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IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Business activity picks up, but employment falls at fastest pace since November 2011

KEY FINDINGS

Modest upturn in service sector output in February

Slight fall in new work

Staffing levels drop to greatest extent for over seven years

UK service providers signalled that the subdued start to the year continued into February, with business activity expanding only marginally and incoming new work falling for the second month in a row. Moreover, employment numbers declined at the fastest pace for over seven years as businesses opted to delay staff hiring in response to subdued demand and concerns about the near-term economic outlook. The main positive development in February was a slowdown in input cost inflation to its weakest since May 2018, which helped to provide some scope for promotional discounting.

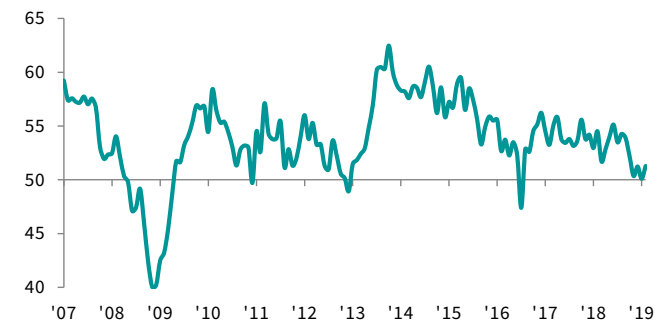
The headline seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** registered 51.3 in February, up from a two-and-a-half year low of 50.1 in January. However, the latest readings signalled only a marginal increase in service sector business activity. February data leaves the index on track for its weakest quarter since Q4 2012 (average reading 50.7 so far in the first quarter of 2019).

Reports from survey respondents suggested that Brexit-related uncertainty remained by far the most prominent factor acting as a brake on business activity growth in February. There were widespread reports that political uncertainty had encouraged delays to corporate spending decisions and a general rise in risk aversion among clients.

February data pointed to a reduction in new work received by service sector companies, although the rate of contraction eased since the start of 2019. Where a decline in new work was reported, this was often linked to heightened Brexit

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

uncertainty. Some firms also cited a tendency among European clients to delay committing to new projects.

Subdued demand conditions resulted in another fall in backlogs of work across the service sector during February. Lower volumes of unfinished work have now been recorded for five consecutive months, which is the longest sustained period since early-2013. Survey respondents mainly noted that weaker sales had led to reduced pressure on business capacity.

A lack of new work to replace completed projects contributed to more cautious staff hiring strategies in February. Although only modest, the latest decline in employment numbers was the fastest recorded since November 2011. Anecdotal evidence often linked lower payroll numbers to restructuring efforts following the non-replacement of voluntary leavers.

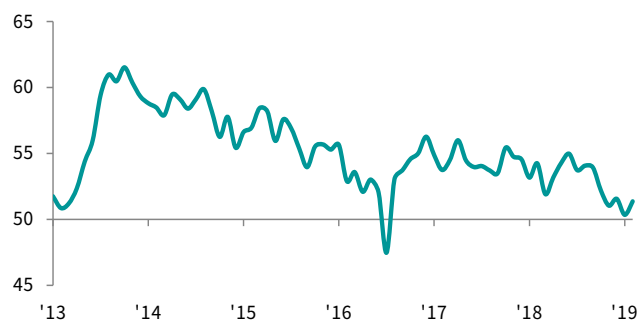
Survey respondents noted that higher fuel, energy and staff costs underpinned another sharp increase in operating expenses during February. However, the overall rate of input price inflation eased to a nine-month low. Softer cost pressures, intense competition and efforts to stimulate sales meanwhile led to the slowest rise in average prices charged by service providers since last September.

IHS MARKIT UK ALL SECTOR PMI®

UK private sector employment falls at fastest pace since September 2012

Composite Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

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 51.4 in February, up from 50.3 in January, the seasonally adjusted All Sector Output Index signalled a marginal expansion of UK private sector output.

In contrast to the slight upturn in business activity, latest data pointed to sustained reductions in new work and employment numbers.

