

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) June 5th 2018

IHS Markit / CIPS UK Services PMI[®]

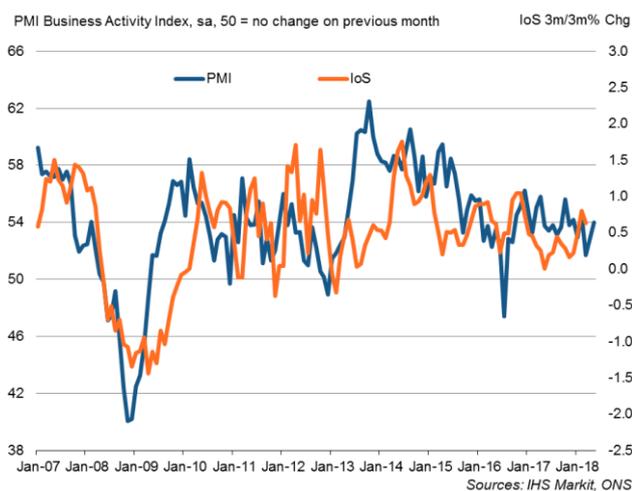
Business activity growth reaches three-month high, but strong cost pressures persist in May

Key findings:

- Service sector growth continues to recover from March's recent low
- New work expands at relatively subdued pace
- Sharp rise in input costs, driven by higher fuel bills and staff salaries

Data collected May 11-29

IHS Markit / CIPS UK Services PMI



May data revealed another improvement in business activity growth across the service sector, with the latest expansion the fastest for three months. However, new business volumes continued to rise at a relatively subdued rate, with survey respondents noting that Brexit-related uncertainty remained a key factor holding back decision making among clients. At the same time, tight labour market conditions placed upward pressure on staff wages and difficulties recruiting

suitably skilled staff in May. The latest increase in service sector employment numbers was the second-weakest since March 2017.

Adjusted for seasonal influences, the **IHS Markit/CIPS UK Services PMI[®] Business Activity Index** rose to 54.0 in May, up from 52.8 in April and comfortably above the 50.0 no-change value. The latest reading was the highest since February and signalled a solid upturn in overall business activity across the service economy. Service providers cited a catch-up from the snow-related disruption seen in the first quarter of 2018, alongside sustained growth of incoming new work.

Improved sales volumes were attributed to competitive pricing strategies, greater business investment and successful new product launches in May. However, the latest increase in overall new work received by service sector firms was still one of the weakest seen since the summer of 2016. Reports from survey respondents suggested that subdued consumer spending and Brexit-related concerns among large corporate clients had weighed on new business growth in May.

Service providers signalled only a moderate rise in employment numbers during the latest survey period. Anecdotal evidence indicated that delays in filling vacancies had dampened the rate of job creation recorded in May, with businesses widely commenting on a lack of suitably skilled staff.

A combination of rising salary payments and greater fuel bills resulted in another strong increase in average cost burdens across the service sector. Despite a sharper rise in operating expenses, the latest data pointed to only a modest increase in average prices charged by service providers. Moreover, the rate of charge inflation eased for the second month running to its weakest since June 2017. A number of firms noted that competitive pressures and the need to stimulate demand through promotional discounting had constrained their pricing power.

Meanwhile, business confidence across the service sector moderated for the third time in the past four months. Weaker growth expectations were linked to potential Brexit-related issues for business projects over the coming year, alongside concerns that subdued consumer demand would continue to weigh on UK economic conditions.

Comments

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

“The improvement in service sector activity adds to evidence that the economy is on course to rebound in the second quarter but, like the earlier manufacturing and construction surveys, raises questions about the outlook. So far, the three PMI surveys indicate that GDP looks set to rise by 0.3-0.4% in the second quarter.

“However, disappointing inflows of new work suggest that growth could wane in coming months as Brexit-related uncertainty continues to weigh on spending decisions and dampen business confidence. Measured across all major parts of the economy, new orders growth in the second quarter so far is running at the weakest since the third quarter of 2016.

“Meanwhile, costs are being pushed higher by rising oil prices and wages, although subdued demand means firms are struggling to pass these higher costs onto customers. Average selling prices for goods and services showed the smallest rise for 11 months in May.

“The signs of economic growth rebounding in the second quarter will likely up the odds of the Bank of England hiking interest rates again in coming

months, likely August, but with the forward looking indicators suggesting that the economy could relapse, a rate rise is by no means assured.”

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

“It felt as though the sector was losing its lifeblood this month as Brexit worries continued to claw away at confidence, new orders and business margins. The survey revealed clients and consumers were reluctant to spend with one of the lowest rises in new orders in the last two years, and though overall activity increased, it was at a restrained pace.

“A further attack in the form of a sharp increase in costs for fuel and wages, had businesses stepping up with new products and investment to stay ahead of the game and to prevent even more costs being passed on to squeezed consumers. Businesses were also looking for quality staff to gain the edge on their competitors, but talent shortages and salary hikes dampened the scope for significant hiring this month which was at its second weakest since March 2017.

“The sector will be looking for an urgent dose of clarity and direction from policymakers with Brexit less than a year away, because without a sound pipeline of new work coming through this creeping slowdown could become a state of stagnation, or worse.”

– Ends –

UK Services PMI New Business Index



Source: IHS Markit

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Note to Editors:

The June UK Services PMI will be published on Wednesday 4th July 2018 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.

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