News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London / UTC) February 5th 2018

IHS Markit / CIPS UK Services PMI®

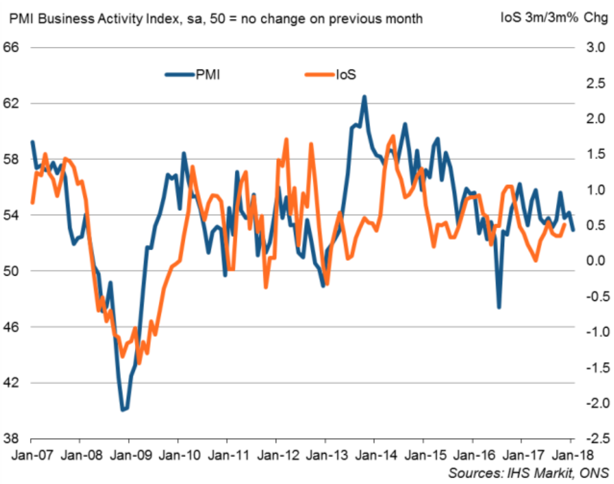
Activity growth softens in January amid subdued inflows of new work

Key findings:

- Services output rises at slowest pace since September 2016
- New order growth weaker than 2017 average
- Price pressures remain elevated, but wane as costs show smallest rise for 16 months

Data collected January 12-29

IHS Markit / CIPS UK Services PMI



Sources: IHS Markit, ONS

January data pointed to a slowdown in growth of services activity across the UK, which stemmed from relatively weak gains in new work. Job creation nonetheless picked up as companies retained positive expectations surrounding the outlook. Although the latest results revealed an easing of inflationary pressures, rates of increase in both input costs and output charges remained above their long-run trends.

Falling from 54.2 in December to 53.0 at the start of the year, the seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** indicated the slowest upturn in services output for 16 months. Growth was reportedly curtailed by the loss of existing clients and lingering concerns surrounding the UK's exit from the EU. Nonetheless, panellists mentioned that sustained rises in sales, acquisitions and new offerings underpinned output expansion.

Inflows of new business increased at a slightly quicker pace in January, with growth attributed to successful marketing campaigns, greater market shares and the offering of new services. That said, the overall rate of expansion was slower than seen during most of 2017, with the exception of September and December. Some panellists indicated that growth continued to be stymied by Brexit-related uncertainty.

Service providers further engaged in hiring, with employment having now increased continuously for one-and-a-half years. Moreover, the rate of job creation accelerated slightly to a four-month high. Anecdotal evidence suggested that the upturn in headcounts reflected the opening of new branches, projects in the pipeline and positive output expectations.

Indeed, services firms remained optimistic that business activity will be higher over the course of the year, with business confidence the strongest since last March. Sentiment was boosted by planned increases in capex, advertising efforts and greater market shares.

Survey data highlighted mild capacity pressures in the service economy. Outstanding business increased on the back of ongoing expansions in new work and shortages of some inputs. However, there were also mentions of deteriorating productivity among a few firms.

Meanwhile, selling prices were raised as companies attempted to protect profit margins given strong upward pressure on cost burdens. Despite being above its long-run path, the rate of charge inflation softened to a four-month low. According to evidence supplied by service providers, charge inflation was curbed by competitive conditions.

Input costs also rose at a robust pace amid higher prices for insurance, fuel, transport and food in particular. The overall rise in costs was nonetheless the smallest since September 2016.

Comments

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

"The pace of UK economic growth slowed sharply at the start of the year as January saw a triple-whammy of weaker PMI surveys.

"Service sector expansion slid to a 16-month low, reflecting a marked waning in growth of demand for business and consumer-facing services such as hotels and restaurants. Demand for transport and communication services was down for the second straight month.

"The softer service sector growth follows news of the manufacturing upturn losing momentum at the start of the year and a near-stagnant construction sector. All together, the PMI surveys point to the slowest pace of expansion since August 2016.

"While the fourth quarter PMI readings were historically consistent with the economy growing at a resilient quarterly rate of 0.4-0.5%, in line with the recent GDP estimate, the January number signals a growth rate of just under 0.3%

"The January slowdown pushes the all-sector PMI into dovish territory as far as Bank of England monetary policy is concerned, historically consistent with a loosening bias. With the survey also indicating weaker upward price pressures, the data therefore cast doubts on any imminent rise in interest rates."

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

"Brexit blame has emerged once again as the reason for the slowdown in growth of services activity, which was at its lowest since September 2016 as consumers reined in spending and displayed anxieties about the future.

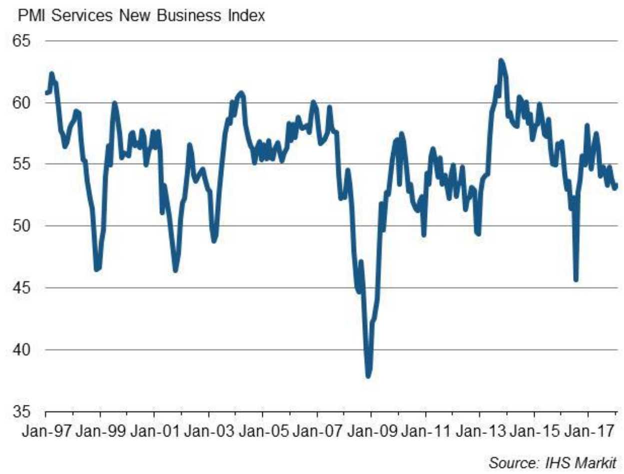
"However, this lack of confidence appeared to be at odds with companies as there was a significant rise in business expectations to the highest for almost a year. Some firms were also discounting to remain competitive and launching new products, which is a strong indicator that businesses expect consumers to start spending again soon.

"But it is the impact of rising costs that will place a further strain on business profits as costs continued to rise as a result of the weak pound, and the sector had higher costs for fuel, salaries and food to contend with. Despite another rise in employment, the biggest since September, higher salaries continued to be a burden to the bottom line as recruiting skilled staff remained difficult.

"Some companies were comfortable with passing on their higher costs to consumers, the majority decided to take the hit themselves. However there will be a tipping point where profit margins cannot take the strain any longer and prices to consumers will rise further, so this spending blip could become a more entrenched position."

– Ends –

UK Services PMI New Business Index



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Note to Editors:

The February UK Services PMI will be published on Monday 5th March 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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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 https://ihsmarkit.com/products/pmi.html.

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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