THE CHARTERED INSTITUTE OF PURCHASING & SUPPLY®

markit

News Release

MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09.30 (UK) 3 February 2010

CIPS/Markit UK Services PMI

Weaker gains in activity and new business at start of 2010

Key points:

- Heavy snow and poor weather in January undermined growth.
- Increase in VAT led to stronger rise in input costs and slight inflation of output charges.
- Business expectations hit highest level since last September.

Summary:

UK service sector growth stalled at the start of 2010 as snow-related disruptions undermined activity and new business. Rates of expansion of both variables were the slowest for five months, while there was a further (albeit modest) decline in employment.

The increase in VAT at the start of the year underpinned the strongest rise in input costs since October 2008 and also led to slightly higher output charges. January's seasonally adjusted **CIPS/Markit Business Activity Index** posted above the 50.0 no-change mark for a ninth successive month. The index weakened somewhat since December, falling to 54.5 (from 56.8) and signalled the slowest rise in activity for five months.

The slowdown of activity expansion was attributed by many panellists to the disruptions caused by poor weather in January, which also led to a similarly marked fall in growth of new business. Latest data showed that Hotels & Restaurants signalled steep falls in both activity and new business at the start of the year.

Despite easing to the slowest since last August, growth of new business has nonetheless been maintained for seven successive months. There was evidence of successful marketing and higher demand for new projects, with growth the sharpest in Business Services.

Latest data indicated that employment fell for a twenty-first successive month in January, reportedly the result of natural wastage and the non-replacement of leavers. There was some evidence that jobs were cut in response to excess capacity (backlogs continued to fall in January, albeit at only a slight pace). However, the decline in payroll numbers was only modest amid some reports (mainly from Financial Intermediation) of net hiring in response to sales growth.

Average operating costs continued to rise in January, largely reflective of the increase in VAT but also due to rising fuel costs and weak sterling. Overall, input price inflation accelerated for a fourth successive month to the strongest since October 2008.

Higher VAT and increased costs also led to a rise in average output charges at the start of 2010, the first inflation recorded for fifteen months. However, the rate at which charges rose was only slight as pricing power continued to be restricted by competitive pressures.

Finally, business expectations were at their highest for four months in January. Hopes of general economic improvement and planned new product launches were key reasons supporting optimism. Potential government spending cuts were noted as a factor that may depress activity over the coming year.

Comment:

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

"A slightly downbeat start to the year for the services sector. This may be a temporary blip caused by one-off events rather than signs of a double-dip recession, but we can't dismiss the possibility.

"The chaos caused by the snow hit this sector particularly hard, much more than manufacturing or construction, reducing the growth rates of activity and new business wins.

"In spite of this, we're still seeing a positive turnaround on a number of fronts. At ground level, employment is moving closer to a level of stabilisation and there's even evidence of recruitment in the financial sub-sector. And, it seems the VAT increase coupled with growing confidence and demand has encouraged some firms to raise their output prices slightly.

"Even with imminent tax increases and government spending cuts, confidence in the future is buoyant as wider economic pick-up is expected to offset any fiscal austerity to come."

Paul Smith, Senior Economist at Markit Economics said:

"The heavy snow appears to have hit services harder than manufacturing in January. Whereas manufacturers were often able to make up for lost production days, service providers – especially consumer-facing firms – simply saw fewer customers. However, the fact that services activity continued to increase despite the weather, combined with the surge in manufacturing reported earlier this week, suggests that the UK economy continued its recovery at the start of 2010. What's more, an improvement in expectations for the year ahead and reduced job losses both point to ongoing expansion in coming months."

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

-Ends-

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
Caroline Lumley
Telephone +44-20-7260-2047

Notes to Editors:

The CIPS/Markit UK Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

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

About CIPS
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.