News Release

Embargoed until 0930 BST (0830 UTC) 3 July 2019

IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT UK ALL SECTOR PMI®

Service sector output close to stagnation in June

KEY FINDINGS

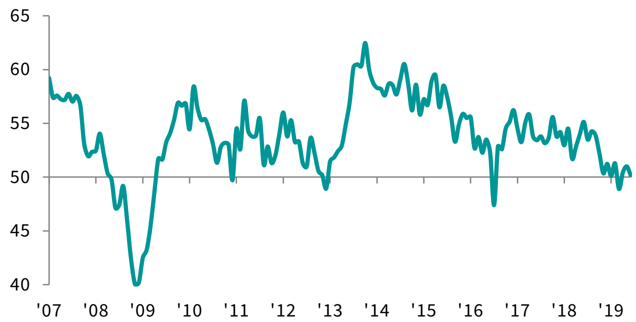
Business activity rises only fractionally in June

Jobs growth picks up, despite weak demand

Strong increase in input costs

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

Service providers indicated that business activity was close to stagnation in June, which contrasted with the modest recovery seen during the previous month. The latest survey also revealed subdued client demand and a further reduction in work-in-hand. Despite stalling business activity, staffing numbers picked up at the fastest pace since August 2017. Survey respondents noted that they had started to find it easier to fill long-term vacancies. Some firms also commented on efforts to maintain business expansion plans in the hope of improved business conditions following a resolution to the prevailing political uncertainty.

The seasonally adjusted **IHS Markit/CIPS UK Services PMI® Business Activity Index** posted 50.2 in June, down from 51.0 in May and the lowest reading for three months. Moreover, the index registered only fractionally above the 50.0 no-change mark and therefore signalled that business activity was close to stagnation in June.

Subdued activity was often attributed to sluggish domestic economic conditions and greater risk aversion among clients in response to ongoing Brexit uncertainty. Reflecting this, latest survey data pointed to a fractional decline in new business received by service sector companies. Lower volumes of new work have now been recorded in five of the past six months.

A lack of new work to replace completed projects contributed to a decline in unfinished business for the ninth consecutive month. The current period of falling backlogs of work is the longest recorded since 2011/12. Despite signs of spare capacity, service providers signalled a solid expansion of employment levels in June. Jobs growth has been recorded in three of the past four months, with survey respondents often linking staff recruitment to long-term business expansion plans.

June data indicated that service providers remain optimistic overall about their growth prospects for the year ahead. However, the degree of confidence dipped during the latest survey period, after having reached an eight-month high in May.

Anecdotal evidence revealed a wide range of views in relation to the business outlook, with some firms anticipating a rebound in demand following greater clarity about the path to Brexit. On the other hand, there were also widespread reports that growth expectations remained subdued amid concerns that domestic political uncertainty and subdued global economic conditions would continue to hold back corporate spending.

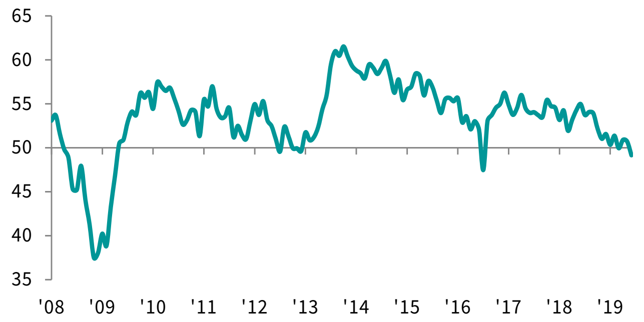
Meanwhile, strong input price inflation was recorded in June, which survey respondents often linked to higher transportation costs and wage pressures. However, prices charged by service providers increased at the second-slowest rate since June 2017, largely reflecting intense competition for new work.

IHS MARKIT UK ALL SECTOR PMI®

UK private sector output declines for the first time in almost three years

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 49.2 in June, the seasonally adjusted All Sector Output Index fell from 50.7 in May and signalled a reduction in overall private sector business activity for the first time in 35 months.

