

News Release

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (UK) / 0830 (UTC) June 3rd 2016

Markit/CIPS UK Services PMI[®]

UK services growth picks up but remains subdued

Data collected 12-26 May

Key Points:

- Business Activity Index rises from April's 38-month low
- Expectations improve but hinge on EU referendum
- Slowest gain in new business in current 41-month growth sequence
- Hiring at 33-month low

Summary:

The UK service sector continued to expand in May, according to the latest *PMI*[®] survey data from Markit and CIPS, but the rate of growth was one of the weakest seen over the past three years. The rate of expansion nevertheless picked up from April's 38-month low, and expectations for activity over the forthcoming 12 months strengthened.

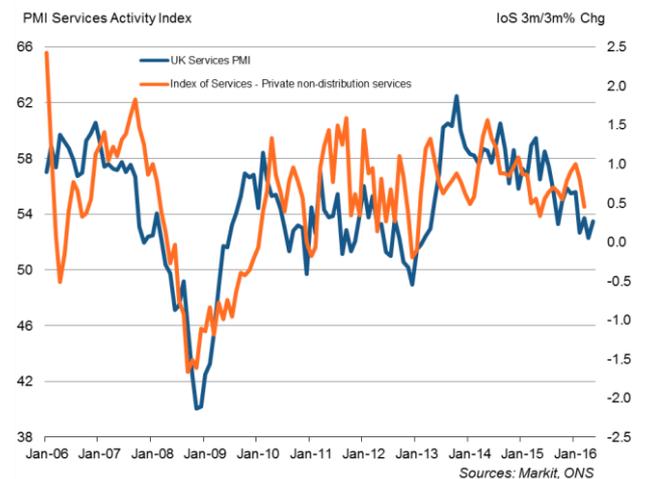
Where firms held positive outlooks for activity, this was partly dependent on the outcome of the forthcoming EU referendum, uncertainty surrounding which was found to have adversely affected over one-in-three companies.

The headline figure for the survey is the seasonally adjusted Markit/CIPS UK Services Business Activity Index, a single-figure measure designed to track changes in total UK services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

The Business Activity Index rose to 53.5 in May, from April's 38-month low of 52.3, indicating a slightly stronger rate of growth in UK services output. Activity has risen every month since January 2013. That said, growth remained weak

both in the context of the current upturn and the historic survey trend. The index has averaged 55.2 since it was first compiled in July 1996.

Services growth picks up from April's low



The stronger rise in total activity in May occurred despite new business growing at the slowest rate of the current 41-month sequence of expansion. Meanwhile, volumes of outstanding business fell for the second month running - the first back-to-back contraction in over three years.

Weak inflows of new work were in some cases linked to delayed contracts as a result of the uncertainty surrounding the forthcoming EU membership referendum.

In a special question added to the May survey, companies were asked to comment on the impact on their current business of the issue of the UK's potential exit from the EU. Around 28% of service providers reported a detrimental overall impact, and a further 9% stated a 'strongly detrimental' effect. However, 51% reported that they had so far been unaffected (further details are provided in the research note accompanying this release).

The service sector continued to create jobs in May, with employment rising for the forty-first consecutive month. The rate of workforce growth slowed further to the weakest since August 2013, however, largely reflecting lacklustre inflows of new business. Some firms also commented that the recent introduction of the National Living Wage had impacted their hiring.

Business sentiment in the service sector improved to the strongest in ten months in May. Positive sentiment was linked to new business prospects and an expected pick-up in market conditions, although firms often commented that positive expectations were contingent on the outcome of the forthcoming EU membership referendum.

Input price inflation eased for the first time since January, but was still among the strongest seen over the past two years, linked mainly to rising labour and fuel costs. Meanwhile firms increased their charges in May, linked in some cases to the transfer of higher labour costs resulting from the introduction of the National Living Wage.

