

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) October 4th 2017

IHS Markit / CIPS UK Services PMI®

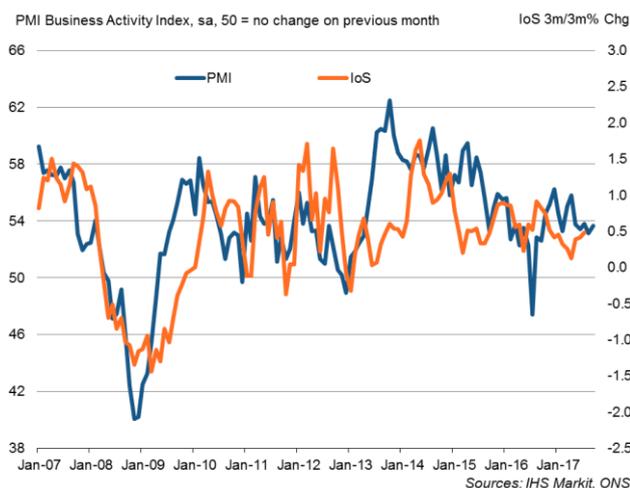
Business activity growth edges up from August's recent low

Key findings:

- Sustained rise in service sector output during September
- New business growth eases to 13-month low
- Input cost pressures intensify

Data collected September 12-27

IHS Markit / CIPS UK Services PMI



September data revealed a continued upturn in business activity across the UK service sector, although the rate of expansion edged up only slightly since August and remained weaker than seen on average in the first half of the year. Relatively subdued domestic demand acted as a drag on activity growth, with the latest rise in incoming new work the slowest for 13 months.

At the same time, service providers remained under pressure from sharply rising operating expenses, which contributed to the fastest rate of prices charged inflation since April.

The headline seasonally adjusted **IHS Markit/CIPS Services PMI® Business Activity Index** posted 53.6 in September, up from an 11-month low of 53.2 in August. Looking at Q3 as a whole, growth has eased slightly since the previous quarter (the index averaged 54.3 in Q2, compared to 53.5 in Q3).

While survey respondents cited a range of supportive economic fundamentals, including healthy labour market conditions and resilient consumer spending, there were also reports that worries about the business outlook had acted as a growth headwind.

Service providers commented on subdued business-to-business sales and delayed decision-making on large projects in response to Brexit-related uncertainty. Reflecting this, latest data indicated that overall new business volumes expanded at the slowest pace since August 2016.

Service sector firms also reported a decline in optimism towards their year ahead growth prospects. The net balance of survey respondents anticipating a rise in business activity over the next 12 months was the lowest since June, meaning that business confidence remained close to its weakest since the end of 2011. While a number of firms commented on resilient confidence in terms of planned product launches and their own sales strategies, this was counterbalanced by anxiety about the wider economic outlook and the prospect of continued political uncertainty ahead.

Despite softer new business growth and fragile business confidence, latest data indicated a sustained rise in service sector employment. The rate of job creation eased only slightly from August's 19-month high. Moreover, a number of firms commented on increased unfilled vacancies at their business units, reflecting difficulties in recruiting suitably skilled staff.

September data indicated that input cost inflation reached a seven-month high and remained among the strongest seen since early-2011. Higher operating expenses were linked to rising food, energy and fuel bills, alongside increased prices for imported items and greater staff salaries. Sharply rising cost burdens prompted another solid increase in average prices charged by service sector firms.

Comments

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

"The services sector saw another month of modest growth, running in the middle ground between the robust expansion seen in manufacturing and the contraction recorded in construction. The three PMI surveys put the economy on course for another subdued 0.3% expansion in the third quarter, but the fourth quarter could see even slower growth."

"Across all three sectors, inflows of new business in September were the lowest for 13 months, and business optimism about the year ahead slipped lower."

"Higher costs meanwhile led to the largest monthly rise in average prices charged for goods and services since April, meaning consumer price inflation could rise above 3% in coming months."

"The surveys therefore portray an economy struggling with the unwelcome combination of sluggish growth and rising prices, presenting a dilemma for policymakers."

"The rise in price pressures will pour further fuel on expectations that the Bank of England will soon follow-up on its increasingly hawkish rhetoric and hike interest rates. However, the decision is likely to be a difficult one, as the waning of the all-sector PMI in September pushes the surveys slightly further into territory that would normally be associated with the central bank loosening rather than tightening policy."

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

"Strong signals indicate a stagnation trend is developing in the sector. With a subdued rate of expansion in September, UK services maintained a lower than long-term average performance this month."

"Where consumers recovered a little from their spending hesitation last month, it was the turn of businesses to be spooked into inactivity, exerting greater scrutiny over new projects and long-term spending plans. The pressure of Brexit and resulting uncertainty were at the heart of this indecision."

"In the absence of new business, companies were preoccupied with tackling backlogs of work, but maintained levels of staff recruitment which was good news, though skills shortages impacted on hiring and capacity."

"The added weight of operating cost pressures continued with the biggest surge in prices for five months as food and fuel costs were on the rise and salary burdens increased. The time had also come for businesses to pass on these additional costs to their clients after months of squeezed margins."

"Whether there will be any significant bounceback towards the end of the year remains unlikely if the political landscape remains ambiguous and cost pressures continue to bear down on the sector."

- Ends -

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 October UK Services PMI will be published on Friday 3rd November 2017 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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit is a registered trademark of IHS Markit Ltd. All other company and product names may be trademarks of their respective owners © 2017 IHS Markit Ltd. All rights reserved.

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 www.markit.com/product/pmi.

About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues. CIPS has a global community of 118,000 in 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability. www.cips.org

The intellectual property rights to the UK Services PMI[®] provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).