

IHS MARKIT / CIPS UK SERVICES PMI®

Business activity growth edges up to a nine-month high in July

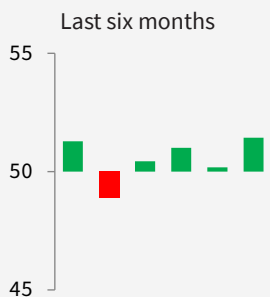
KEY FINDINGS

Modest increase in service sector output

Rebound in new work, helped by export sales

Business expectations ease to a four-month low

UK SERVICES BUSINESS ACTIVITY INDEX



July data signalled a slight improvement in the performance of the UK service sector, with a renewed increase in new work supporting the fastest pace of business activity growth since October 2018. However, the rate of expansion remained subdued overall and much softer than seen on average over the past decade. Meanwhile, job creation softened in July and business expectations for the year ahead eased to the weakest since March.

At 51.4 in July, the seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered above the 50.0 no-change mark for the fourth consecutive month and signalled a modest increase in service sector output. The latest reading was up from 50.2 in June and the highest for nine months, but still well below the trend recorded since the recovery from the global financial crisis began in the second half of 2009 (54.4).

Higher levels of business activity were driven by a solid rebound in new work during July. The rate of new business growth was the strongest since September 2018. There were again widespread reports that domestic political uncertainty had held back decision-making among clients, particularly large corporates.

A number of survey respondents commented on improved sales to clients in external markets, helped by the weak sterling exchange rate against the euro and US dollar. Moreover, the latest survey indicated the

fastest increase in new work from abroad since June 2018.

Service providers reported a modest increase in staffing levels during July, but the rate of expansion eased since the previous month. A lack of pressure on business capacity continued to dampen employment growth, as highlighted by a drop in backlogs of work for the tenth month running. In some cases, service providers noted that rising payroll costs had also resulted in more cautious hiring strategies.

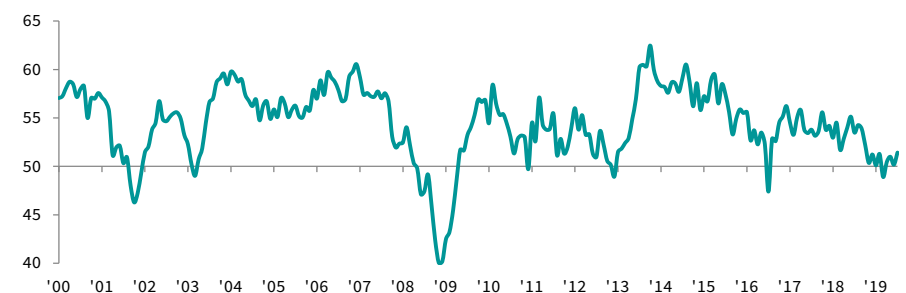
Latest data indicated another sharp rise in average cost burdens across the service economy. The rate of input price inflation was unchanged since June and still below the levels seen in 2018. Companies reporting a rise in their business expenses generally cited the weak pound, higher staff wages and greater fuel prices.

Meanwhile, prices charged by service sector firms increased at only a modest pace, reflecting intense competition for new work and a resultant squeeze on margins.

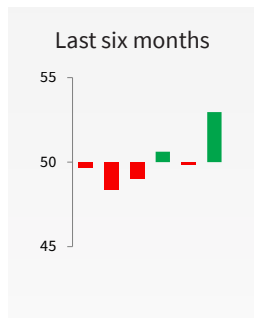
Business optimism towards the year-ahead outlook eased for the second month running and reached its lowest level since March. Survey respondents continued to cite domestic political uncertainty and concerns about the global economic outlook, although some firms noted hopes of a boost from pent up demand following clarity about the path to Brexit.

