

News Release

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

UK service sector registers fastest rise in activity for over two years

Data collected 12-26 June

Key Points:

- Activity growth supported by strongest gain in new business since June 2007
- Employment rises at sharpest pace for just under six years
- Business confidence hits 14-month high

Summary:

UK service sector growth accelerated to its highest level since March 2011 during June as incoming new business rose at a rate unmatched for six years. The sharp increase in new business led to a marked rise in backlogs of work, and encouraged companies to take on additional staff to the strongest degree since August 2007.

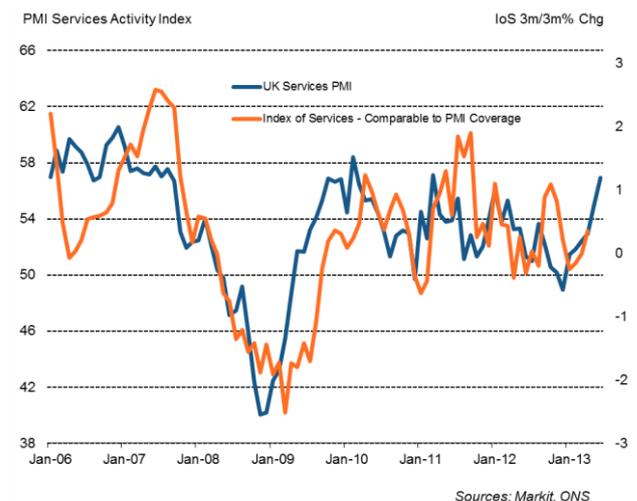
Confidence regarding future activity was also retained, with expectations at their highest for 14 months. However, margins remained under some pressure as strong competition prevented companies from fully passing on higher cost burdens.

After accounting for seasonal factors, the headline Business Activity Index recorded 56.9 in June, up from May's 54.9 and the highest reading for 27 months. Growth has now been recorded for six successive survey periods, and has continually improved throughout this sequence.

The principal driver of increased business activity during June was a rise in sales volumes. Panellists commented that market demand had improved in line with growing business confidence. Amid reports of increased marketing and new product releases, better weather also helped fuel new business

growth which, in June, was the strongest registered by the survey for six years.

Sharp and accelerated rise in service sector activity during June¹



Capacity came under pressure from the sharp gains in new business during June. This was highlighted by a solid rise in backlogs of work, with growth the strongest seen since August 2007.

Backlogs rose in spite of the sharpest increase in staffing levels for just under six years. Extra staff were mainly taken on to service growing current workloads, with some companies also recruiting in anticipation of further growth.

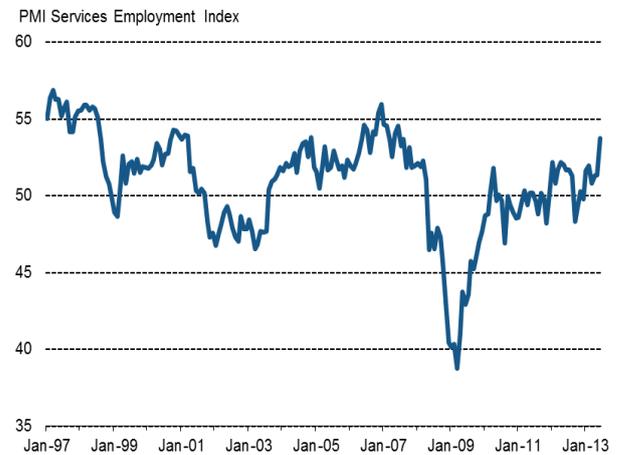
¹ ONS Index of Services (IoS) growth rates based on weighted data covering Accommodation & Food Services, Transport, Storage, Information & Communications Services, Finance, Real Estate, Professional, Admin & Support Services and Other Services.

Indeed, confidence regarding future activity levels remained high, with expectations the most positive for over a year. Service providers were buoyed by the recent upswing in sales and activity, with these positive trends forecast to continue during the coming months. Planned new product launches and expected rewards from past investment were also noted as reasons for optimism.

Meanwhile, input price inflation accelerated during June. Suppliers had reportedly raised their charges, while a number of panellists indicated increased labour costs. High food prices also remained a source of inflation.

Service providers continued to struggle to pass on the full extent of cost rises to clients. Although output charges rose, and to the greatest degree for two years, inflation in June was modest and well below that of input costs. Pricing power was reportedly restricted by competitive pressures. A number of panellists reported that sales were being generated by offering discounts to clients.

Employment growth at 70-month high in June



Source: Markit

Comment:

Chris Williamson, Chief Economist at survey compilers Markit:

“Surging growth in the service sector accompanied a resurgent manufacturing sector and modest growth in construction in June for an increasingly broad-based economic upturn. Growth in services and manufacturing is now the strongest for just over two years, while the construction sector is enjoying the fastest pace of expansion for over a year.”

“The buoyant picture for June means the economy is on course to expand by at least 0.5% in the second quarter, with more growth to come. New orders and job creation across all sectors are now rising at the fastest rates for almost six years, led by the vast services economy, boding well for robust growth momentum to be sustained as we move into the second half of the year.”

“With growth this strong it’s hard to see how any of the members of the Monetary Policy Committee could make a case for further quantitative easing. Policymakers are likely to argue that any action could perhaps be better geared towards trying to ensure the upturn is fully sustainable, such as measures to further encourage bank lending and business investment.”

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

“The UK services sector finished off Q2 with a stellar performance in June, giving the clearest signal yet that the worst days of the financial crisis are behind us. The UK’s largest industry recorded the fastest growth in new business for six years and the sharpest increase in employment over a similar period. These figures, taken in conjunction with manufacturing and construction, mark a good first week for the new Bank of England Governor and will ease pressure on the MPC to embark on another round of QE.”

“As ever, a handful of issues remain. The macro-economic environment remains uncertain and competition remains fierce. At the same time, whilst output prices rose, firms are still struggling to pass on the full extent of input price rises to clients.”

“Overall however, worse problems have beset the sector in recent years so confidence is rightly high. Barring any major changes to the global economy, we can be optimistic about sustaining this growth as we go into the second half of the year.”

The July Report on Services will be published on Monday 5th August 2013 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 over 94,000 members in 150 different 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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