sector output since April 2017. Higher levels of business activity have now been recorded for seventeen months running, supported by the resilient economic backdrop and rising consumer spending. However, service providers noted that Brexit-related uncertainty continued to hold back clients' willingness to spend at the end of 2017.

New business volumes increased at a solid pace in December, but the latest upturn was the slowest recorded since August 2016. Reports from survey respondents suggested that subdued business investment and cost consciousness among clients were factors that had weighed on sales growth in December.

Softer rises in incoming new work helped to alleviate pressures on operating capacity across the service economy at the end of the year. Although only marginal, the latest fall in backlogs of work was the joint-fastest since February 2017.

Service providers recorded a moderate increase in workforce numbers in December, but the rate of job creation slipped to a nine-month low. Some firms suggested that tight labour market conditions had led to difficulties replacing departing staff. However, there were also reports that efforts to reduce operating costs had acted as a brake on employment growth.

Input price inflation reached its highest level since last September, with service providers noting upward pressures on costs from a wide range of sources. In particular, survey respondents cited higher fuel prices, utility bills, food costs and salary payments in December. Meanwhile, average prices

charged increased at a robust pace across the service sector, although the rate of inflation eased from November's peak.

Business optimism meanwhile picked up to a seven-month high in December, with around 43% of the survey panel expecting a rise in business activity over the course of 2018. This was linked to new product launches and, in some cases, hopes of a boost to demand from stronger global economic conditions. That said, the degree of confidence remained subdued in comparison to the long-run survey average.

## Comments

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

*"December saw a welcome upturn in service sector activity, highlighting the continued resilience of the economy as 2017 came to an end. Alongside the solid expansion seen in manufacturing and modest construction sector upturn, the survey data are consistent with the economy having grown 0.4-0.5% in the fourth quarter of 2017.*

*"However, as has been increasingly the case in recent months, the good news comes with a health warning about the sustainability of the upturn. Digging into the details behind the resilient strength signalled by the headline numbers, the survey data reveal an economy that is beset with uncertainty about the outlook, which is in turn dampening business spending and investment.*

*"Trends in hiring and business investment in fixed assets such as offices are showing signs of deteriorating, as is expenditure on IT, computing and other business services as worries about Brexit result in delayed spending decisions. Rising price pressures are meanwhile also hurting consumer-facing companies in particular.*

*"The likelihood is that the resilience of the economy will be increasingly tested by the prevailing uncertainty and anxiety about the future as we move in to 2018, suggesting growth will slow in the absence of greater clarity and reassurance regarding a favourable Brexit outcome."*

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

*"The services sector experienced mixed fortunes in December, as business activity expanded at an accelerated pace but the flow of incoming new work was the slowest since August 2016.*

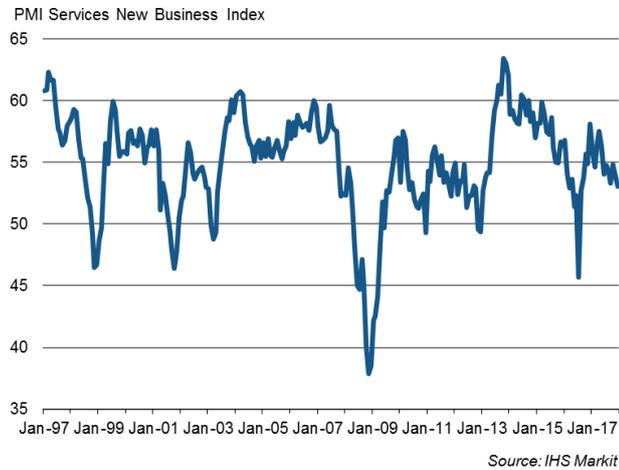
*"Subdued sales growth demonstrates that underlying risk remains in terms of the economic outlook, with business confidence and investment spending closely aligned to progress in the Brexit negotiations. Bigger purchases are still being delayed until uncertainty diminishes, and combined with higher operating costs experienced by companies, will add a further dampener to progress in the sector.*

*"Businesses were paying more for food, fuel and higher salaries, trying to encourage talented staff in a landscape of tight labour market conditions and difficulties replacing skilled employees. To balance the books, prices charged to consumers were on the rise again in December. On the other hand, some firms reported promotional discounting to counteract reductions from competitors and also take control of their own success through greater marketing efforts.*

*"Service providers retain an upbeat view of overall business prospects for the next 12 months, but the direction of travel is expected to be slow and steady over the course of 2018 which fails to excite anyone looking for greater returns."*

– Ends –

## UK Services PMI New Business Index



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### Note to Editors:

The January UK Services PMI will be published on Monday 5<sup>th</sup> February 2018 at 09:30 UK (09:30 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](mailto:economics@ihsmarkit.com).

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