

News Release

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

Markit / CIPS UK Services PMI®

Service sector growth eases to five-month low in February

Key findings:

- Business activity expands at slowest pace since September 2016
- Softer rise in new work, but business optimism remains strong
- Input cost inflation reaches an eight-and-a-half year high

Data collected February 10-24

UK service sector firms remained in expansion mode during February, but growth momentum eased further from the 17-month peak seen at the end of 2016.

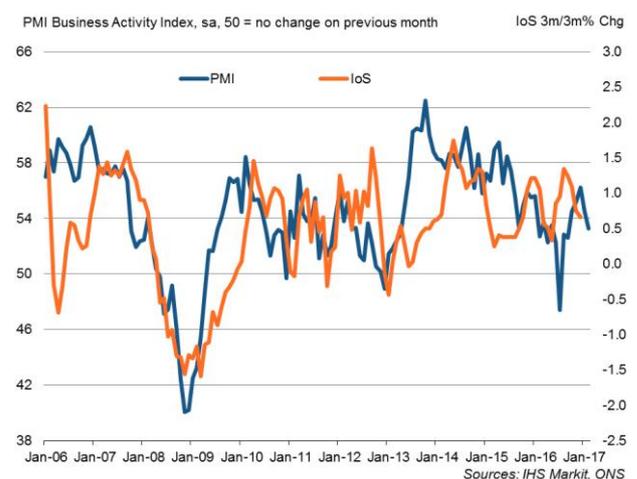
The slowdown mainly reflected a softer pace of new business growth, which some respondents linked to more cautious spending among consumers. Business confidence nonetheless remained strong, with service providers indicating that optimism was little-changed from the post-referendum high recorded at the start of this year.

Higher business costs were the main negative development in February, with average input prices rising at the steepest pace since August 2008. This led to the largest increase in prices charged by service providers for almost eight-and-a-half years.

At 53.3 in February, the headline seasonally adjusted **Markit/CIPS UK Services PMI® Business Activity Index** was down from 54.5 in January but still well above the 50.0 threshold that separates growth from contraction. The latest reading indicated the slowest expansion of overall business activity since last September. However, the index was broadly in line with its average for 2016 (53.2),

to suggest a solid underlying pace of service sector growth so far this year.

Markit / CIPS UK Services PMI



Higher levels of business activity were attributed to the resilient economic backdrop and another solid rise in new work. Nonetheless, there were also reports that squeezed consumer finances and increased operating costs had acted as a brake on growth. Reflecting this, latest data revealed the slowest expansion of new business intakes for five months.

A moderate pace of job creation was maintained across the service economy in February, although the latest rise in employment numbers was still subdued in comparison to the trend seen over the past four years. Additional staff hiring was linked to long-term expansion plans, new product development and greater workloads.

The additional hiring helped to alleviate capacity pressures, as highlighted by a marginal decline in backlogs of work at service providers.

February data pointed to a strong degree of positive sentiment regarding the year-ahead, with confidence about further activity levels little-changed from January's post-referendum peak. Survey respondents cited a sustained improvement in UK economic conditions and hopes that Brexit-related uncertainty would have a limited impact on client demand in the near term. That said, some firms noted concerns that sharply rising business costs and higher inflation had the potential to constrain growth in 2017.

Service sector cost inflation accelerated to its fastest for eight-and-a-half years in February, driven by supplier price increases in response to exchange rate depreciation. Increased transportation costs, rising energy prices and higher salary payments were also widely reported.

Comments

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

"A further slowdown in UK business activity growth in February adds to evidence that the economy has lost momentum after the impressive expansion seen at the end of last year. The PMI surveys are collectively signalling GDP growth of 0.4% in the first quarter.

"Weaker consumer spending was a key cause of slower service sector growth, suggesting that household budgets are starting to crack under the strain of higher prices and weak wage growth.

"The ongoing steep upturn in costs suggests that consumer price inflation has significantly further to rise, adding to our belief that inflation will breach 3% over the course of the next year.

"However, the slowdown in the pace of economic growth signalled by the February data pushes the PMI surveys back towards territory more indicative of additional policy stimulus from the Bank of England than a tightening. Policymakers are therefore likely to continue to stress the need to look through any further upturn in inflation and focus instead on the need to keep policy accommodative in the face of a likely further slowing in the pace of economic growth in 2017."

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

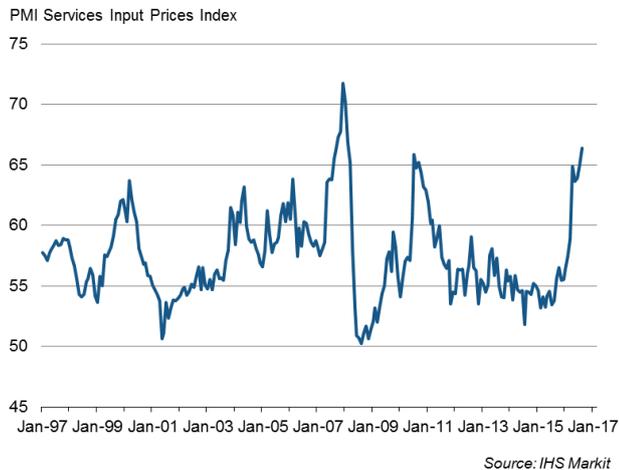
"The UK service sector continued to lose momentum in February, which causes concern that the main driver of growth in the UK economy is losing some vitality. Though still in positive territory, business activity expanded at the slowest pace since September 2016, largely reflecting a weaker upturn in new work.

"Exchange rate depreciation, rising energy costs and higher wage bills all had a profound impact on prices charged inflation, which was the highest since September 2008. Cautious consumer spending had a moderating impact on pricing power, but firms were still compelled to increase their charges to customers in anticipation of more cost pressures to come. This will have policymakers wondering whether consumers can continue spending as Brexit negotiations approach, or whether they rein back further in response to squeezed household budgets.

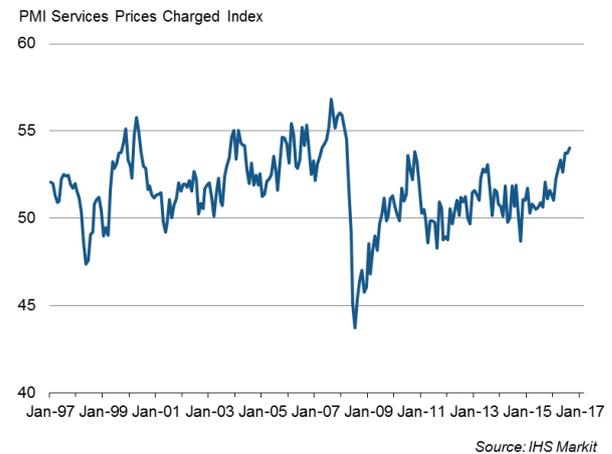
"In spite of all this, the service sector's optimism remained high, and there was sufficient confidence to maintain staffing levels in preparation for new products, expansion and increased competition."

- Ends -

UK Services Input Prices



UK Services Prices Charged



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 March UK Services PMI will be published on Wednesday 5th April 2017 at 09:30 UK (08:30 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.

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](#).