Comment

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

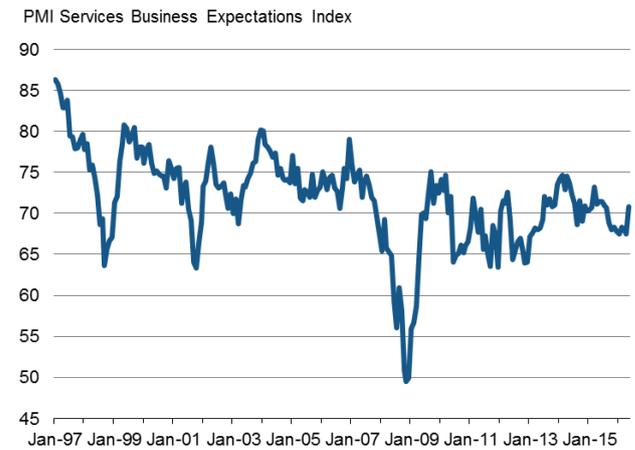
“The PMI surveys show that the pace of economic growth remained subdued in May, as ‘Brexit’ worries exacerbated existing headwinds. The data so far indicate that the second quarter is likely to see the economy grow by just 0.2%.

“Growth has collapsed in manufacturing and construction, leaving the economy dependent on the service sector to sustain the upturn, though even here the pace of expansion has remained frustratingly weak so far this year.

“Trends in employment and order books also deteriorated further across the economy in May, hinting at the possibility that the pace of growth could weaken again in June especially as the EU referendum draws closer.

“Uncertainty caused by the possibility of ‘Brexit’ has already had a detrimental impact on one-in-three companies, meaning growth could rebound in the event of a Remain win. However, the extent of any revival may be limited by weak underlying demand: May also saw widespread ongoing concerns about the fragility of demand both at home and abroad.”

Business expectations strongest in ten months



Source: Markit

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

“On the surface the slight acceleration in activity in May signalled positive news that services growth was recovering from its 38-month low in April, but scratching beneath the surface, there lay a series of complications from the EU referendum through to the impact of the National Living Wage, as the sector looks set to record its slowest quarter since the first quarter of 2013.

“And though staff numbers rose for the forty-first consecutive month, services experienced the weakest employment growth since August 2013, with one in ten companies cutting staff or not replacing leavers. The National Living Wage was also having an expected effect on margins with the result that businesses were more cautious with their wage bills.

“The EU referendum has prolonged the restraint on decision-makers with purchasers and suppliers in equal measure. Optimism was recorded at a ten-month high, though the consequences of a ‘stay’ or ‘leave’ outcome remain unclear.”

The June Report on Services will be published on Tuesday July 5 2016 at 09:30 UK / 08:30 UTC

-Ends-

Contact Information:

For economics comments, data and technical queries, please call:

Joanna Vickers

Tel: +44 207 260 2234

Email: joanna.vickers@markit.com

For industry comments, please call:

CIPS

Trudy Salandiak

Tel: +44 1780 761576

Email: trudy.salandiak@cips.org

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.

About Markit

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 4,000 people in 11 countries. Markit shares are listed on Nasdaq under the symbol MRKT. For more information, please see www.markit.com.

About PMI

Purchasing Managers' Index[®] (PMI[®]) surveys are now available for over 30 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 Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues. CIPS has a global community of 118,000 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

The intellectual property rights to the UK Services PMI[®] provided herein are owned by or licensed to Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. CIPS use the above marks under license. Markit is a registered trade mark of Markit Group Limited.

Special Question on EU Referendum

Scale of disruption from EU referendum uncertainty revealed

The lead up to the June 23rd referendum on the UK's membership of the European Union is having a detrimental impact on a significant number of UK service sector companies, according to survey data collected by Markit / CIPS.

In May, survey participants in the UK manufacturing, construction and services PMI surveys were asked the following one-off question:

“Please state the extent to which the issue of the UK's potential exit from the EU is currently affecting your business.”

