News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (UK / UTC) February 3rd 2017

Markit / CIPS UK Services PMI®

UK service sector growth eases at start of 2017

Key findings:

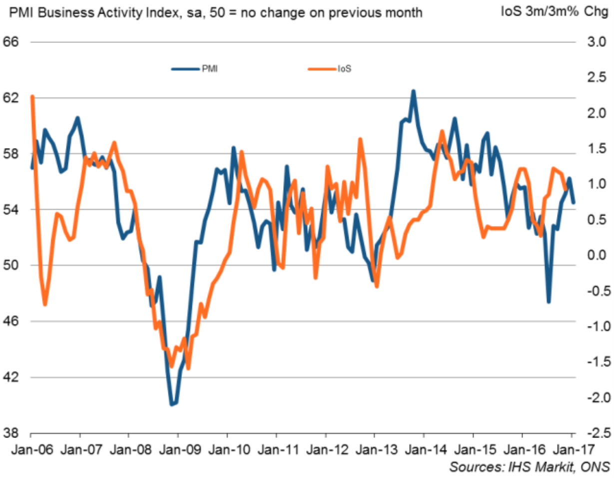
- Slowest rise in output since October
- Strongest business expectations since May 2016
- Input price inflation highest since March 2011

Data collected January 12-27

The UK service sector continued to expand at the start of 2017, according to the latest *PMI®* survey from IHS Markit and CIPS. That said, the pace of growth in total business activity moderated for the first time in four months. New business and employment also increased at slower rates, and outstanding work fell slightly. Inflationary pressures remained intense, with input price inflation accelerating to the highest since March 2011 and charges rising at a rate unchanged from December's 68-month record. More positively, business expectations improved to the strongest since May 2016.

The survey's headline figure is the seasonally adjusted Markit/CIPS Services PMI Business Activity Index, a single-figure measure designed to track changes in total activity. Readings above 50.0 signal growth compared with the previous month, and below 50.0 contraction. The Index remained above 50.0 for the sixth consecutive month in January, indicating a continued recovery in growth following a contraction last July linked to the EU referendum. That said, the Index fell for the first time since September to 54.5, and signalled the weakest expansion in three months. The rate of growth was solid overall, but slightly weaker than the 20-year long-run survey average.

Markit / CIPS UK Services PMI



New business also increased for the sixth consecutive month in January. The rate of growth was slower than in December, but nonetheless the second-fastest registered since January 2016. Meanwhile, the volume of outstanding business fell for the first time in three months, albeit only marginally.

Following the trends shown for activity and new work, employment in the UK service sector rose for the sixth consecutive month in January. The rate of job creation slowed to a five-month low, however.

Cost inflationary pressures remained elevated at the start of the year. The rate of input price inflation accelerated further to the highest since March 2011. Anecdotal evidence widely attributed cost pressures to fuel, salaries, freight charges and imports (in general linked to the weak pound).

Strong pressure on costs led firms to increase their own charges in January. The rate of inflation was unchanged from December's 68-month record, and above the long-run survey average.

The main positive finding from the latest survey was an uptick in service providers' expectations regarding activity at their units in 12 months' time. The overall degree of sentiment was the strongest since May 2016, and the equal-highest for a year-and-a-half. Positive sentiment was linked to new business pipelines, new product launches, low interest rates, diversification into new markets, marketing campaigns, a recovery in oil prices, greater political stability and clarity around Brexit.

Comments

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

"Service sector growth eased after a strong end to 2016, but the January surveys still point to a buoyant start to 2017 for the UK economy. The PMI surveys are collectively signalling that GDP will increase by a robust 0.5% in the first quarter, if current growth is sustained in coming months. Encouragingly, optimism about the coming year has risen to its highest in one-and-a-half years, improving across the board in all sectors to suggest that January's slowdown may only be temporary.

"The main area of concern is the extent to which companies' costs are rising across the economy, with the rate of inflation accelerating to a pace not seen since before the global financial crisis.

"There is evidence that higher costs are deterring some companies from taking on extra staff, with the January surveys finding employment to have increased at the slowest rate since August. Only construction companies stepped up their hiring at the start of 2017.

"Higher costs are feeding through to increased selling prices, which will inevitably put upward pressure on consumer prices. While the robust start to the year adds some justification to the Bank of England's improved outlook for 2017, the degree to which costs are rising threatens to test the tolerance of some policymakers in terms of their willingness to 'look through' what's likely to be a marked upturn in inflation in 2017."

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

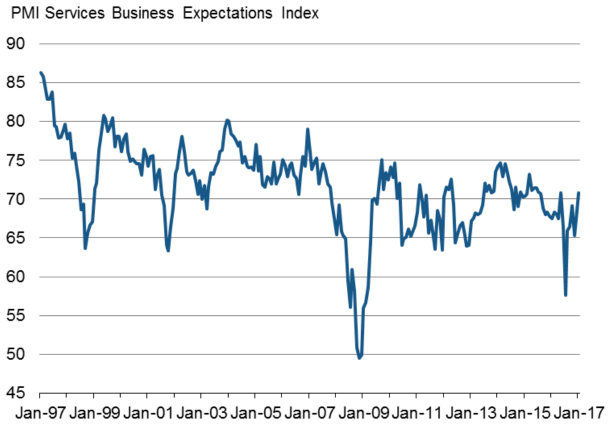
"The sector continued to enjoy good levels of activity this month, with more employment and with new business orders rising for the sixth consecutive month. However, the rate of overall expansion slowed a little which is a slightly disappointing start to the year.

"Supply chain managers reported that cost burdens were weighing down more heavily and impacting on their business for the seventh time in eight months. The triple whammy of rising fuel costs, salaries and higher import prices were keenly felt, and these rising costs may have also had an effect on the number of new jobs on offer, reflected in the rate of job creation which was at a five-month low.

"But, with business optimism rising for the second month in a row, the sector has defied the Brexit doomsayers and is poised to maintain growth in 2017. With one eye firmly on the inflationary landscape, which is likely to become a permanent fixture in the coming months, the sector will be challenged to maintain its current trajectory."

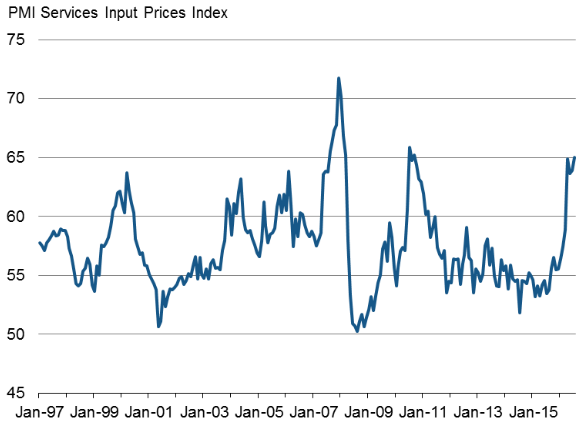
- Ends -

UK Services Business Expectations



Source: IHS Markit

UK Services Input Prices



Source: IHS Markit

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Note to Editors:

The February UK Services PMI will be published on Friday March 3rd 2017 at 09:30 UK / UTC.

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@ihsmarkit.com.

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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
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