Services Business Activity Index

sa, >50 = growth since previous month



NEW BUSINESS INDEX



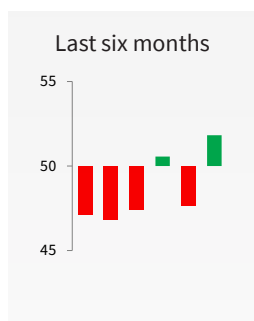
July data signalled a rebound in new work across the service sector, following stagnant sales volumes in the previous month. Moreover, the seasonally adjusted New Business Index pointed to the fastest pace of expansion since September 2018.

There were a number of reports that the weak sterling exchange rate had helped to stimulate demand from overseas, especially Europe and the US. At the same time, service providers noted that Brexit uncertainty had led to delayed customer spending decisions.

New Business Index



NEW EXPORT BUSINESS INDEX



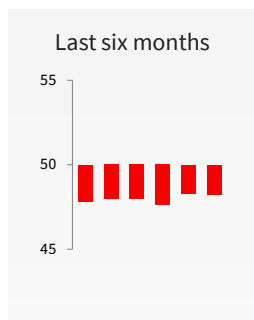
Mirroring the trend for total new business intakes, latest data indicated a return to growth for export sales at service sector companies. Adjusted for seasonal influences, the New Export Business Index was the highest since June 2018, although the rate of expansion was only modest.

Survey respondents reporting a rise in new work from abroad often cited a competitive boost from exchange rate depreciation against the euro and US dollar.

New Export Business Index



OUTSTANDING BUSINESS INDEX



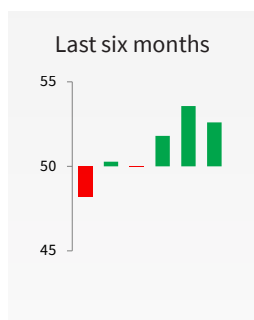
The seasonally adjusted Outstanding Business Index registered below the 50.0 no-change value for ten months running in July, thereby signalling another reduction in backlogs of work at service sector companies.

Anecdotal evidence cited spare business capacity and a lack of new work to replace completed projects following a sustained period of subdued demand in the first half of 2019.

Outstanding Business Index



EMPLOYMENT INDEX



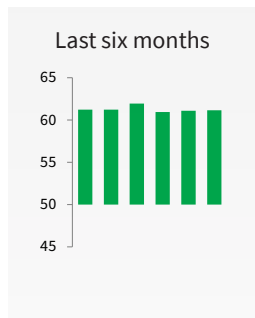
Staffing numbers increased for the fourth time in the past five months during July. The seasonally adjusted Employment Index eased slightly from June's 22-month high, but still pointed to a reasonably solid rate of job creation.

Higher levels of employment were attributed to business expansion plans and hopes of an improved outlook for the UK economy. Service providers continued to note difficulties recruiting and retaining skilled staff.

Employment Index



INPUT PRICES INDEX



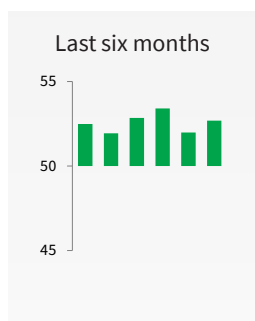
A strong rate of input cost inflation persisted across the service economy in July. However, the seasonally adjusted Input Prices Index was unchanged since June and remained slightly lower than seen on average in 2018.

Survey respondents cited a range of factors leading to higher cost burdens in July, including rising salaries, greater fuel prices and exchange rate depreciation against the US dollar.

