

IHS MARKIT / CIPS UK SERVICES PMI®

Service sector growth slows in August

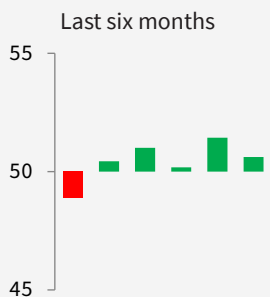
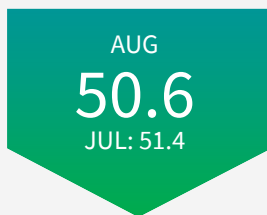
KEY FINDINGS

Weaker rises in business activity and new work

Margins squeezed by sharpest cost inflation since January

Growth projections drop to lowest since July 2016

UK SERVICES BUSINESS ACTIVITY INDEX



UK service providers indicated that business activity growth lost momentum during August and remained subdued in comparison to the trends seen over much of the past decade. The latest survey also revealed slower increases in new work and staffing levels, which was often linked to sluggish underlying economic conditions.

Service sector firms meanwhile indicated a sharp drop in optimism towards the business outlook. Confidence regarding activity during the next 12 months hit its lowest since July 2016, primarily reflecting concerns about the impact of domestic political uncertainty on client decision-making.

The seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 50.6 in August, down from 51.4 in July and signalling only a marginal expansion of service sector output. The index has posted above the 50.0 no-change value for five consecutive months, but the latest reading was the lowest since June and well below the long-run average (54.9).

Softer growth of service sector output largely reflected a slower rise in new business intakes during August. Reports from survey respondents cited a sustained headwind from Brexit-related uncertainty and subdued corporate spending. Moreover, new export work stalled, following a modest expansion in July. A number of firms noted a boost to overseas sales from the weak sterling

exchange rate, but there were also reports that some European clients had delayed committing to new projects in response to heightened political uncertainty.

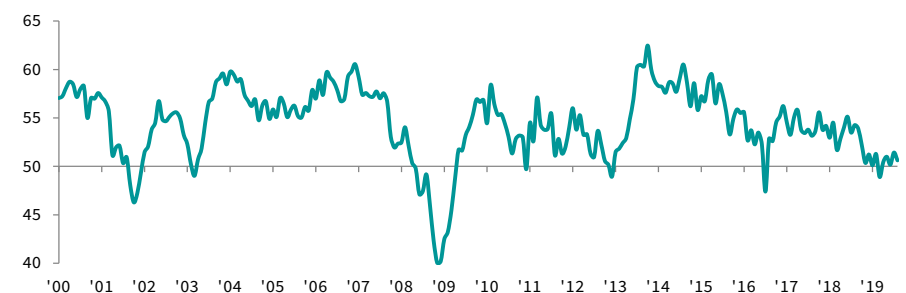
Backlogs of work were reduced for the eleventh successive month, which represents the longest period of decline since 2011/12. Service providers indicated that a combination of rising employment numbers and weaker new business growth had helped to alleviate pressures on business capacity. That said, the latest rise in staffing numbers was the slowest since the current period of expansion began in May.

August data pointed to a fall in business optimism for the third month in a row. The latest survey indicated that the degree of confidence about the growth outlook across the UK service sector is now the lowest for just over three years. Survey respondents widely commented on concerns that domestic political and economic uncertainty would have a negative impact on business investment and client demand.

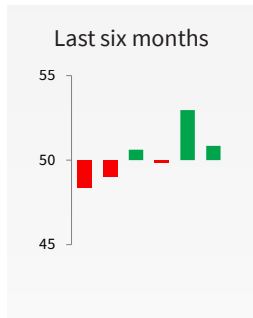
Meanwhile, the latest survey highlighted intense pressure on operating margins at service sector companies. Input price inflation accelerated to its strongest since January, driven by reports of higher staff wages, rising fuel costs and greater utility bills. However, intense competition for new work meant that prices charged by service providers increased at the slowest pace for just over three years.

