

News Release

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

UK services activity contracts in July

Key findings:

- Services output and new business both fall at fastest rates since March 2009
- Expectations weakest since February 2009
- Employment unchanged since June

Data collected July 12-27

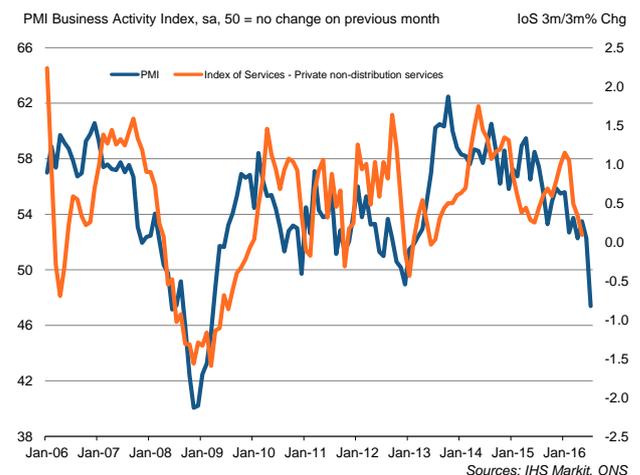
The UK service sector registered a fall in business activity in July, according to the latest PMI® survey data from IHS Markit and CIPS. Output and new business both declined for the first time in over three-and-a-half years, and at the fastest rates since early-2009. Consequently, employment in the sector was unchanged since June, ending a three-and-a-half-year period of uninterrupted job creation. The 12-month outlook for activity weakened sharply to the lowest since February 2009, linked to uncertainty regarding 'Brexit'.

The headline figure for the survey is the seasonally adjusted Markit/CIPS UK Services Business Activity Index, a single-figure measure designed to track changes in total UK services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

The Business Activity Index fell to 47.4 in July, from 52.3 in June, signalling a fall in UK services output. This was the first contraction since December 2012, and the rate of decline was the strongest since March 2009. Moreover, the month-on-month decline in the Index in the latest period,

at 4.9 points, was the largest observed since the survey began in July 1996.

UK Services PMI



The volume of incoming new business also declined for the first time since the end of 2012. The pace of contraction was comparatively sharper than that seen for total business activity, and the fastest since March 2009. Companies widely reported that the outcome of the EU referendum had weighed on new business inflows during the month.

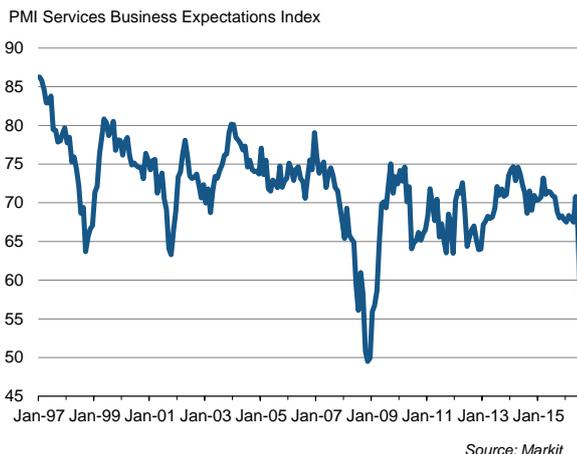
The marked reduction in receipts of new work led to a fourth successive month-on-month reduction in the volume of outstanding business in the service sector. Furthermore, the pace of decline in backlogs was the fastest since September 2009.

Service providers held their workforces constant, on average, in July. This followed a three-and-a-half year period of employment growth, the second-longest in the 20-year survey history.

Cost pressures reached a three-month high in July, and the second-strongest in over two years. This was linked to salaries, fuel, food prices and the impact of the weaker sterling exchange rate. That said, inflation remained weaker than the long-run survey average. Although costs rose more sharply, prices charged by service providers increased at the slowest rate in five months.

UK service providers expect business activity to rise over the next 12 months. That said, the strength of sentiment deteriorated to an unprecedented degree over the survey history, and was the weakest since February 2009. Where activity was expected to fall, this was linked to 'Brexit' uncertainty.

UK Services Business Expectations



Comments

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

"The marked service sector downturn follows news from sister PMI surveys showing construction activity suffering its steepest decline since mid-2009 and manufacturing output contracting at the fastest rate since late-2012. At these levels, the PMI data are collectively signalling a 0.4% quarterly rate of decline of GDP.

"It's too early to say if the surveys will remain in such weak territory in coming months, leaving substantial uncertainty over the extent of any potential downturn. However, the unprecedented month-on-month drop in the all-sector index has undoubtedly increased the chances of the UK sliding into at least a mild recession.

"Services providers are certainly bracing themselves for worse to come, with a record drop in business confidence about the year ahead leaving optimism at its lowest ebb since February 2009.

"However, the extent of any downturn clearly depends to some degree on the policy response. The PMI is already deep into territory which would normally spur the Bank of England into taking action to stimulate the economy. A quarter-point cut in interest rates therefore seems to be a foregone conclusion at tomorrow's Monetary Policy Committee meeting, though the extent and nature of other non-standard stimulus measures remains a far greater source of uncertainty and the subject of intense speculation."

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

"After three-and-a-half years of growth, the services sector returned to contraction as Brexit contagion suppressed new orders and overall output at rates last seen during the financial crisis in 2008-2009.

"The overall rate of retrenchment was the fastest since March 2009, as supply chains were hit by a continuation of muddy business conditions, rises in food and fuel prices and a demand from staff for higher wages to offset the impact of weaker economic conditions, experienced now for many months. The aversion to investment and a lack of consumer confidence also delayed or reversed contract decisions.

"Any vestiges of hope were packaged up in the potential for new international business due to a weaker pound, and employment levels remaining steady. This may be scant consolation if this Brexit hangover lasts much longer.

"But with business optimism at its most fragile since February 2009, the sector will be looking for strong, significant monetary policy decisions tomorrow, whether it is a change to interest rates or easing bias, to avoid this downward slide becoming the economic landscape for the months and years ahead. This dramatic drop in overall activity will be a reality check as much as it is unsettling, but it is just one month's worth of data and the next month will be more revealing."

-Ends-

The August UK Services PMI will be published on Monday September 5th 2016 at 09:30 UK / 08:30 UTC

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Note to Editors:

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@markit.com.

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