Input Prices Index



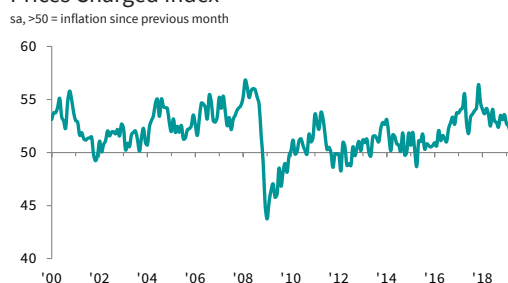
PRICES CHARGED INDEX



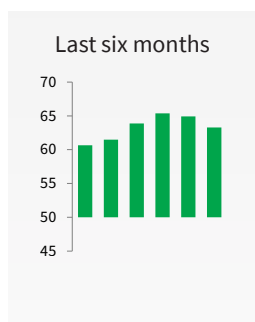
Despite another robust increase in input costs, latest data revealed only a modest rise in average prices charged by service sector companies.

Anecdotal evidence suggested that subdued customer demand and subsequent promotional discounting for new clients had held back prices charged inflation and contributed to a squeeze on operating margins during July.

Prices Charged Index



FUTURE ACTIVITY INDEX



July data indicated another setback for business optimism across the service sector, with the Future Activity Index easing to a four-month low.

There were widespread reports that domestic political turmoil had dampened business expectations in July. However, some service providers cited hopes that pent up demand would drive up business activity in the year ahead after a resolution of Brexit uncertainty.

Future Activity Index



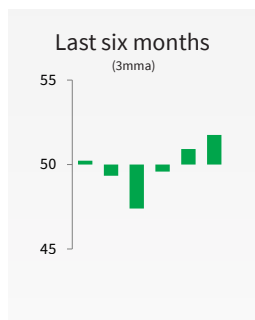
INDEX SUMMARY

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
02 '19	51.3	49.7	47.1	47.8	48.2	61.2	52.5	60.7
03 '19	48.9	48.4	46.8	48.0	50.3	61.2	51.9	61.5
04 '19	50.4	49.0	47.4	48.0	49.9	61.9	52.8	63.9
05 '19	51.0	50.6	50.6	47.6	51.8	60.9	53.4	65.4
06 '19	50.2	49.9	47.7	48.3	53.6	61.1	52.0	64.9
07 '19	51.4	53.0	51.8	48.2	52.6	61.1	52.7	63.3

SERVICES SUB-SECTORS

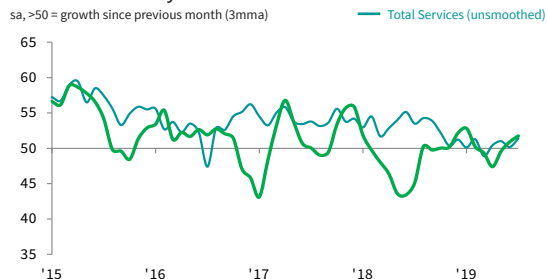
HOTELS, RESTAURANTS & CATERING



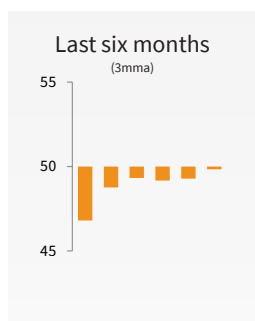
Latest data revealed a moderate rise in business activity at Hotels, Restaurants & Catering companies. The rate of expansion was the fastest since the start of 2019.

Hotels, Restaurants & Catering continued to register the strongest cost inflation of all sub-sectors monitored by the survey.

Business Activity Index



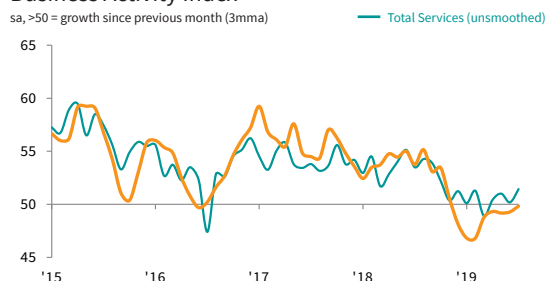
TRANSPORT & COMMUNICATION SERVICES



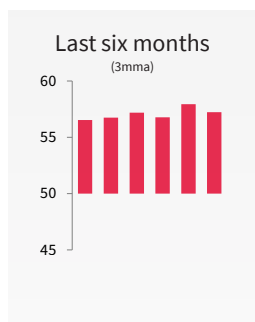
Transport & Communication service providers recorded a fractional decline in business activity during the three months to July.