A fractional increase in service sector activity was more than offset by marked declines in manufacturing production and construction output during June.

COMMENT

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

"The near-stagnation of the services sector in June is one of the worst performances seen over the past decade and comes on the heels of steep declines in both manufacturing and construction. Collectively, the PMI surveys indicate that the economy has slipped into contraction for the first time since July 2016, suffering the second-steepest fall in output since the global financial crisis in April 2009.

"The June reading rounds off a second quarter for which the surveys point to a 0.1% contraction of GDP.

"The latest downturn has followed a gradual deterioration in demand over the past year as Brexit-related uncertainty has increasingly exacerbated the impact of a broader global economic slowdown. Risks also remain skewed to the downside as sentiment about the year ahead is worryingly subdued, suggesting the third quarter could see businesses continue to struggle.

"One ray of hope came from a further rise in employment as firms continued to hire new staff despite the drop in output, but the resulting decline in productivity signalled was the largest in the survey's 20-year history.

"Average selling prices for goods and services meanwhile rose at one of the slowest rates seen over the past three years, despite steeply rising costs, boding ill for corporate profits.

"The worsening picture will put further pressure on the Bank of England to add stimulus. For policymakers to not loosen policy with the all sector PMI at its current level would be unprecedented in the survey's two-decade history."

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

"Service sector growth slid back last month reversing the small gains made in May, as the wave of political uncertainty and weakening economy continued to undermine confidence and the appetite for new orders.

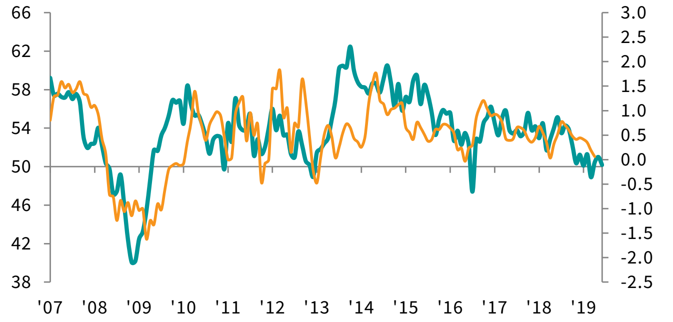
"This unwillingness to spend and invest by clients and consumers resulted in service companies upping the ante to compete for dwindling business opportunities. With the softest rise in prices charged to customers in three months, firms hesitated to increase their own prices for fear of losing ground in the marketplace.

"However, staff hiring at some companies went against the grain in this stagnating backdrop, as the rate of new job hires rose to its highest since August 2017. Service providers either built up their workforces in anticipation of a speedy political resolution, but others opted for the status quo fearful of a prolonged period of indecision.

"With a dampened mood across the sector, if a General Election is also thrown into the pot of political turmoil in the coming months, then the sector runs an even greater risk of following the manufacturing and construction sectors into cutbacks, cost-cutting and reduced workforces."

Services Business Activity Index — Index of Services

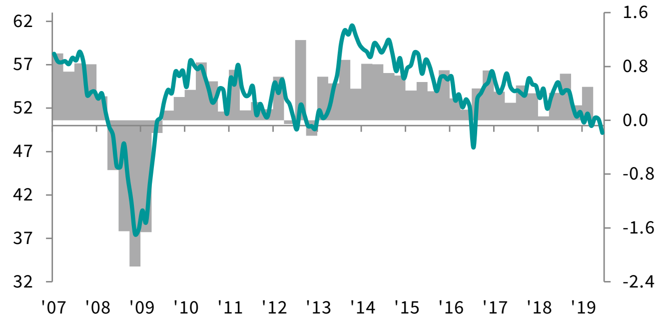
sa, >50 = growth since previous month — %qr/qr



Sources: IHS Markit, ONS.

All Sector Output Index — Gross Domestic Product (GDP)

sa, >50 = growth since previous month — %qr/qr



Sources: IHS Markit, ONS.

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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.

June 2019 data were collected 12-26 June 2019.

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

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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 ihsmarkit.com/products/pmi.html.