Services Business Activity Index

sa, >50 = growth since previous month



NEW BUSINESS INDEX

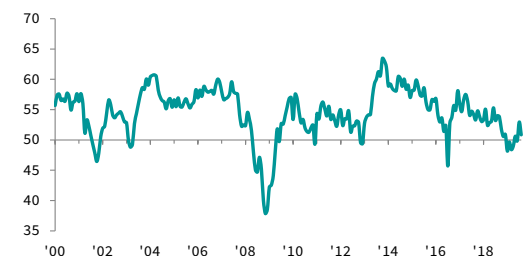


Service providers indicated a rise in new work for the third time in the past four months during August. However, the seasonally adjusted New Business Index signalled that the rate of expansion was only marginal and eased from the 10-month high seen in July.

Survey respondents commented on a sustained headwind from political uncertainty and subdued corporate spending.

New Business Index

sa, >50 = growth since previous month



NEW EXPORT BUSINESS INDEX

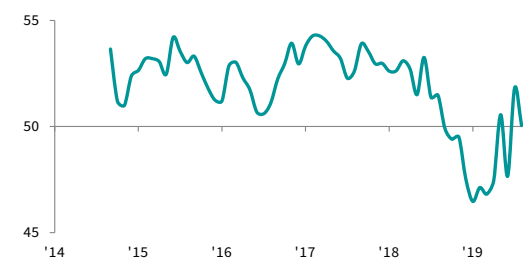


The latest survey revealed that sales to overseas clients stalled in August, following a modest expansion during the previous survey period. This was highlighted by the seasonally adjusted New Export Business Index registering in line with the 50.0 no-change value.

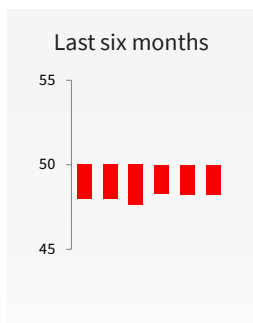
A number of firms noted that exchange rate depreciation had helped to boost exports. However, there were also reports that Brexit concerns had led to delayed decision-making from European clients.

New Export Business Index

sa, >50 = growth since previous month



OUTSTANDING BUSINESS INDEX

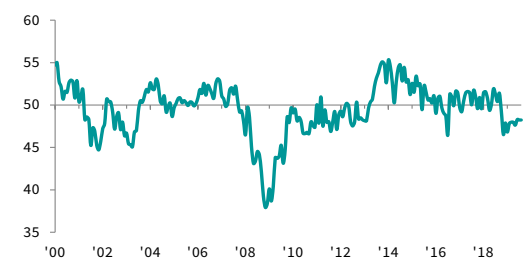


Lower volumes of unfinished work were recorded for the eleventh consecutive month in August. That said, the rate of decline was only modest and unchanged from that seen during July.

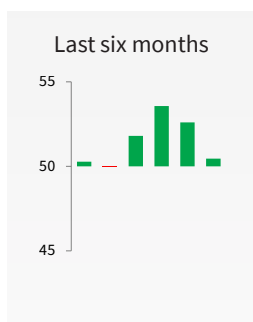
Service providers mostly attributed reduced backlogs of work to subdued underlying demand and a subsequent lack of pressure on business capacity.

Outstanding Business Index

sa, >50 = growth since previous month



EMPLOYMENT INDEX

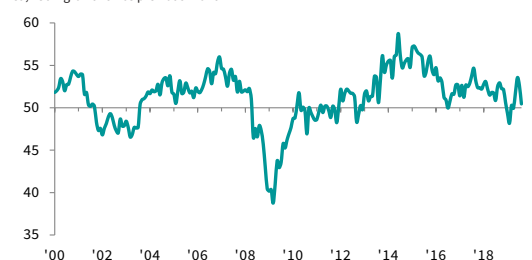


The rate of service sector job creation continued to lose momentum in August. Adjusted for seasonal influences, the Employment Index signalled the slowest rise in staffing numbers since the current period of expansion began in May.

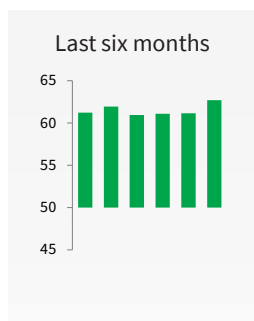
Anecdotal evidence suggested that difficulties recruiting suitably skilled staff and caution about the near-term economic outlook were the main factors holding back jobs growth during August.