The sub-sector signalled a sharp drop in backlogs of work and remained the least optimistic about the year ahead business outlook.

Business Activity Index



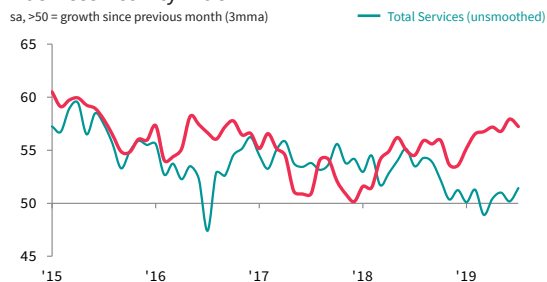
COMPUTING & IT SERVICES



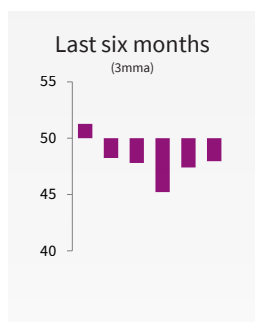
Computing & IT companies reported another robust expansion of business activity during the latest survey period, with the sub-sector the best performing area of the service economy.

A strong rate of job creation was also maintained among Computing & IT businesses during the three months to July.

Business Activity Index



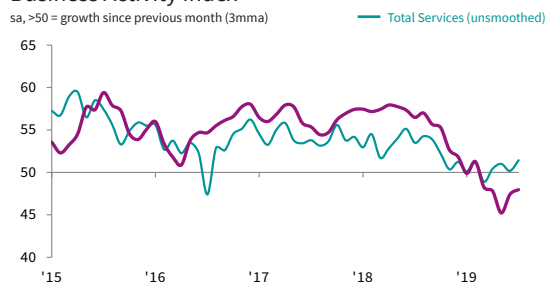
FINANCIAL INTERMEDIATION



Financial Intermediation continued to underperform relative to all other sub-categories of service activity in the three months to July. However, the latest decline was only marginal.

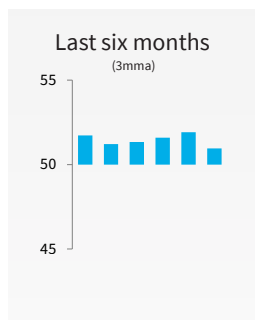
Business optimism at Financial Intermediation companies was still close to the seven-year low recorded in the three months to April.

Business Activity Index



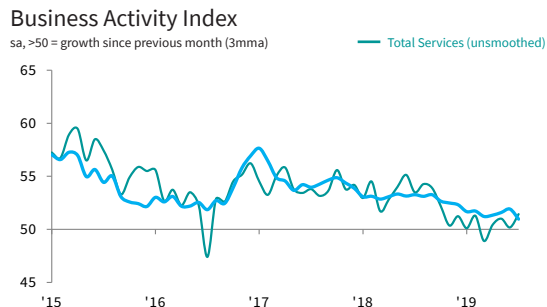
SERVICES SUB-SECTORS

BUSINESS-TO-BUSINESS SERVICES

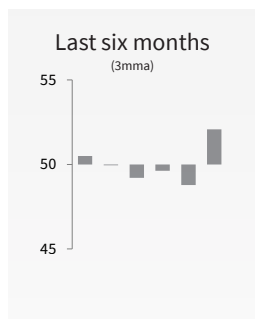


Business-to-business service providers reported a marginal increase in activity during the three months to July. However, the rate of expansion eased to its weakest since the third quarter of 2012.

The sub-sector nonetheless continued to performed well in terms of job creation, with employment growth unchanged from the two-year high seen in the previous survey period.

