News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit / CIPS UK Services PMI®

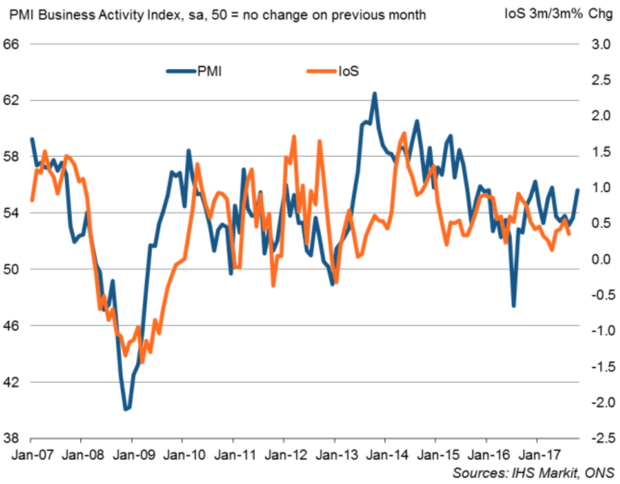
Strongest rate of business activity growth for six months in October

Key findings:

- Marked and accelerated rise in service sector output
- Growth of new work rebounds from September's recent low
- Input cost inflation eases to 13-month low

Data collected October 12-27

IHS Markit / CIPS UK Services PMI



UK service providers indicated that business activity growth improved on its recent underwhelming trend in October. The latest expansion of service sector output was the fastest since April, supported by improved order books and resilient client demand. Service providers also revealed a positive development in terms of operating expenses as the rate of input cost inflation eased to its lowest since September 2016.

However, the rate of job creation slipped to a seven-month low and confidence towards growth prospects remained muted. Fragile sentiment regarding the year ahead business outlook was linked to entrenched economic uncertainty and worries about business investment among clients.

At 55.6 in October, up from 53.6 in September, the headline seasonally adjusted **IHS Markit/CIPS Services PMI® Business Activity Index** signalled a shift in momentum across the services economy. The latest reading was slightly stronger than the post-crisis trend and signalled the fastest pace of business activity growth for six months.

Survey respondents noted that a rebound in new order growth from September's 13-month low had helped to lift business activity during October. Incoming new work increased at a solid pace that was the fastest since May. Anecdotal evidence cited a range of factors underpinning new business gains, including improved domestic demand and successful new product launches. In some cases, service providers also indicated a willingness to support sales by partially absorbing the recent spike in their operating expenses to retain competitive pricing.

October data pointed to slower employment growth across the service sector, despite the rebound in business activity and incoming new work. The latest increase in payroll numbers was the weakest since March. Reports from survey respondents suggested that more cautious hiring strategies reflected concerns about the longer-term demand outlook, alongside efforts to alleviate pressure on margins. There was little sign of stretched operating capacity during October, as backlogs of work decreased for the first time in eight months. Moreover, service providers remain cautious about future workloads, with business optimism well below its long-run trend and still softer than seen on average in the first half of 2017.

Input prices continued to rise sharply at service sector firms in October. This was linked to a variety of expenses, including higher food prices, energy bills, transport costs and staff salaries. However, the overall rate of input cost inflation eased to its lowest in over a year. Meanwhile, prices charged inflation continued to rise in October, reaching a six-month high.

Comments

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

"The latest PMI surveys bring mixed news on the economy. While an upturn in business activity growth adds some justification to the Bank of England's decision to hike interest rates for the first time in a decade, a deeper dive into the numbers highlights the fragility of the economy and points to downside risks for the outlook.

"The good news was that October saw business activity across services, manufacturing and construction grow at its fastest rate for six months. The data point to the economy growing at a quarterly rate of 0.5%, representing an encouragingly solid start to the fourth quarter.

"However, a downturn in business optimism about the year ahead, fueled mainly by Brexit-related uncertainty, suggests that risks are tilted to the downside as far as future growth is concerned. Not surprisingly, employment growth slowed for a second successive month as the business mood grew more cautious and risk averse.

"News on prices was also varied. Selling prices rose at an increased rate, but cost pressures eased, the latter suggesting selling future price inflation may cool, taking pressure off any need for further rate hikes any time soon."

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

"A mixture of forces were at play this month in the service sector, which reported the strongest growth in new business since May, but optimism remained subdued and there was a squeeze on profit margins as input prices continued to rise.

"Though the headline rate of cost inflation was more muted, businesses were paying more for salaries and for imported goods and those additional costs were being passed on to consumers at the fastest rate since April. Job creation eased to its weakest since March and the hesitancy to hire was partly a consequence of the need to contain rising overheads.

"But the main source of longer-term anxiety continues to be the path to Brexit. Service providers are concerned that political uncertainty is damaging the confidence to invest and weighing down on business optimism among their clients. At the same time, it remains to be seen whether consumers will be spooked by the recent rate rise and will curb their spending, adding to the service sector's uncertainty about future prospects."

– Ends –

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Note to Editors:

The November UK Services PMI will be published on Monday 5th December 2017 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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About PMI
Purchasing Managers' Index® (*PMI*®) surveys are now available for over 40 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.

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