Employment Index

sa, >50 = growth since previous month

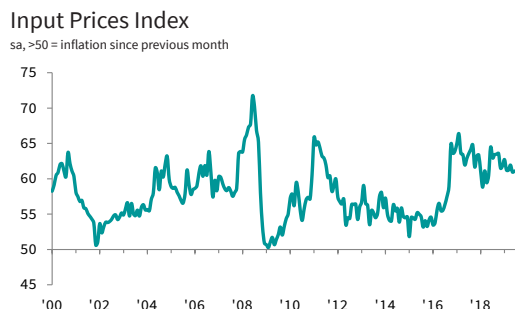


INPUT PRICES INDEX

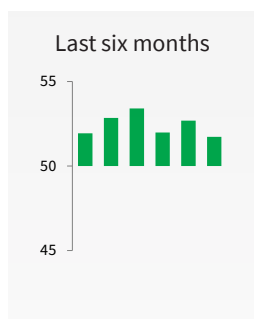


The seasonally adjusted Input Prices Index signalled a slight acceleration in cost inflation across the service economy during August, with the latest reading the highest since the start of the year.

Higher staff wages, fuel costs and utility bills were commonly cited by survey respondents. There were also widespread reports that the weaker exchange rate against the euro and US dollar had pushed up average cost burdens.

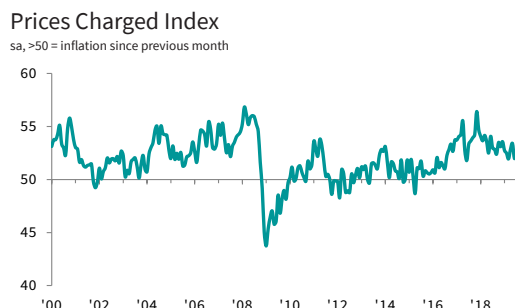


PRICES CHARGED INDEX

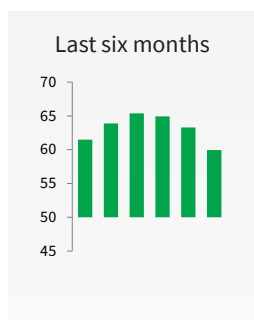


In contrast to stronger cost pressures, latest data pointed to a renewed slowdown in prices charged inflation. The seasonally adjusted index revealed the weakest rise in average prices charged by service providers since July 2016.

Survey respondents often commented that a lack of new business opportunities had constrained pricing power and encouraged discounting among competitors.



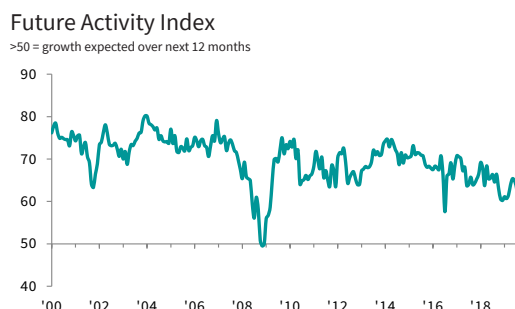
FUTURE ACTIVITY INDEX



Business expectations deteriorated for the third month running in August and were the lowest since July 2016.

Subdued business sentiment was overwhelmingly attributed to political uncertainty, particularly the negative impact on investment spending.

However, some firms reported optimism that business activity would strengthen in the next 12 months following a resolution to the prevailing Brexit uncertainty.