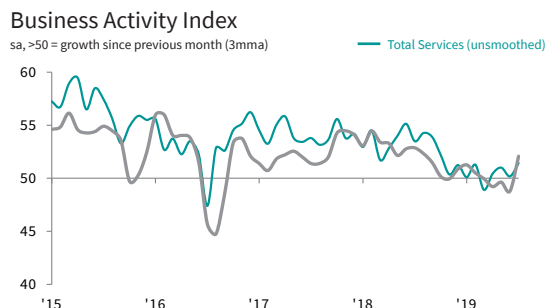


OTHER PERSONAL & COMMUNITY SERVICES



Business activity rebounded in the Other Services category during the three months to July. The rate of output expansion was also the strongest for almost one year.

However, job shedding persisted in this sub-sector, with the rate of workforce reduction the sharpest of all six categories monitored by the survey.



Services Sub-sector Index Summary, May - Jul '19

sa, 50 = no change over previous month (3mma). *50 = no change over next 12 months (3mma).

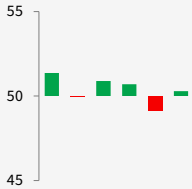
	Business Activity	New Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
Hotels, Restaurants & Catering	51.8	51.9	43.4	49.4	79.0	59.0	62.3
Transport & Communication Services	49.8	49.4	43.8	50.2	65.8	54.0	57.9
Computing & IT Services	57.2	55.8	50.5	56.3	57.0	53.0	73.7
Financial Intermediation	48.0	49.1	45.9	54.9	57.2	50.3	59.6
Business-to-Business Services	51.0	50.5	47.4	53.5	60.1	52.4	63.7
Other Personal & Community Services	52.1	52.6	49.0	47.8	60.4	51.8	61.7

IHS MARKIT UK ALL SECTOR PMI®

Service sector growth offset by falls in manufacturing and construction output

ALL SECTOR OUTPUT INDEX

Last six months



All Sector PMI indices are weighted averages of comparable manufacturing, construction and services PMI indices. Weights reflect the relative size of the manufacturing, construction and service sectors according to official GDP data.

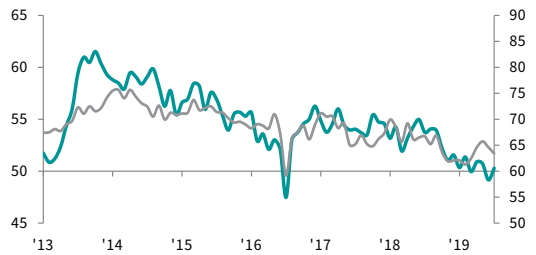
The UK All Sector Output Index is a weighted average of the UK Manufacturing Output Index, the UK Total Construction Activity Index and the UK Services Business Activity Index.

At 50.3 in July, the seasonally adjusted All Sector Output Index picked up from 49.2 in June and signalled a fractional expansion of private sector business activity.

Stronger growth of service sector activity was offset by the steepest fall in manufacturing production for seven years, as well as another reduction in construction sector output.

