

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) May 3rd 2018

IHS Markit / CIPS UK Services PMI®

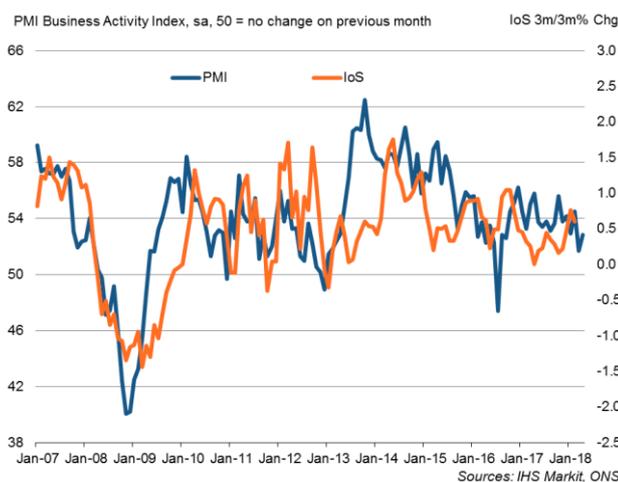
Service sector remains in slow lane

Key findings:

- Business activity rises at subdued pace in April
- Weakest upturn in employment since March 2017
- Inflationary pressures moderate

Data collected April 12-26

IHS Markit / CIPS UK Services PMI



UK service providers signalled a modest rebound in business activity growth following the snow disruptions seen during March. However, aside from the low point recorded last month, the latest upturn in service sector output was the softest for just over a year-and-a-half. Subdued new business growth persisted in April, which contributed to a further slowdown in the rate of job creation. Meanwhile, survey respondents also noted that higher payroll costs continued to drive up operating expenses and place a squeeze on margins.

At 52.8 in April, the seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity**

Index picked up slightly from March's 20-month low of 51.7. The latest reading still only signalled a moderate increase in service sector activity, with the rate of growth the second-weakest since September 2016.

A number of survey respondents noted that subdued consumer willingness-to-spend had held back business activity growth in April. Alongside the soft patch experienced by consumer-facing firms, there were also reports that concerns about the domestic economic outlook had acted as a brake on spending by corporate clients. Measured overall, latest data indicated the second-weakest rise in new business since August 2016 (exceeded only by last month's weather-related slowdown).

April data pointed to a marginal fall in backlogs of work at service sector firms, which ended a three-month period of expansion. Some companies cited the completion of work that had been delayed by snow disruption in March.

The rate of service sector employment growth moderated to its weakest since March 2017. Survey respondents noted that higher payroll costs and tight labour market conditions had weighed on staff recruitment in April. In particular, some firms commented that difficulties recruiting suitably skilled staff had prompted greater efforts to boost operational efficiency.

Higher salary payments continued to push up cost burdens across the service economy in April. Anecdotal evidence linked the latest rise in average

input costs to the increased national living wage and rising pension contributions. However, the overall rate of input price inflation eased since March and remained softer than at any time in 2017. Moreover, the latest rise in average prices charged by service sector firms was the joint-lowest since July 2017.

Despite the relatively subdued demand trends reported in April, latest survey data revealed an improvement in business confidence across the service sector. The balance of companies expecting a rise in business activity over the year ahead reached its highest level since January. This was attributed to forthcoming product launches, new marketing plans and discounting strategies.

Comments

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

“The services survey adds to signs that the rate of economic growth remained disappointingly subdued at the start of the second quarter. The three PMI surveys collectively showed only a muted rebound in business activity after being disrupted by heavy snowfall in March, failing to regain February’s pace of growth to suggest that the underlying performance of the economy has continued to deteriorate.

“The overall expansion signalled by the three surveys in April was the second-weakest since the Brexit vote, pointing to a quarterly rate of GDP growth of around 0.2% at the start of the second quarter.

“Jobs growth across services, manufacturing and construction has also slowed to its weakest since the referendum and inflationary pressures have eased.

“The surveys have indicated that sales, investment and hiring are being hit by uncertainty about the economic outlook as well as sluggish domestic demand, notably among consumers.

“The disappointing services data will add to expectations that the MPC will take its finger firmly off the rate hike trigger. Any further slowing will also raise questions as to whether the November rate hike may have been ill-timed.”

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

“At first glance the services sector has pulled itself up by its bootstraps and recovered from the previous month’s weather-related blip, but with overall growth at the second weakest since September 2016 it’s a matter of too little too late.

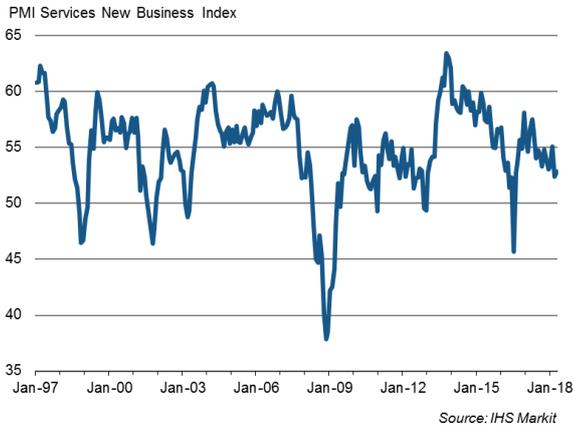
“This soft upturn is at a level below those seen at the beginning of the year and with new order growth barely rising above March’s subdued figure, it’s clear consumers are continuing to rein back spending.

“As a consequence we are seeing some potential stumbling blocks to the health of the sector as respondents pointed to the additional pincer movement of unsupportive economic conditions, and ongoing damage from Brexit uncertainty weighing down on business margins. This has impacted directly on employment levels with the lowest rises in staffing since March 2017 as businesses failed to find the staff needed at affordable salaries and the search for talent intensified.

“These millstones continue to bear down on the sector’s performance but as business optimism has bounced back from last month’s nine-month low, there’s hope that the sector’s efforts with new product launches and competitive marketing will keep the wolf from the door. But if household incomes are being squeezed, and pay rises are dawdling behind the cost of living, consumer-facing businesses are likely to find it difficult to tempt UK citizens to start spending again.”

– Ends –

UK Services PMI New Business Index



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Note to Editors:

The May UK Services PMI will be published on Tuesday 5th June 2018 at 09:30 UK (08:30 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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