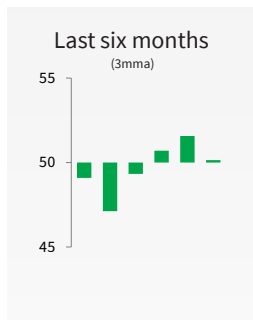
INDEX SUMMARY

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*
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
08 '19	50.6	50.8	50.0	48.2	50.5	62.7	51.7	59.9

SERVICES SUB-SECTORS

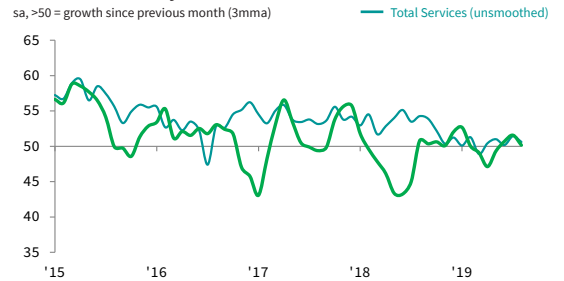
HOTELS, RESTAURANTS & CATERING



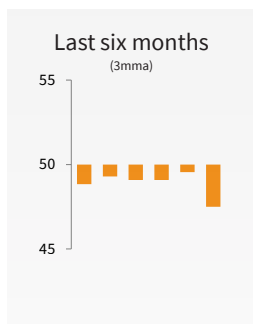
Business activity at Hotels, Restaurants & Catering companies was close to stagnation in the three months to August, reflecting persistently subdued demand conditions.

Latest data also signalled a further steep increase in average cost burdens across the Hotels, Restaurants & Catering sub-sector.

Business Activity Index



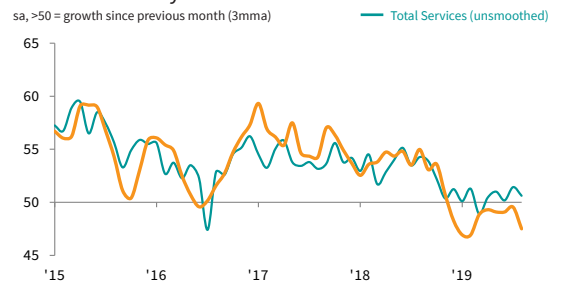
TRANSPORT & COMMUNICATION SERVICES



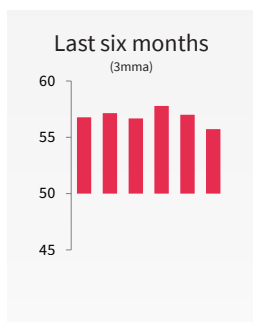
Transport & Communication service providers recorded another fall in business activity during the latest survey period, with the rate of decline the fastest since the three months to February.

The sub-sector remained the least optimistic of all service categories about the year ahead business outlook.

Business Activity Index



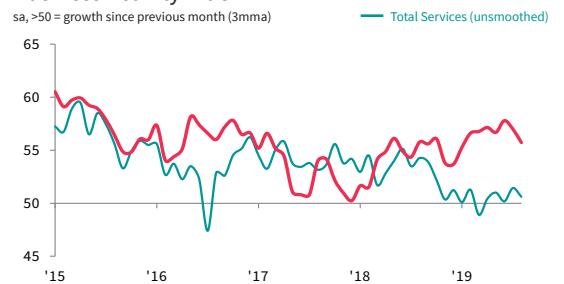
COMPUTING & IT SERVICES



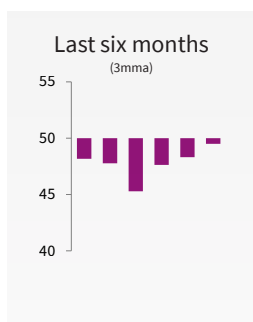
Computing & IT companies continued to outperform the rest of the service economy in the three months to August. That said, the rate of business activity expansion eased further from the peak seen during the second quarter of 2019.

Latest data signalled a robust rate of job creation at Computing & IT businesses, with the latest increase in employment the fastest of all categories monitored by the survey.

Business Activity Index



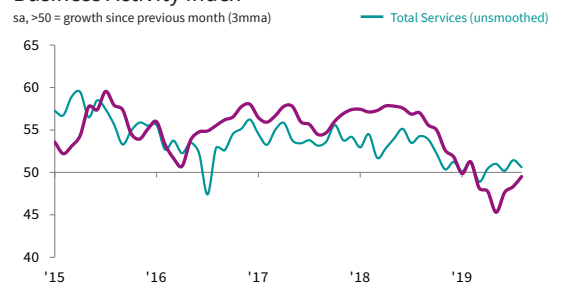
FINANCIAL INTERMEDIATION



Financial Intermediation remained one of the worst performing broad areas of service sector activity in the three months to August, although the latest reduction in business activity was only marginal.