Among the respondents to the services PMI survey, 28% reported that the EU referendum issue was having a detrimental overall impact, and a further 9% reported a ‘strongly detrimental’ effect. Conversely, less than 5% reported either a ‘beneficial’ or ‘strongly beneficial’ impact.

The combined 37% share of service providers who reported some form of negative impact was the highest among the three UK PMI surveys, slightly greater than the 35% shares registered for both manufacturers and construction companies.

Within the service sector, the greatest reported negative impact from the ‘Brexit’ issue was on firms’ ability to make business decisions, with either a detrimental or strongly detrimental impact reported by 34% of companies. This was followed by the negative impact on sales, reported by 32% of respondents.

In contrast, only 15% of companies reported some form of detrimental impact on their ability to hire suitable staff, and 19% of firms reported some form of negative effect on their costs.

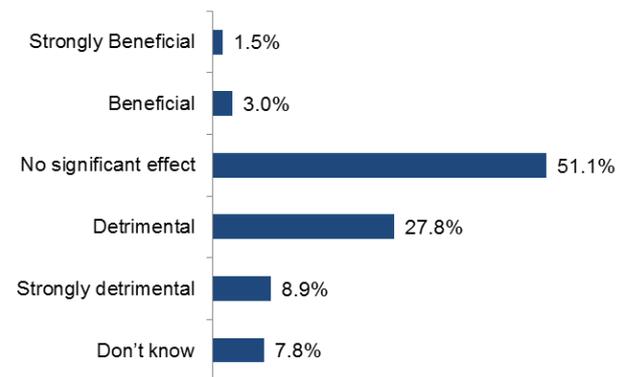
Within the service sector, financial intermediation companies reported the most widespread detrimental impact (41%).

By workforce size, large service providers most commonly reported a detrimental impact (41%).

Overall impact of Brexit uncertainty

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

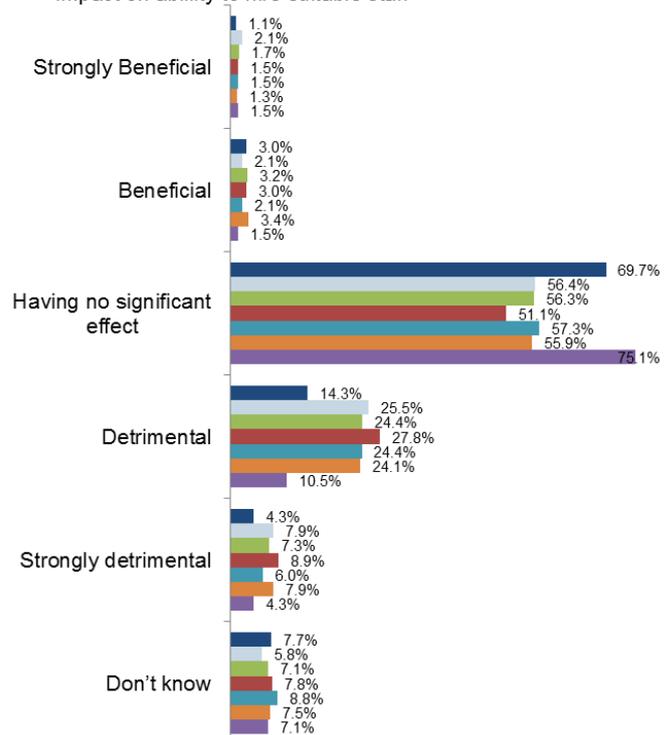
(Sample = Services)



Nature of impact (services)

Please state the extent to which the issue of the UK's potential exit from the EU is currently having an impact on your business

- Impact on your costs
- Impact on ability to make business decisions
- Impact on your investment and expansion plan
- Overall impact on business
- Impact on profits
- Impact on sales
- Impact on ability to hire suitable staff



Source for all charts: Markit.