

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) July 5th 2017

IHS Markit / CIPS UK Services PMI[®]

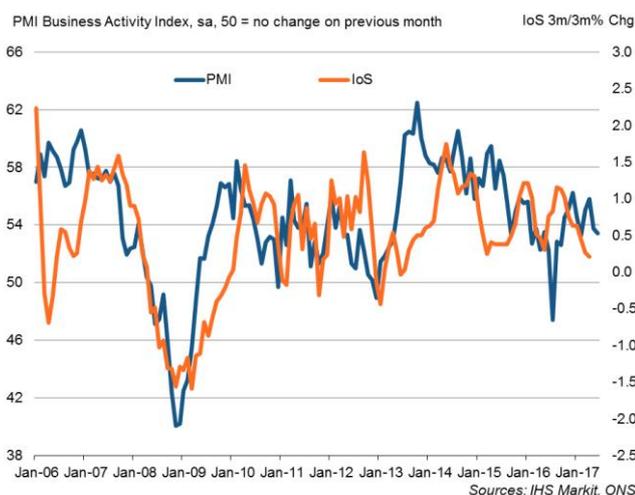
Slower rise in service sector activity

Key findings:

- New business growth eases to nine-month low
- Job creation picks up to 14-month high
- Business optimism drops to second-lowest since December 2011

Data collected June 12-28

IHS Markit / CIPS UK Services PMI



UK service providers indicated another slowdown in business activity growth during June, which largely reflected the weakest upturn in new work since September 2016. Survey respondents commented on subdued business and consumer confidence, alongside some instances of delayed decision-making around the election.

Meanwhile, service sector firms were the least upbeat about their year-ahead growth prospects since July 2016. In contrast, there was a slight pick-up in the pace of job creation to its fastest for 14 months in June.

At 53.4, the headline seasonally adjusted **IHS Markit/CIPS Services PMI[®] Business Activity Index** posted above the 50.0 no-change mark for the eleventh successive month in June. However, the index was down from 53.8 in May and signalled the slowest expansion of service sector output since February. The average reading in the second quarter as a whole (54.3) was in line with that recorded during the first three months of 2017.

The slowdown in business activity growth in June was linked to a softer rise in incoming new work across the service economy. Moreover, the latest increase in new work was the weakest for nine months. Anecdotal evidence cited Brexit-related risk aversion and heightened economic uncertainty as key factors holding back client spending.

Despite weaker new business growth, service providers reported a rise in unfinished work for the fourth consecutive month in June. Although modest, the pace of backlog accumulation remained among the fastest seen over the past two years. Sustained pressures on operating capacity led to a solid expansion of staffing levels across the service sector in June. The latest increase in employment was the strongest since April 2016. Some firms also commented on difficulties recruiting staff to fill vacancies at their business units.

June data pointed to a sharp and accelerated increase in average cost burdens at service sector companies. The overall rate of input price inflation was nonetheless still much slower than the peak

seen in February. Greater operating costs were linked to a combination of rising staff salaries and increased raw material prices (particularly food and imported items). Survey respondents noted that intense competition for new work continued to place pressure on pricing power. Reflecting this, the latest rise in average prices charged by service providers was the slowest since July 2016.

Service sector firms are optimistic overall that business activity will rise over the next 12 months. However, the degree of confidence fell markedly since May. Aside from the post-referendum dip last summer, the level of business optimism was the weakest since December 2011. Survey respondents cited anxiety related to the Brexit negotiations, alongside worries about the general economic outlook and heightened political uncertainty.

Comments

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

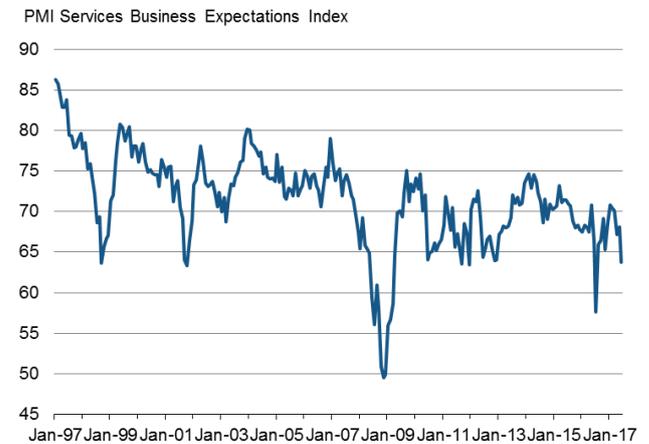
“A slowing in services sector growth completes a triple-whammy of disappointing PMI survey readings. Although the three PMI surveys are running at levels that are historically consistent with GDP growing by around 0.4% in the second quarter, it’s clear that the economy heads into the third quarter losing momentum.

“With business optimism having been hit by the intensification of political uncertainty following the general election and commencement of Brexit negotiations, at the same time that households are battling against rising inflation, the indications are that the economy’s resilience is being tested.

“There are pockets of growth, notably in financial services and business services, but the overall picture is one of business spending, investment and exports failing to provide sufficient impetus to fully offset the consumer slowdown.

“Given the deterioration in the forward-looking indicators, such as business optimism and order book growth, the risks are tilted towards the economy slowing in the third quarter.”

UK Services Business Expectations



Source: IHS Markit

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

“A creeping doubt appears to be the cause of this month’s below par performance as the UK’s departure from the EU and the unpredictable political climate continues to impact on consumers and businesses alike.

“Strong growth in new orders and overall activity was destabilised by a reduction in business optimism, which fell to one of the lowest levels since 2011.

“This low-key tone was further dampened by growing competition amongst businesses, which placed intense pressure on profit margins. This meant persistent inflationary pressures and the impact of the weak pound were not passed on to consumers as firms absorbed higher costs for food, fuel and wages themselves.

“Yet the drive to hire staff bucked this softening trend as firms sought to alleviate backlogs with the strongest jobs growth for 14 months. The struggle for good-quality, skilled workers continued and some respondents pointed to lower availability of staff as a reason for their difficulties.

“The services slowdown will be no surprise and completes the triple dose of muted results from all three sectors. At this stage it’s hard to tell if this is a sign of things to come or if this lack of enthusiasm is just a temporary response to increasingly tough trading conditions.”

- 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 July UK Services PMI will be published on Thursday 3rd August 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.

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 30 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](#).