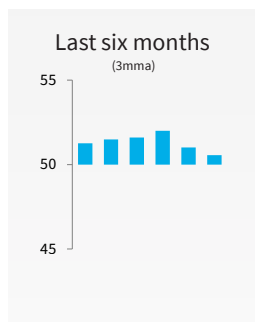
Business optimism at Financial Intermediation companies dropped to its lowest recorded since February 2009.

Business Activity Index



SERVICES SUB-SECTORS

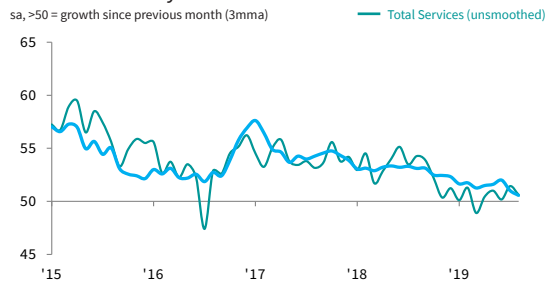
BUSINESS-TO-BUSINESS SERVICES



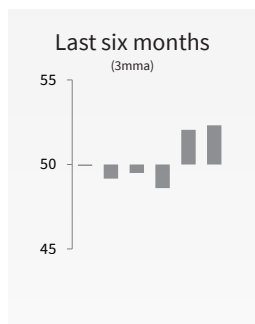
Business-to-business service providers experienced only a slight expansion of activity in the three months to August. The latest rate of growth was the weakest since the third quarter of 2012.

Job creation was maintained in the latest survey period, but the rate of employment growth slowest to its lowest since the three months to April.

Business Activity Index



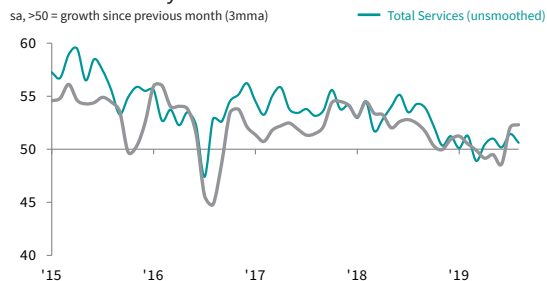
OTHER PERSONAL & COMMUNITY SERVICES



A solid rise in business activity was reported in the Other Services category during the three months to August. Moreover, the rate of growth accelerated to its strongest for one year.

Latest data nonetheless pointed to a faster rate of job shedding in this sub-sector, with the decline in employment the sharpest of all six categories monitored by the survey.

Business Activity Index



Services Sub-sector Index Summary, Jun - Aug '19

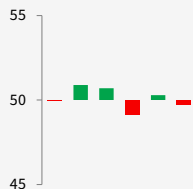
sa, 50 = no change over previous month (3mma). *50 = no change over next 12 months (3mma).

	Business Activity	New Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
Hotels, Restaurants & Catering	50.1	50.8	43.8	49.8	77.6	60.0	58.3
Transport & Communication Services	47.5	48.9	43.7	50.5	65.3	54.4	57.1
Computing & IT Services	55.7	54.5	48.9	56.5	58.8	51.2	72.0
Financial Intermediation	49.5	49.5	48.1	55.4	58.6	49.5	57.4
Business-to-Business Services	50.6	48.6	46.6	52.5	60.1	52.1	62.5
Other Personal & Community Services	52.3	52.8	46.3	45.7	59.1	51.5	59.5

IHS MARKIT UK ALL SECTOR PMI®

ALL SECTOR OUTPUT INDEX

Last six months



UK private sector output falls slightly in August

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 49.7 in August, the seasonally adjusted All Sector Output Index dropped from 50.3 in July and registered below the 50.0 no-change mark for the second time in the past three months.

The fractional decline in UK private sector output reflected a sharp drop in construction work and another fall in manufacturing production, which more than offset a marginal rise in service sector activity.

