

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (London) / 0830 (UTC) June 5th 2017

IHS Markit / CIPS UK Services PMI[®]

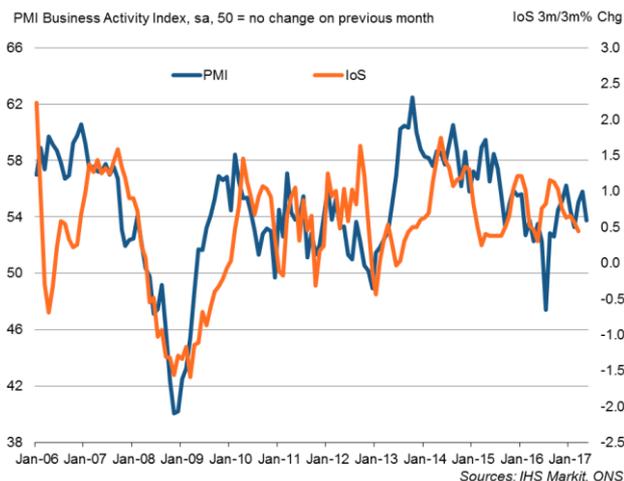
Service sector growth slows in May

Key findings:

- Business activity rises at weakest pace since February
- Slight loss of momentum for new business growth
- Input cost inflation eases to eight-month low

Data collected May 12-26

IHS Markit / CIPS UK Services PMI



May data highlighted a renewed slowdown in business activity growth across the UK service economy, following the four-month peak achieved in April. This partly reflected a softer pace of new order growth, which survey respondents linked to squeezed household budgets and, in some cases, delayed decision making among clients ahead of the General Election. There were positive developments in terms of cost pressures during May, with the latest survey pointing to the least marked rise in input prices since September 2016.

This resulted in a moderation in output charge inflation from April's near-nine year peak.

The headline seasonally adjusted **IHS Markit/CIPS Services PMI[®] Business Activity Index** registered 53.8 in May, to remain above the 50.0 no-change value for the tenth consecutive month. However, the index dropped from 55.8 in April and signalled the slowest expansion of service sector output since February. Anecdotal evidence from survey respondents mainly cited weaker new business growth in May.

Service providers indicated a further solid upturn in new business volumes, but the rate of expansion was the least marked for three months. The slowdown in new order growth was partly linked to short-term factors, particularly delays with decision making ahead of the election. However, survey respondents also commented on intense competition for new work amid squeezed consumer budgets. Some firms also noted that heightened economic uncertainty had acted as a brake on business-to-business sales growth in May.

The rate of employment growth across the service sector was little-changed since April, albeit still modest in comparison to the post-crisis peak seen in mid-2014. After a brief pause to staff hiring last July, service providers have now reported ten months of sustained job creation. The latest rise was linked to new project starts and efforts to boost operating capacity. Although only modest, latest data pointed to the fastest rise in backlogs of work since November 2016.

Looking ahead, service sector firms are relatively upbeat about their growth prospects, with around 44% expecting a rise in business activity over the year ahead and only 8% anticipating a decline. Business optimism was linked to new product initiatives, hopes of a resilient UK economic backdrop and rising demand from overseas clients.

Meanwhile, survey data for May revealed another slowdown in input cost inflation from the peak seen in February. Where a rise in input prices was reported, this was attributed to higher staff salaries and an across the board increase in prices charged by suppliers. At the same time, strong competition for new work and softer rates of input cost inflation led to the weakest rise in prices charged by service sector firms since November 2016.

Comments

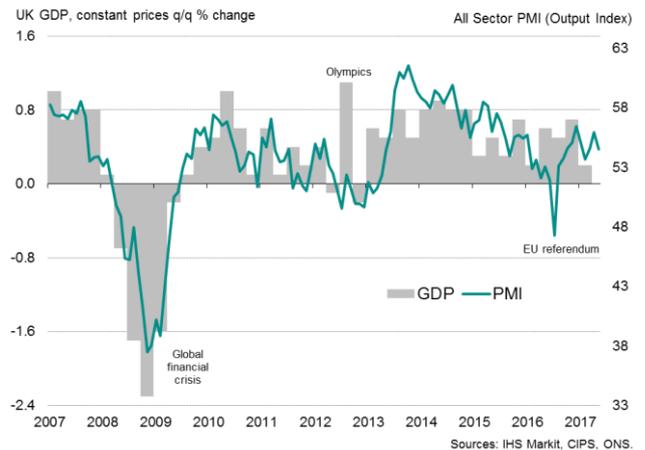
Chris Williamson, Chief Business Economist at IHS Markit, which compiles the survey:

