

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (UK / UTC) November 3rd 2016

Markit / CIPS UK Services PMI®

Service sector growth accelerates in October

Key findings:

- Activity and new business both rise at strongest rates since January
- Strongest input price inflation since March 2011
- Charge inflation at five-and-a-half year record

Data collected October 12-27

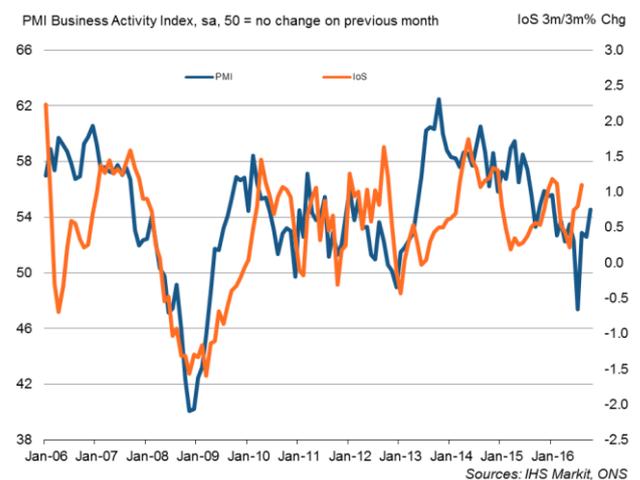
The latest *PMI*® survey data from IHS Markit and CIPS signalled that the dominant UK service sector moved up a gear at the start of the final quarter of 2016.

The rate of growth of total business activity accelerated to the fastest since January, as did new business expansion. The sector continued to generate more jobs, albeit at a weaker rate than the average seen over the past three years. Latest data also revealed a marked build up of inflationary pressures in the sector, linked to the weak pound.

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 UK Services Business Activity Index remained above the no-change mark of 50.0 for the third consecutive month in October, indicating a continued recovery in growth following a contraction in July linked to the EU referendum. Moreover, the Index rose to 54.5, from 52.6, signalling the fastest expansion since January.

Markit / CIPS UK Services PMI



Faster growth of total business activity was driven by a stronger expansion of incoming new business. New contracts rose at the fastest rate in nine months. Firms linked new work to new business opportunities, rising international demand linked to the weaker pound, improving market confidence and promotional campaigns.

Service providers in the UK continued to add to their workforces in October. Employment increased for the third month running, albeit with the rate of job creation remaining well below the marked rates achieved in 2014 and 2015.

The survey also showed that a weak pound drove a marked intensification of cost pressures at service providers in October. Input price inflation surged to the highest since March 2011, with a survey-record month-on-month acceleration. Aside from currency weakness in general, firms linked

higher costs to fuel, salaries and food prices. Subsequently, service providers increased their charges at the fastest rate since April 2011.

Business expectations continued to recover from July's near seven-and-a-half year low in October. Sentiment was the strongest since May, linked to new business opportunities (including export business), marketing, investments, new products and a general improvement in confidence.

Comments

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

“An encouraging picture of the economy gaining further growth momentum in October is marred by news that inflationary pressures are rising rapidly.

“Business activity is growing at a rate consistent with solid economic growth of 0.4-0.5% in the fourth quarter (the surveys suggest the initial 0.5% GDP growth estimate for the third quarter could be revised slightly lower). What’s especially reassuring is that growth is also becoming more balanced. Manufacturing is leading the expansion as exporters benefit from the weaker pound, but services growth is also reviving and construction is being boosted by renewed house building.

“The ugly flip-side of the weaker pound is clearly evident, however, with the rate of increase of service providers’ costs showing the largest monthly acceleration seen in 20 years of survey data collection. Costs are consequently rising at the fastest rate for over five years. If sustained, the increase in prices threatens to curb both corporate hiring and consumer spending, as firms seek to reduce staff costs and households see their pay eroded by rising inflation.

“Given the faster growth of both business activity and prices, it’s hard to see how the Bank of England would consider any further stimulus appropriate, though policymakers will most likely want to stand ready to act if the UK’s path to Brexit leads to an escalation of economic uncertainty.”

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

“Though weaker than the 20-year survey average, growth of overall activity sped up to its highest since January this year. Concerns over the EU referendum result showed some signs of dissipating as respondents commented on a re-focus on opportunities and ramped up marketing and sales promotions.

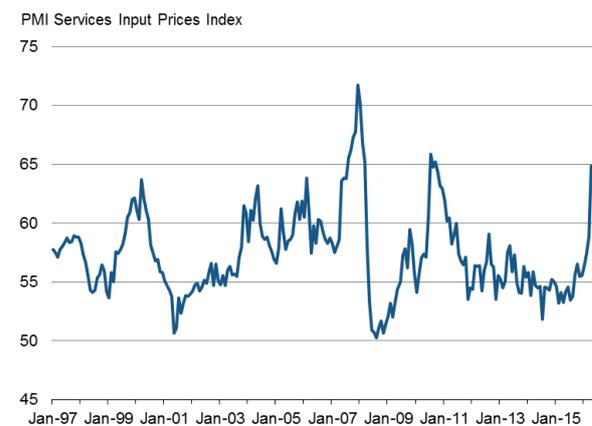
“However, business optimism remained lukewarm in spite of the spike in new orders and was below the long-term average of the survey’s history. Staffing levels showed a moderate improvement but at weaker levels than seen over the past three years.

“The exchange rate on the pound continued to be a blessing and a curse as opportunities for more export-related activity such as tourism improved. On the other hand, input price inflation accelerated to a level not seen since March 2011 as healthy margins were challenged. Higher food and fuel prices were highlighted.

“Businesses passed on these costs to consumers as the rate of charge inflation gathered speed to its fastest level since April 2011. Higher costs for food and cars were reported and are likely to have a further impact on the growth of the UK economy as the months of uncertainty around the referendum bear down on the sector.”

- Ends --

UK Services Input Prices



Source: IHS Markit

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 November UK Services PMI will be published on Monday December 5th 2016 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.

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 © 2016 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](#).