Markit/CIPS UK Services PMI®

UK services growth weakest in nearly three years in February

Data collected 12-25 February

Key Points:
- Business activity and new work both expand at slowest rates since March 2013
- Employment growth at two-and-a-half year low
- Inflationary pressures remain weak

Summary:
The UK’s dominant service sector lost momentum in February, according to the latest PMI® survey data from Markit and CIPS. Growth of both total business activity and new business were the weakest since March 2013, leading firms to raise employment at the slowest pace in two-and-a-half years. More positively, the volume of outstanding work rose following January’s decline. The 12-month outlook for the sector improved to a three-month high, but remained weaker than the long-run survey average. Inflationary pressures remained weak, both in terms of input prices and prices charged by service providers.

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 seasonally adjusted Business Activity Index fell to 52.7 in February, from 55.6 in January. This signalled the slowest rise in service sector activity since March 2013. Moreover, the Index was below its long-run trend level (since July 1996) of 55.2. Nevertheless, services output has risen continuously for 38 months, the second-longest sequence of expansion in the survey history.

The weaker increase in services activity mainly reflected a slower expansion in the volume of incoming new business. New contracts received by UK service providers rose at the weakest pace in almost three years, with some firms commenting that rising levels of global economic uncertainty had resulted in delays in clients placing new orders. Meanwhile the total level of outstanding business rose, following January’s decline, but the rate of growth was only marginal.

Underlining the overall subdued nature of business conditions in the service sector was a slowdown in the rate of job creation for the third time in four months. Services employment rose at the slowest pace in two-and-a-half years.

The longer term outlook for activity improved slightly from January’s three-year low to the joint-strongest in five months. That said, expectations remained weaker than the trends shown in 2013, 2014 and 2015. Less than half of survey participants forecast growth at their units over the next 12 months, although only 8% expect a decline in business.
Average input prices rose in February, linked mainly to salaries. The rate of inflation remained historically weak, however, amid reports of lower fuel and energy prices. Subdued cost pressures and competition for business had a limiting effect on charges set by service providers during the month, with data signalling only a fractional overall rise.

Comment
Chris Williamson, Chief Economist at Markit, which compiles the survey:
“"The slowdown in February leaves the PMI surveys suggesting that economic growth could weaken to 0.3% in the first quarter, but there are downside risks to even this modest expansion.

"Despite rising slightly from January’s three-year low, business confidence in the service sector remained at a level which has historically presaged an imminent slowing in the economy to near-stagnation or worse in coming months.

"Survey responses reveal that firms are worried about signs of faltering demand, but boardrooms have also become unsettled by concerns regarding the increased risk of ‘Brexit’, financial market volatility and weak economic growth at home and abroad.

"The extent of the slowdown will be a shock to policymakers and surely puts to bed any talk of the Bank of England raising interest rates. The focus will instead increasingly shift to whether policymakers may soon need to dig deeper into their toolbox to introduce new measures to shore up the economy with additional stimulus, and what tools might be used.

"The drop in the services PMI completes a triple-whammy of disappointing survey news for February. Output growth hit ten- and seven-month lows respectively in construction and manufacturing, the former suffering from a housing market slowdown and the latter wounded by falling exports. However, the slowdown in services is arguably the most worrying, as the sector has provided an important support to UK economic growth in recent years, not least due to its sheer size. The survey suggests the economy’s main engine of growth is at risk of stalling.”

David Noble, Group Chief Executive Officer at the Chartered Institute of Procurement & Supply:
“A maelstrom of sluggish global economic performance and relatively subdued business confidence resulted in a downbeat message in February. The combined pressures from uncertainties around the EU referendum, China and Middle East crowded out any strong optimism for the future.

“Growth rates for both new work and overall business activity were the lowest since March 2013. Any new business was largely driven by increased marketing and networking efforts, new product launches and pipeline work finally becoming reality, and not from strong demand.

“Employment continued to rise for the 38th month in a row, but any hoped-for surge in staffing levels never materialised and some 12% of respondents cut jobs or failed to replace staff, to hold on to hard-won margins. With input price inflation still muted, any cost rises were attributed to salary increases to retain skilled staff or to meet future requirements of the National Living Wage. Some firms also mentioned a scarcity of professionals and increased demand for procurement and supply chain management staff to meet challenges ahead.”

The March Report on Services will be published on Thursday April 5 2016 at 09:30 UK / 08:30 UTC

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ness 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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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

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