

News Release

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

UK service sector growth slows in January, but remains elevated

Data collected 13-29 January

Key Points:

- New business growth down to lowest in eight months
- Capacity under pressure as backlogs rise to greatest degree since May 1997
- Business confidence at the highest level since March 2010

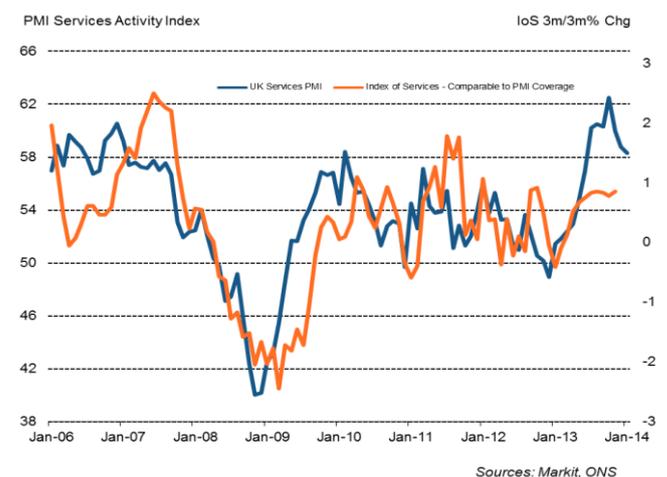
Summary:

The UK service sector remained on a strong growth footing at the start of 2014, with activity and new business both continuing to rise markedly albeit at the slowest rates since mid-2013. Capacity came under renewed pressure, with backlogs rising at the sharpest rate since May 1997. Employment growth remained marked as a result, with recruitment in part bolstered by positive business expectations for activity. Confidence was at its highest since March 2010.

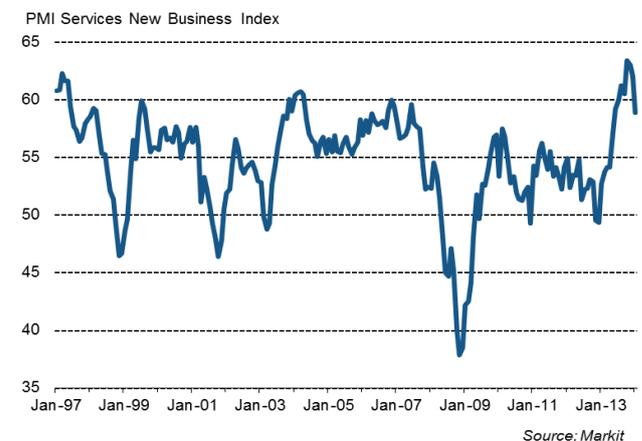
The headline Business Activity Index recorded a level of 58.3 during January. That was down from 58.8 during December and the lowest reading for seven months. Growth has now weakened for three months in succession, though remains comfortably above its long-run trend.

Underpinning growth was again a sharp increase in new work. As with activity, the latest data showed a continuation of the trend of slower increases in new business, although at a still historically elevated rate. Companies reported being able to conduct business in a conducive economic environment, with considerable success in converting enquiries into hard contract wins. There was some evidence that companies were securing new business from abroad.

Slower growth of business activity signalled¹



New business increases at slowest rate since last May



¹ ONS Index of Services (IoS) growth rates based on weighted data covering Accommodation & Food Services, Transport, Storage, Information & Communications Services, Finance, Real Estate, Professional, Admin & Support Services and Other Services.

The continuation of strong new business growth placed a further strain on company resources during January. Backlogs of work increased for a tenth successive month, with the rate of increase the highest recorded since May 1997.

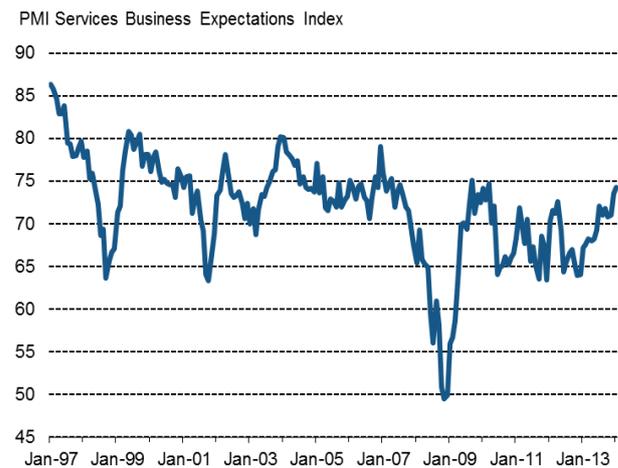
In some instances, rising backlogs of work were linked to capacity shortages, with a lack of suitable staff also reported. To this end, service sector companies maintained their recent recruitment drives, with overall employment levels rising for the thirteenth month in a row. Growth was again marked, and the best recorded since last October.

Higher staffing levels were also the result of positive expectations for growth. Business confidence with regards to future activity was at the highest level since March 2010 at the start of 2014. Companies are widely forecasting the recent strengthening of the UK economy will be sustained, bolstering demand and revenues. In turn, panellists are planning to raise employment and increase investment levels over the next 12 months.

On the price front, companies were able to increase their average prices charged for an eighth successive month. Moreover, the degree of inflation accelerated to the sharpest for over two-and-a-half years. Some panellists commented that markets

were receptive to price increases, and offered the opportunity to recoup ongoing rises in their cost base. Latest data showed that input costs rose again in January, with wages and utility prices reported to have increased during the month.

Business confidence continues to strengthen



Source: Markit

Comment:

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

“The service sector saw another month of strong growth in January, suggesting that the UK economy continues to recover at a rapid pace. Although the pace of expansion slowed, we must remember that growth was exceptionally strong in previous months, and also that parts of the country saw record rainfall in January.”

“With business optimism about the future reaching the highest for almost four years, we should see growth revive again in February, hopefully as the weather improves and households and businesses dry out from January’s rainfall.”

“However, even with the easing seen in January, the sector is still expanding at a rate that bodes well for another strong GDP reading in the first quarter. Taken together, the three PMI surveys are signalling quarterly GDP growth of 0.8%.”

“Employment growth has also accelerated again at the start of the year, as increasing numbers of firms gain confidence in the economic outlook. However, the survey also suggests that inflationary pressures and wage growth remain muted, which provides

“policymakers with extra leeway to keep policy loose for longer while the economy continues its recovery.”

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

“Continued strong, albeit slower growth in the services sector at the start of 2014 helped to drive confidence up to its highest level since March 2010. Alongside strong performances in construction and manufacturing activity and against a backdrop of improving economic recovery, business expectations and investment levels continue to climb; all signs economic growth can be sustained in Q1.”

“The surge in demand resulted in backlogs of work escalating at the sharpest rate in over 16 years. As a result, capacity is continually being tested and firms have sought to recruit skilled candidates, with employment levels rising for the thirteenth month in a row.”

“At the same time, output price inflation accelerated to its highest in over two-and-a-half years in January, as firms have enough confidence to push

their own prices up. Consequently, companies are able to maintain revenues and invest more,

ensuring a healthy level of expansion in the near future.”

The February Report on Services will be published on Wednesday 5th March 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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About PMI

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. www.cips.org

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