

## News Release

**Purchasing Managers' Index<sup>®</sup>**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL 0930 (London) / 0830 (UTC) October 3<sup>rd</sup> 2018**

### IHS Markit / CIPS UK Services PMI<sup>®</sup>

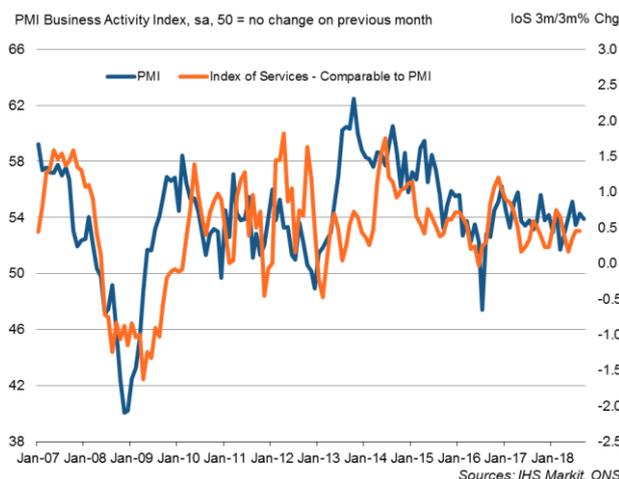
## Solid rate of service sector growth maintained in September, but input costs rise sharply

#### Key findings:

- Growth of business activity eases only slightly since August
- Job creation edges up to seven-month high
- Higher fuel prices lead to sharp rise in input costs

Data collected September 12-26

#### IHS Markit / CIPS UK Services PMI



September data pointed to another solid increase in business activity across the UK service sector, with the rate of growth easing only slightly since August. The latest survey indicated the fastest rise in employment numbers for seven months, which firms attributed to the need to alleviate stretched capacity and meet long-term business expansion plans. Meanwhile, higher fuel prices led to another sharp rise in input costs, but relatively subdued

demand conditions meant that output charges rose at the slowest pace since June 2017.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI<sup>®</sup> Business Activity Index** posted 53.9 in September, down from 54.3 in August. However, the latest reading was still above the 50.0 no-change value and slightly stronger than the average in 2018 so far (53.6). Higher levels of business activity were attributed to a solid increase in new work and competitive pricing strategies during September. Survey respondents noted that Brexit concerns among clients and heightened economic uncertainty remained the main constraints on growth.

Service providers indicated that new order growth eased slightly since August, which mirrored the softer trend seen for business activity. Resilient demand was reported in September, but a number of firms suggested that political uncertainty had weighed on business confidence and been a factor behind tighter budget setting among clients.

The solid rise in new work contributed to an accumulation of unfinished business at service sector companies in September. Backlogs of work have now increased in each of the past five months, with stretched capacity partly reflecting staff shortages.

Latest data indicated a moderate increase in employment numbers, with the rate of job creation the strongest since February. Anecdotal evidence suggested that tight labour market conditions had

led to difficulties filling vacancies and often pushed up starting salaries.

Higher wage bills and rising fuel prices resulted in a sharp increase in cost burdens across the service sector in September. The overall rate of input price inflation was the fastest for three months and well above the low seen in February. However, prices charged by service providers increased at only a moderate pace, with the latest rise the slowest for just over one year.

Service sector firms recorded a slight upturn in confidence regarding the business outlook during September, although the degree of optimism remained subdued in comparison to the survey average. Some companies cited hopes of a boost to activity from pent up client demand following the conclusion of Brexit negotiations. However, there were again widespread reports that political uncertainty and global trade tensions had weighed on overall growth projections.

## Comments

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

*“The service sector continued to report solid steady business growth in September which, alongside news of sustained expansions in both manufacturing and construction, suggests the UK economy expanded by just under 0.4% in the third quarter.*

*“The data therefore add to signs that the economy has enjoyed robust growth since the rocky start to the year, when extreme weather disrupted business.*

*“Brexit worries continue to dominate the outlook, however, keeping business optimism firmly anchored at levels which would normally be indicative of an imminent slowdown. Clarity on Brexit arrangements is therefore needed as soon as possible to help sustain growth.*

*“In a month during which oil prices spiked higher, it was no surprise to see cost pressures intensify, meaning consumer price inflation will have likely continued to run at a pace above the Bank of England’s 2% target in September, and will likely remain closer to 3% than 2% in coming months.*

*“The steady economic expansion and intensification*

*of cost pressures will add to views that the next move in interest rates will be another hike. However, with Brexit uncertainty intensifying in recent weeks, any rise seems unlikely prior to the scheduled March 29th exit from the EU.”*

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

*“Though the growth in services activity remained solid this month it was below the survey’s average, and there are still some potential challenges that could just tip the sector’s scales into more concerning territory.*

*“Gloom over Brexit continued to bear down on confidence which translated into client hesitancy over placing big ticket contracts. Longer delays in decision-making also contributed to the underwhelming pace of new order growth as a subdued UK economy failed to fill the void.*

*“Competition and hard-pressed consumers acted as a brake on prices charged by service providers in September. Businesses fought for their place in a competitive marketplace, absorbing much of the recent sharp rise in fuel costs and staff salaries. There was one bright spot for jobseekers, as though the pressure on businesses seeking talented staff remained, more jobs were created this month to improve on capacity and capability for work already in hand.*

*“This seesaw of good and bad news has the sector’s nerves jangled and frayed but optimism about the future improved a little from the previous month. Some firms are expecting the floodgate of new orders to be opened soon, but business confidence will remain at a low ebb in the last quarter if cost pressures deepen and negotiations around our EU departure remain unresolved.”*

– Ends –

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### Note to Editors:

The October UK Services PMI will be published on Monday 5<sup>th</sup> November 2018 at 09:30 UK (09:30 UTC).

Where appropriate, please refer to the survey as the IHS Markit/CIPS UK Services PMI<sup>®</sup>.

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](mailto:economics@ihsmarkit.com).

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#### About CIPS

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