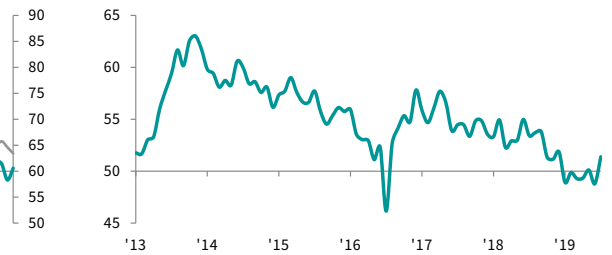
Output Index

sa, >50 = growth since previous month



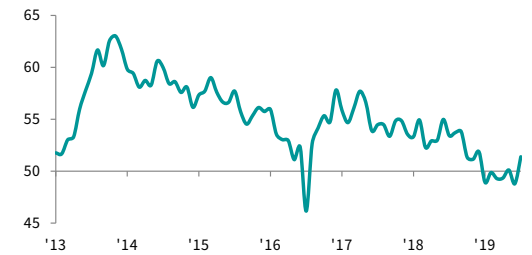
Future Output Index

>50 = growth expected over next 12 months



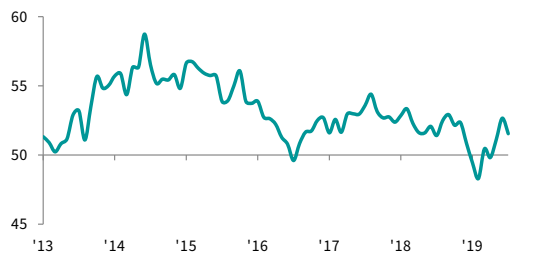
New Business Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



Input Prices Index

sa, >50 = inflation since previous month



All Sector Index summary

sa, 50 = no change over previous month. *50 = no change over next 12 months.

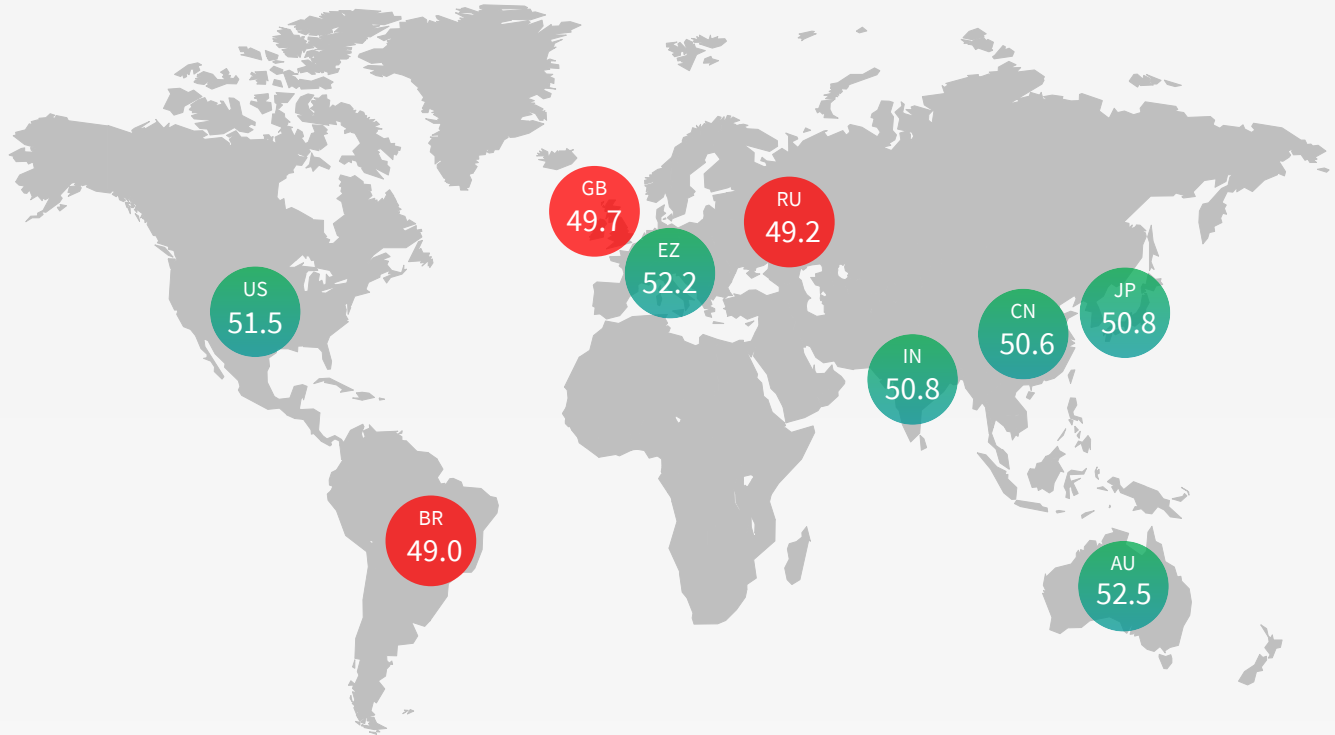
	Output	New Business	Employment	Input Prices	Future Output*
02 '19	51.4	49.9	48.3	60.3	61.3
03 '19	50.0	49.3	50.4	60.6	62.5
04 '19	50.9	49.3	49.8	61.3	64.6
05 '19	50.7	50.1	51.1	60.0	65.7
06 '19	49.2	48.8	52.7	60.1	64.6
07 '19	50.3	51.4	51.5	59.7	63.4