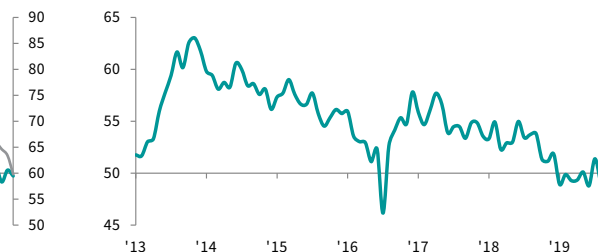
Output Index

sa, >50 = growth since previous month



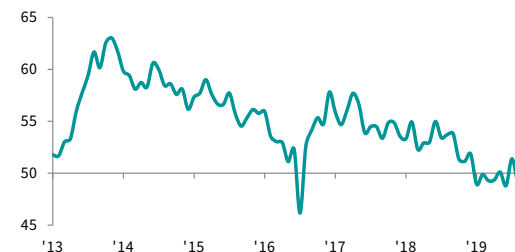
Future Output Index

>50 = growth expected over next 12 months



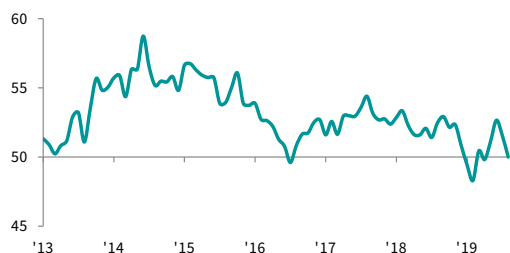
New Business Index

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.

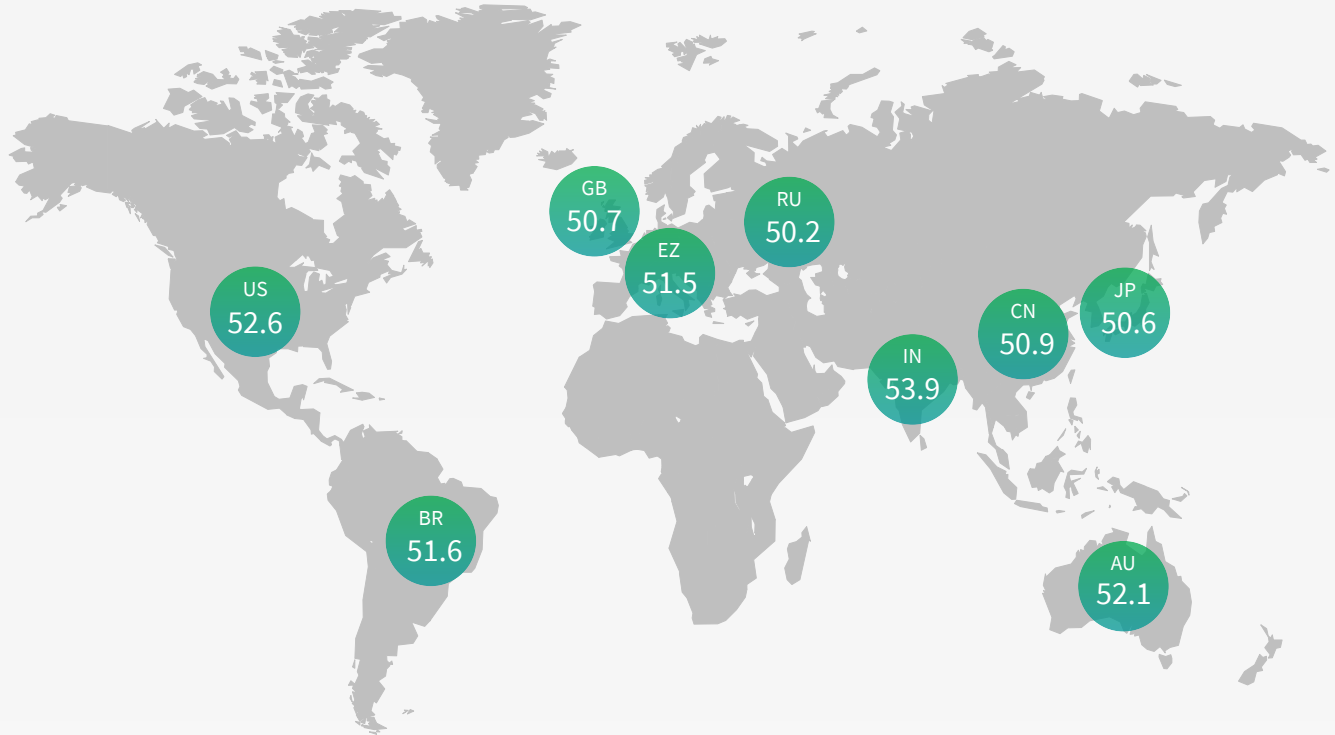
	Output	New Business	Employment	Input Prices	Future Output*
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04 '19	50.9	49.3	49.8	61.3	64.6
05 '19	50.7	50.1	51.1	59.9	65.7
06 '19	49.2	48.8	52.7	60.0	64.6
07 '19	50.3	51.4	51.5	59.6	63.4
08 '19	49.7	49.0	50.0	60.7	59.8

