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News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Services PMI

Further robust expansion of UK service sector signalled in December

Key points:

- Activity and new business continued to grow at end of 2009
- Backlogs and employment fell at slower rates
- Cost inflation accelerated to steepest in over a year

Summary:

The UK service sector ended 2009 on a positive note, with growth of both activity and new business improving since November. Expectations for the coming year remained high and, despite declining again, employment fell at the slowest pace for nearly a year-and-a-half.

Less positive was an acceleration of input price inflation to the highest since October 2008, while output charges continued to be cut as market conditions remained competitive.

After accounting for seasonal factors, the **CIPS/Markit Business Activity Index** recorded 56.8, up slightly from 56.6 in November. The headline index has been broadly unchanged over the past three months, posting readings consistent with robust growth above the long-term series average. By company size, large companies led the overall expansion, while Business Services remained the best performer on a sector basis.

Underpinning the latest rise in overall service sector output was a sixth successive monthly increase in incoming new business. Growth was the steepest since September 2007 amid reports of a strengthened business climate, the release of previously delayed expenditure and increased marketing.

Latest data showed only a marginal fall in outstanding business at the end of 2009. While there were some reports that workloads remained low compared to pre-recession levels, a number of companies commented that growth of new business had tested capacity. Nonetheless, employment in the service sector continued to be reduced. Payrolls have now been cut for twenty consecutive months, with large companies again shedding jobs at the fastest rate. Company restructuring and the non-replacement of leavers were amongst the factors cited by panellists as leading to job losses in December, although the overall rate of decline was the slowest since August 2008.

Prices data showed that input cost inflation accelerated to a fourteen-month high in December, largely due to increased fuel prices. A number of panellists also commented that suppliers were passing on their own cost rises. Service providers' own pricing power remained subdued, with output charges declining for a fourteenth successive month although the rate of decline was only slight. Strong competition, market oversupply and efforts to support sales all contributed to the latest fall in output prices.

Service providers were confident that business activity will be higher than present levels in twelve months' time. Positive expectations were linked to the start of new projects, planned marketing and recent growth of pipeline business. Subduing confidence to some extent were concerns that public expenditure cuts would have an adverse effect on the UK economy.

Comment:

David Noble, Chief Executive Officer at the Chartered Institute of Purchasing & Supply (CIPS), said:

"Last year saw the UK service sector recover at an extraordinary rate and end 2009 on a high. This was on the back of stronger economic activity, new business wins – especially among larger companies – and growing client confidence. As the biggest contributor to the UK economy, services is undoubtedly heralding the way for wider economic growth in 2010.

"Though largely positive, a scratch of the surface reveals some challenges. On a more immediate level, fierce competition is preventing firms from offsetting input cost hikes onto customers and increases in work haven't prevented firms from shedding jobs again - despite murmurs of staff being overstretched. Coupled with concerns about potential public spending cuts, the troubles of the economic downturn are still close to hand."

Paul Smith, Senior Economist at Markit Economics said:

"December's data confirmed that the UK service sector recorded robust growth during the final quarter of 2009, remaining consistent with a quarterly expansion on the official measure of above 1%. With new business rising at the strongest pace since September 2007 and expectations relatively high, the fundamentals remain in place for further solid gains in activity at least in the near-term.

"On the jobs front, private sector services employment moved closer to stabilisation, with the rate of job shedding the weakest for nearly a year-and-a-half. While this continues to support the view of an earlier-than-expected peak in overall joblessness, focus in 2010 is likely to increasingly shift to the public sector where expected austerity will inevitably impact on aggregate jobs and pay."

The January *CIPS/Markit UK Services PMI* will be published on Wednesday 3rd February 2010 at 9.30am

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For further information, please contact:

Hill & Knowlton
Miranda Gulland
Tel: +44-20-7973-5987

CIPS
Trudy Salandiak, Press Officer
Tel: +44-17-8076-1575

Markit Press Office
Claire Gorman
Telephone +44-20-7064-6032

Notes to Editors:

The CIPS/Markit UK Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional, and industry contribution to GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The CIPS/Markit UK Manufacturing Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Where appropriate, please refer to the survey as the CIPS / Markit UK Manufacturing PMI.

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The Chartered Institute of Purchasing & Supply (CIPS) is the leading international body representing purchasing and supply management professionals. It is the world-wide centre of excellence on purchasing and supply management issues. CIPS has almost 54,000 members in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of purchasing and supply chain professionals can have a major impact on the profitability and efficiency of all types of organisation.

About Markit
Markit is a leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

About Markit Economics
Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become 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.