



News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Services PMI

UK service sector activity rose at strongest rate since January 2007

Key points:

- Marked improvements in growth of activity and new business.
- Further modest increase of output charges; input price inflation at sixteen-month high.
- Natural wastage and non-replacement of leavers led to further modest job losses.

Summary:

Growth of the UK service sector recovered in February from January's snow-related slowdown, rebounding markedly to the strongest for over three years. Higher activity was closely linked to a steeper gain in new business, amid reports of strengthened market conditions.

Latest data also suggested that productivity continued to improve as employment again fell modestly. However, average input costs continued to rise markedly, offset only slightly by a marginal increase in output charges.

The headline seasonally adjusted **CIPS/Markit Business Activity Index**, which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago, moved up to a level of 58.4 during February. That was a strong improvement on the previous month's 54.5 and the highest level since January 2007. Large companies led the upturn, registering a substantial increase in activity, while smaller enterprises lagged somewhat behind, posting broadly no change in activity.

Overall expansion during February in part reflected some payback from the snow-related disruption seen at the start of the year. Nonetheless there were many reports of an improvement in general market conditions, with companies able to expand their client

bases. Incoming new business subsequently rose steeply, and at the fastest pace since September 2007.

Transport, Storage & Communications recorded the strongest gains in both activity and new business during February.

Higher overall sales occurred despite a second consecutive monthly rise in output charges, although competitive pressures restricted the rate of inflation. Where charges increased, companies generally attributed this to higher costs. Average input prices increased at a marked and accelerated pace in February. Higher fuel prices, rising supplier charges and ongoing adjustments following the increase in VAT led to the strongest input price inflation since October 2008.

Job losses were signalled in February, extending the current period of contraction to twenty-two successive months. However, the rate of decline was only modest and remained much slower than the records seen in early 2009. Job losses were largely the result of natural wastage and the non-replacement of leavers. All company size bands registered lower employment, with larger enterprises signalling a slightly steeper decline than SMEs.

Business expectations remained positive in February, although the degree of confidence was slightly weaker than at the start of the year. Companies commented that positive expectations reflected hopes of general economic recovery. Forecasts of higher enquiry levels, stronger export sales and planned new product launches also underpinned optimism.

Comment:

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



“After the snow-related blip at the start of the year, the services sector is pretty much firing on all cylinders now. February saw business activity surge at its fastest rate in over three years as the sector helps to drive the UK economy further out of recession.

“Most positively, we’re seeing ongoing signs of a turnaround on the job front. While there were still some job cuts in February, capacity pretty much matches activity levels now. If business activity continues to grow at its current rate, we’ll hopefully see a rise in employment levels in the months to come.

“Though the VAT change and rising fuel prices continue to make their mark, service providers are feeling confident enough to raise output prices to partially offset this. This is an area which will

definitely be kept in the spotlight in the months ahead and could give policy makers a headache as they try to keep inflation closely under wraps.”

Paul Smith, Senior Economist at Markit Economics said:

“February’s CIPS/Markit report on service sector activity indicated a marked rebound from the snow-related slowdown in January. The latest data confirm that the underlying trend in the private service sector remains positive, and is on course to deliver a quarterly expansion above 1% in Q1. When combined with the positive manufacturing results, February’s PMI surveys augur well for the economy to build on the momentum of exiting recession in Q4.”

The March CIPS/Markit UK Services PMI will be published on Wednesday 7th April 2010 at 9.30am

-Ends-

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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.

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