The rate of decline in private sector employment was the fastest since September 2012 as lower payroll numbers at manufacturing firms and service providers more than offset a modest upturn in construction sector workforces

COMMENT

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

"The latest PMI surveys indicate that the UK economy remained close to stagnation in February, despite a flurry of activity in many sectors ahead of the UK's scheduled departure from the EU. The data suggest the economy is on course to grow by just 0.1% in the first quarter."

"Worse may be to come when pre-Brexit preparatory activities move into reverse. Many Brexit-related headwinds and uncertainties also look set to linger in coming months even in the case of PM May's deal going through. Global economic growth meanwhile remains sluggish, adding an increasingly gloomy backdrop to the UK's current problems."

"Business optimism about the year ahead has consequently sunk to the lowest ever recorded by the survey with the exceptions of the height of the global financial crisis and July 2016. Brexit concerns dominate the list of reasons cited by companies for deteriorating business performance by a wide margin."

"Employment across services, manufacturing and construction is meanwhile now falling at a rate not exceeded for nine years as companies cut costs and await clarity on the outlook, highlighting the rising damage to the economy from intensifying uncertainty."

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

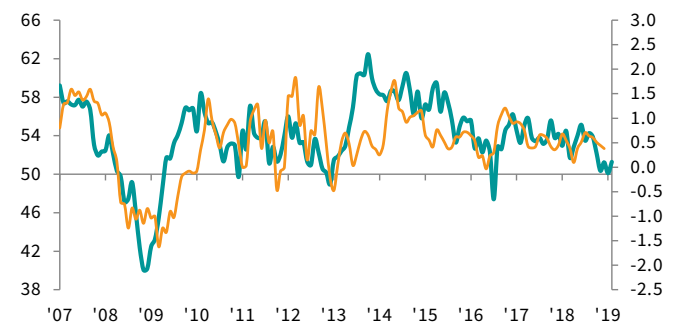
"Once again this month, the lifeblood of the sector continued to leak away with Brexit indecision striking another blow to new orders and employment in February. Any hoped-for progress next month looks like it will be equally stifled, as services activity heads for its weakest quarter since late-2012."

Job losses continued in February, as businesses held back on hiring without the confidence of new pipeline work and ability to recruit skilled candidates. Staffing levels were down at the fastest rate in over seven years. In signs of more economic stress, intense competition and discounting strategies prevented output price inflation gathering pace, falling to its lowest for five months."

Consumer and client confidence disappeared from the sector, as the hesitancy to place orders also rippled out from Europe. Survey respondents said anxious international clients cancelled contracts and delayed decisions. Latest data pointed to the sixth straight monthly drop in export orders. Notwithstanding a notable re-acceleration in services output in March, the first quarter of 2019 is set to be a disappointment."

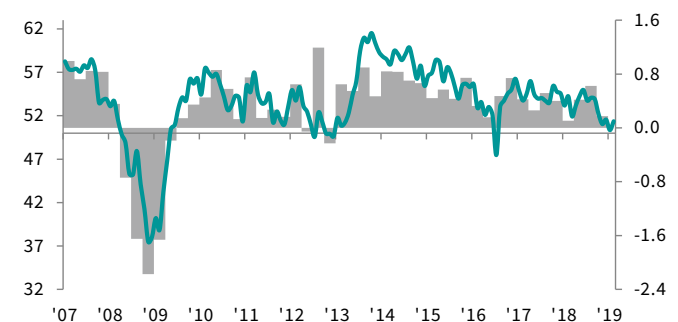
Services Business Activity Index

sa, >50 = growth since previous month



All Sector Output Index

sa, >50 = growth since previous month



CONTACT

IHS Markit

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Tim Moore
Associate Director
T: +44-1491-461-067
tim.moore@ihsmarkit.com

CIPS

Trudy Salandiak
Corporate Communications
T: +44-1780-761576
trudy.salandiak@cips.org

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.

February 2019 data were collected 12-26 February 2019.

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

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