INTERNATIONAL PMI

Composite Output Index, Jun '19

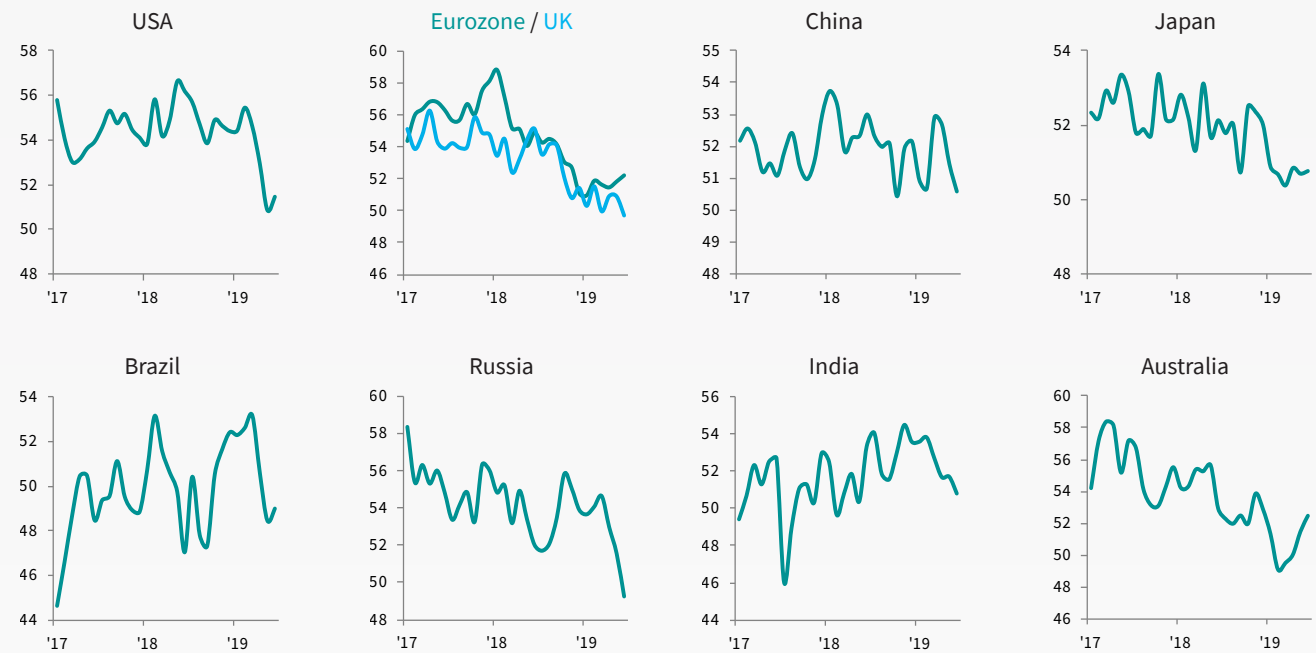
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index

sa, >50 = growth since previous month



Methodology

The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The All Sector Output Index is a weighted average of the Manufacturing Output Index, the Construction Total Activity Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing, construction and service sectors according to official GDP data.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

July data were collected 12-29 July 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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