

News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Markit/CIPS UK Services PMI®

Activity growth strongest for ten months

Data collected 12-27 August

Key Points:

- Further rise in new business supports latest increase in activity
- Job creation sustained as capacity pressures persist
- Business confidence drops to 15-month low

Summary:

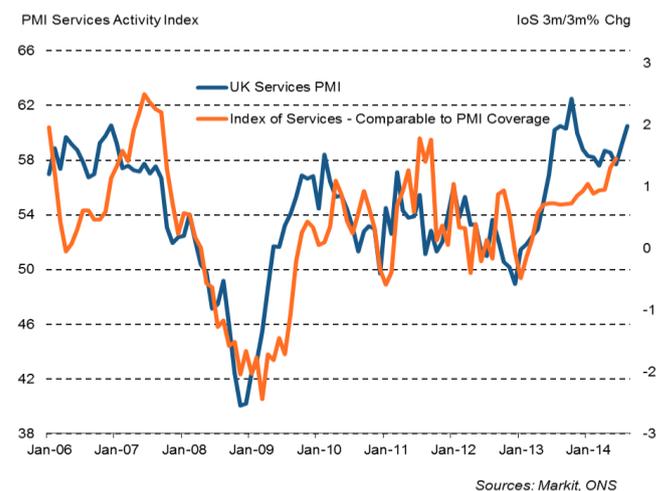
Business activity in the UK service sector increased at the fastest since in just under a year during August as market conditions remained favourable and new business growth healthy. Capacity remained under pressure, despite companies continuing to recruit additional staff at a marked pace.

Less positive were ongoing competitive pressures, which placed a restriction on the pricing power of service providers, while confidence weakened to a 15-month low amid some worries over the strength of business pipelines.

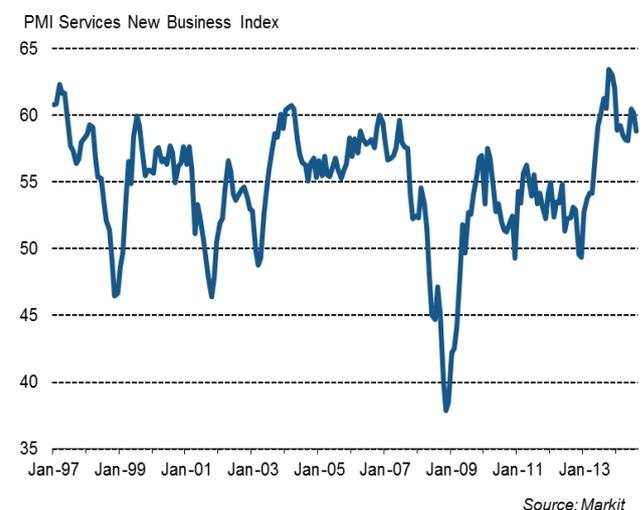
After accounting for seasonal factors, the headline Business Activity Index recorded 60.5. That was up from 59.1 in July and represented the sharpest monthly improvement in activity since October 2013. Growth has now been sustained for 20 months.

Underpinning the latest rise in activity was another sharp gain in underlying volumes of new business. There were reports from panellists that demand conditions remained favourable and that client confidence was high. Service providers, seeking to take advantage of the positive economic climate, raised their marketing activities to support sales efforts. Although rising at the weakest rate for three months, the latest increase in new work was again well above the survey average.

Faster increase in activity recorded



New business growth maintained



As new business continued to rise, capacity remained under pressure. Latest data showed backlogs of work increasing at a solid pace, albeit the slowest for three months. There were reports from panellists of having insufficient staff numbers and this underpinned further growth of employment in the sector. Payroll numbers rose for the twentieth month in a row, though growth was the slowest seen since March.

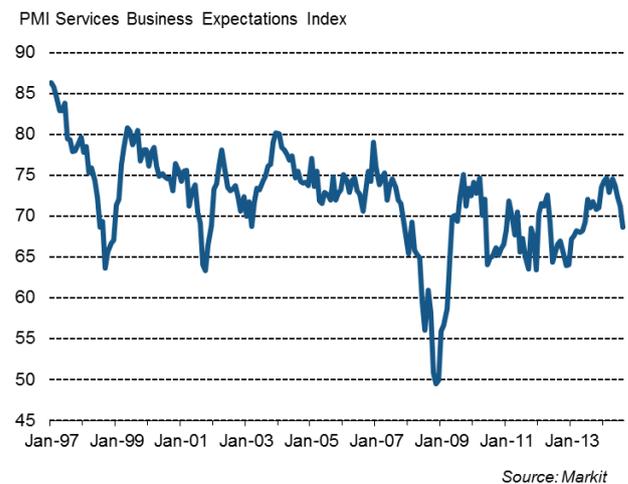
Positive expectations for activity also underpinned recruitment in August, and service providers retained a sense of optimism regarding the future in August. Over 45% of the survey panel forecast a rise in activity, with companies signalling expectations of sustained new business growth. Planned increases in marketing, investment and promotional activities were noted.

However, there was some concern amongst panellists over the underlying strength of their business pipelines, and this led to a fall in overall confidence to a 15-month low.

Pricing power also remained subdued, as competitive pressures persisted. Average output charges were little changed on the month, despite some evidence of firms trying to push input cost

increases onto clients given the generally positive demand environment. Latest data showed input price inflation being sustained, largely due to higher wage and salary costs. However, amid reports of lower prices paid for energy and fuel, the degree to which input costs rose was the weakest since May 2013.

Business confidence down to 15-month low



Comment:

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

“An acceleration of growth in the vast services sector and an on-going construction boom offset a weakened performance in manufacturing in August. The three PMI surveys indicate that the economy grew at the fastest rate since last November, providing further ammunition for policymakers arguing for higher interest rates.

“The sustained elevated PMI readings suggest we will see another quarter of strong economic growth in the third quarter, similar to the 0.8% expansions seen the first two quarters of the year.

“The worry is that growth remains too dependent on the domestic economy, raising the risk that higher interest rates will derail the upturn. Any hopes of a rebalancing towards exports have been dealt a blow by the escalating Ukraine crisis.

“Dovish policy makers will worry that the Ukraine crisis will also filter through to a significant slowdown in services and construction. Some impact is already evident, with growth of new orders and employment moderating in all three sectors in August.”

David Noble, Group Chief Executive Officer at the Chartered Institute of Purchasing & Supply:

“The UK service sector grew at its fastest rate for ten months in August but reductions in confidence combined with capacity pressures mean that growth may be close to peaking. New business volumes continued to rise, albeit at a gentler rate, as market conditions remain favourable and clients commit to new contracts. However, the outlook is not as bright as previous months, as a mixed bag of concerns, principally over how robust the business pipeline will continue to be, resulted in confidence declining to a 15-month low.

There are signs that the sector is feeling the pinch from capacity pressures as backlogs of work lengthen. Firms are continuing to recruit additional staff and 20 months of employment growth has also fuelled continued reports of average wage increases as the sector’s recovery fills out.

The service sector looked increasingly competitive in August with businesses unable to push higher costs onto customers. Alongside this pressure, wage inflation could also accelerate should labour shortages persist. As things stand, a number of

questions remain about where the sector will be at the end of the year."

The September Report on Services will be published on Friday 3rd October 2014 at 09:30

-Ends-

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Notes to Editors:

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

The Markit/CIPS 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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Purchasing Managers' Index® (PMI®) surveys are now available for 32 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 www.markit.com/economics.

About CIPS

The Chartered Institute of Purchasing & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of 100,000 in 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

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