

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London / UTC) December 5th 2017

IHS Markit / CIPS UK Services PMI[®]

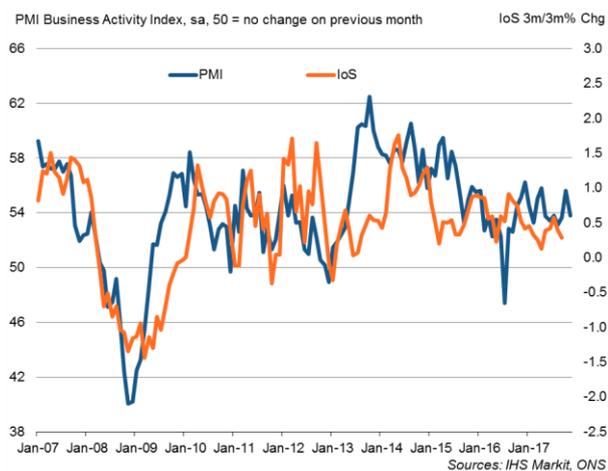
Service sector growth eases in November. Prices charged rise at fastest pace since February 2008.

Key findings:

- Business activity growth slows from October's six-month high
- Sharp and accelerated rise in prices charged by service providers
- Job creation remains subdued in November

Data collected November 13-28

IHS Markit / CIPS UK Services PMI



November data pointed to a setback for the UK service sector, with business activity growth easing from the six-month peak seen in October. Volumes of new work also increased at a slower pace, while the rate of staff hiring was the joint-slowest since March.

Service providers' optimism regarding the year ahead outlook for business activity picked up slightly in November, but remained weaker than the trend seen through the first half of 2017. Relatively subdued confidence was linked to heightened

economic uncertainty and ongoing pressure on margins from sharply rising input costs.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI[®] Business Activity Index** registered 53.8 in November, down from 55.6 in October, but above the 50.0 no-change value for the sixteenth consecutive month. The latest reading signalled a solid increase in service sector business activity, but the rate of expansion was slightly slower than seen on average in 2017 to date.

Reports from survey respondents attributed higher levels of business activity to a further solid upturn in new work. Nonetheless, the rate of new business growth also eased since October and was weaker than seen on average so far this year. Service sector companies commented on rising business and consumer spending during November, but some noted that stretched budgets and Brexit-related uncertainty had continued to act as a brake on growth.

There were signs of pressure on operating capacity at service sector firms in November, as highlighted by a rise in backlogs of work for the third time in the past four months. In some cases, survey respondents linked rising volumes of unfinished work to recruitment difficulties and a lack of suitably skilled staff.

Meanwhile, average cost burdens increased at a sharp and accelerated pace in November. The current phase of input price inflation remains the strongest since the first half of 2011, with survey respondents linking higher operating expenses to increased costs for energy, food, fuel, imported

items and staff salaries. Efforts to alleviate pressures on margins resulted in the fastest rise in prices charged by service providers since February 2008. Moreover, the rate of prices charged inflation was the second-fastest recorded since the survey began in 1996.

Latest data indicated only a moderate rise in employment numbers, with the rate of job creation unchanged from October's seven-month low. Some service providers noted that higher costs and uncertainty about the business outlook had weighed on staff hiring. November data indicated that service providers' optimism about the year ahead outlook remained much weaker than the long-run survey average.

Comments

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

"Slower service sector growth comes as a disappointment after the improved performances of both manufacturing and construction in November. However, despite the weaker service sector expansion, the latest survey data indicate that the economy is on course to enjoy robust growth in the fourth quarter. The survey data are so far consistent with the economy growing at a quarterly rate of 0.45% in the closing months of 2017.

"Future expectations ticked higher but nevertheless remain very low by historical standards, underscoring the potential for risk aversion to intensify and subdue growth if the news flow relating to Brexit deteriorates.

"Uncertainty about the economic outlook, linked commonly to Brexit worries, continued to permeate the business mood in November. However, for now, the survey data indicate that a sufficient degree of optimism in pockets of the economy, notably financial services, tourism, manufacturing and house building, is helping the economy as a whole to sustain steady growth.

"The big news is in relation to prices, with the PMI surveys pointing to the largest monthly increase in average prices charged for goods and services since August 2008; a time when oil prices soared just before the global financial crisis. Rising oil prices were again to blame in November, with firms also reporting the need to pass higher costs of a wide variety of other inputs on to customers as a

result of the weak pound having driven up import prices. As such, the survey data suggest that inflationary pressures have yet to peak."

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

"November's data painted a disappointing portrait of a sector struggling against Brexit-related uncertainty and a weaker economic outlook, as fewer jobs were created and overall activity dropped back from October's six-month high.

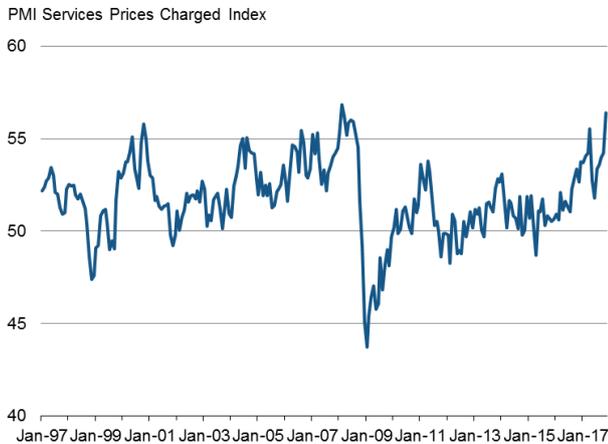
"Businesses could no longer fight against the tide of higher prices for food, fuel and salaries as input cost inflation remained close to its strongest for six years, and businesses passed these increases on to consumers at the fastest rate since February 2008. The level of new order growth lost some momentum, as inflation also ate away at household incomes for a double whammy effect on the UK population reluctant to spend.

"Purchasing managers voiced concerns that the dearth of skilled labour not only contributed to increased business costs due to demand for higher salaries, but that pressures on operating capacity intensified because recruitment had become more stilted.

"Optimism for the future was sustained and improved slightly but this is nothing to write home about. Though any uplift in sentiment is always welcomed, the levels of confidence were far from those seen during the highs of 2013-2016."

– Ends –

UK Services PMI Prices Charged Index



Source: IHS Markit

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Note to Editors:

The December UK Services PMI will be published on Thursday 4th January 2018 at 09:30 UK (09:30 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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