

## News Release

**Purchasing Managers' Index<sup>®</sup>**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL 0930 (London) / 0830 (UTC) August 3<sup>rd</sup> 2017**

### IHS Markit / CIPS UK Services PMI<sup>®</sup>

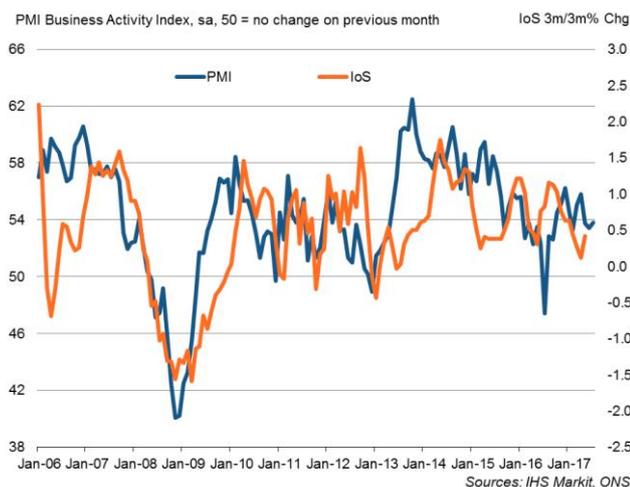
#### Marginal improvement in service sector growth

##### Key findings:

- Activity growth picks up slightly from June's four-month low
- Employment numbers rise at fastest pace since January 2016
- Optimism regarding the business outlook remains subdued

Data collected July 12-27

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



July data pointed to a sustained increase in business activity across the UK service sector, but the rate of expansion remained relatively subdued. This largely reflected weaker rises in new work compared with those seen earlier in 2017, with the latest upturn only slightly stronger than June's nine-month low. Service providers nonetheless continued to boost their employment numbers, with the pace of job creation edging up to its strongest for a year-and-a-half.

Input cost inflation remained strong in July, driven by rising food prices, energy bills and salary payments. Higher operating expenses led to the fastest increase in average prices charged by service sector firms for three months.

The headline seasonally adjusted **IHS Markit/CIPS Services PMI<sup>®</sup> Business Activity Index** picked up to 53.8 in July, from 53.4 in June, to remain above the 50.0 no-change value for the twelfth month running. However, the latest reading signalled a slower rate of business activity growth than the post-crisis trend. Survey respondents noted that heightened economic uncertainty and fragile confidence among clients were key factors acting as a brake on growth.

A solid rate of new business expansion was recorded in July, although the latest improvement was one of the weakest seen since last autumn. While a number of firms commented on rising sales linked to new product launches and successful promotional initiatives, some noted that post-election uncertainty and worries about the economic outlook had dampened client spending. Stretched household budgets were also cited as a headwind to new business growth in July.

Staff recruitment continued to gain traction, reaching its strongest pace since the start of 2016. Increased payroll numbers were attributed to long-term expansion plans and rising business requirements. A number of companies also noted difficulties filling current vacancies with suitably skilled staff. Greater workforce numbers helped to alleviate pressures on operating capacity, as

highlighted by a stabilisation in backlogs of work during July.

Service providers recorded an accelerated rise in their average cost burdens during the latest survey period. That said, the rate of input price inflation was still softer than the eight-and-a-half year peak seen in February. Another marked rise in operating expenses led to a rebound in prices charged inflation from June's 11-month low.

The index measuring service providers' business expectations for the year ahead remained relatively weak in July, with the latest reading among the lowest recorded since late-2012. Survey respondents linked business optimism to forthcoming product launches, planned business investment and expansion into new markets. However, a sizable minority also noted that Brexit-related uncertainty continued to weigh on their growth prospects for the year ahead.

### Comments

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

*"The service sector PMI indicates that businesses remain in expansion-mode despite heightened uncertainty about the outlook, but also highlights how the risks to future growth remain firmly biased to the downside."*

*"Taken together, the three PMI surveys are broadly consistent with economic growth of just over 0.3%, putting the country on course for another steady but sluggish expansion in the third quarter."*

*"However, while the current picture remained one of an economy showing overall resilience in the face of concerns about the outlook, the subdued level of business optimism suggests it's likely that growth will at least remain modest and could easily weaken in coming months."*

*"Firms' prospects for the coming year have slipped to a level which has previously been indicative of the economy stalling or even contracting, having taken a lurch downward since the general election, largely reflecting heightened uncertainty about the economic outlook and Brexit process."*

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

*"The services sector offered a hesitant start to Q3, with only marginally faster growth, a muted level of new orders and subdued business confidence."*

*"Purchasing managers cited continuing ambiguity around Brexit and the concerns about the strength of the economy as responsible for the sector's damp performance as consumers and businesses alike were hesitant about spending. The relentless burden of inflationary cost pressures made food, energy and salaries more expensive for companies while consumers could see higher prices gnawing away on household budgets."*

*"One good piece of news related to the strong employment figures. With jobs growth swelling at the fastest level since January 2016, at least in the short-term, firms have the workforce in place as they seek to increase marketing and business investment despite weaker trading conditions."*

*"Hopes of a stronger performance in the latter half of the year are ebbing away, with business confidence close to its lowest since 2012. July's data has presented a worryingly mixed bag of results reaffirming the impact economic uncertainty and the weak pound can have."*

### UK Services Business Expectations



Source: IHS Markit

- Ends -

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### Note to Editors:

The August UK Services PMI will be published on Tuesday 5<sup>th</sup> September 2017 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](mailto:economics@ihsmarkit.com).

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#### About CIPS

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