INTERNATIONAL PMI

Composite Output Index, Jul '19

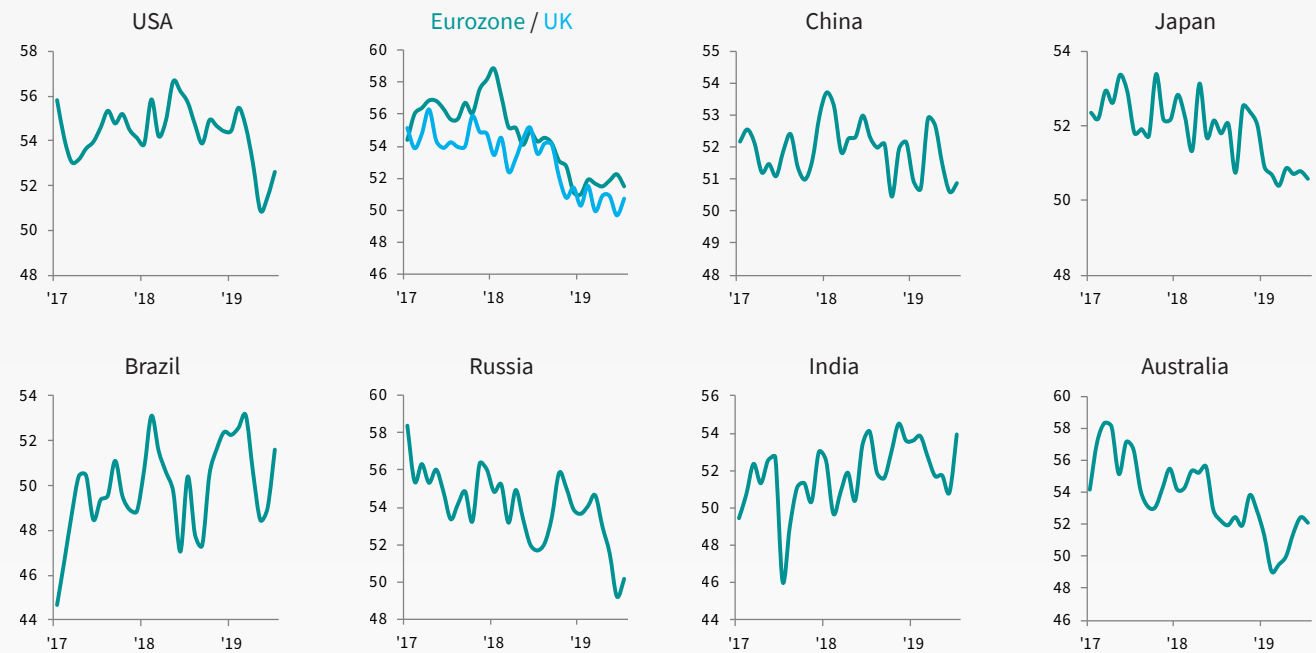
sa, >50 = growth since previous month

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.

August data were collected 12-28 August 2019.

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

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