“Despite slower growth in May, the surveys indicate that the economy has regained some momentum in the second quarter. The three PMI surveys are running at levels that are historically consistent with GDP growing at a robust 0.5% rate, albeit with the slowing in May posing some downside risks to the near-term outlook.

“Optimism about the year ahead is running below the long-run average, weighed down principally by concerns over Brexit, political uncertainty and weaker spending by households. However, at the moment firms generally remain upbeat and very much in expansion mode: the employment indicators from the three PMI surveys are consistent with around 30,000 private sector jobs being added each month

“Continuing the trend seen in recent months, consumer focusing businesses are reporting the slowest growth. However, the latest survey data also showed that input cost pressures have eased, suggesting consumer price inflation may likewise cool later this year, alleviating some of the squeeze on household budgets from higher prices.”

UK PMI and GDP compared



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

“The powerhouse driving UK GDP lost some of its force this month, with the weakest performance since February, revealing a fragility out of sync with the other sectors which were fired up and running.

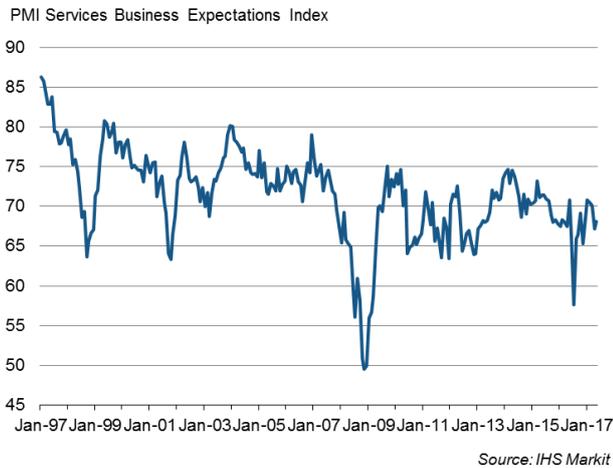
“It was clear that slower new business growth let the side down, impacted by caution around the General Election, and a tightening of purse strings. Not even stiff competition between businesses absorbing higher prices for food and the effects of the National Living Wage, could tempt consumers to spend.

“Disappointingly, businesses also delayed crucial buying decisions on the back of lingering doubts around the strength of the economy which in turn affected job creation. Mirroring the trend for new business, employment growth was disappointing compared to April’s four-month peak. But, this hesitation may have to change, as the rising levels of backlogs, growing at the fastest rate since November 2016, will need skilled staff in the right numbers to keep the sector growing.

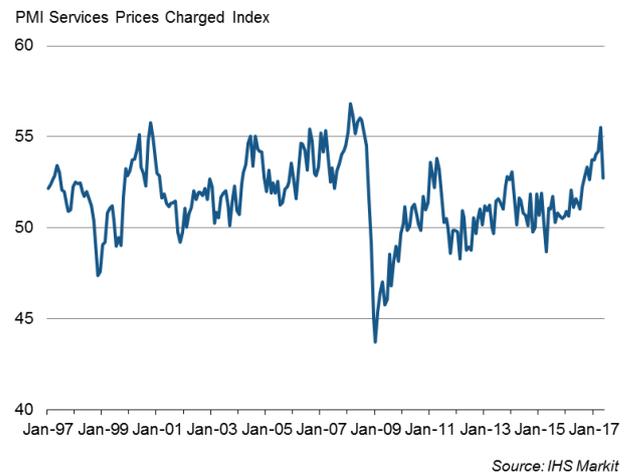
“Though optimism for the future was slightly elevated compared to April, an overall weakening since the start of 2017 shows how vulnerable the sector can be under pressure as a new government waits in the wings.”

- Ends -

UK Services Business Expectations



UK Services Prices Charged



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Note to Editors:

The June UK Services PMI will be published on Wednesday 5th July 2017 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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About CIPS

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