

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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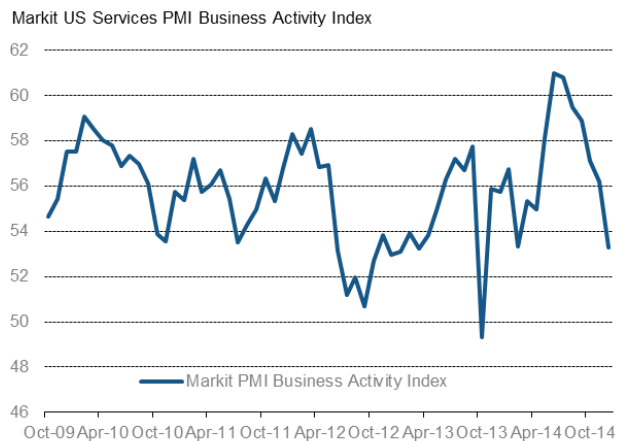
Markit U.S. Services PMI™ – final data (with composite PMI™)

Service sector output growth eases to 10-month low in December

Key points:

- Weakest rise in business activity since February...
- ...reflecting slowest upturn in new work for over two years
- Payroll numbers increase at moderate pace

Markit U.S. Services Business Activity Index



Sources: Markit.

U.S. service providers remained in expansion mode at the end of 2014, but rates of output and new business growth moderated further from the post-crisis peaks seen earlier in the year. A slowdown in output growth contributed to the weakest rise in service sector payroll numbers for eight months in December. However, service providers remain upbeat about their prospects for activity growth over the next 12 months, while subdued input cost inflation continued to support operating margins across the sector.

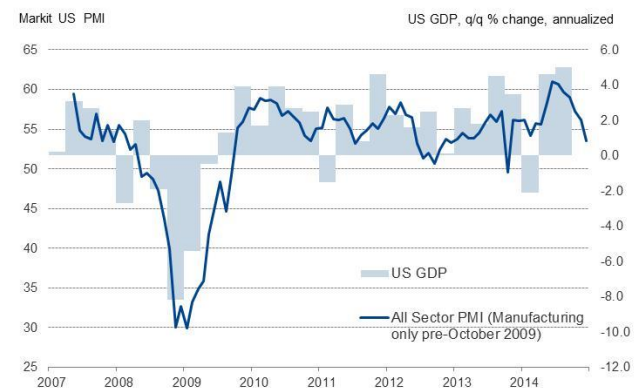
Adjusted for seasonal influences, the final **Markit U.S. Services Business Activity Index** registered 53.3 in December (earlier 'flash' reading: 53.6), down from 56.2 in November and the lowest since February. That said, the index remained comfortably above the 50.0 no-change value and signalled a solid expansion of overall business activity. Anecdotal evidence generally linked

sustained output growth to improving domestic economic conditions.

The seasonally adjusted final **Markit U.S. Composite PMI™ Output Index** (covering manufacturing and services) registered 53.5 in December, down from 56.1 in November and lower than the earlier 'flash' reading of 53.8.

Moreover, the index pointed to the slowest expansion of U.S. private sector business activity for 14 months. The moderation in output growth reflected weaker contributions from both the manufacturing and service sectors in December.

Markit U.S. Composite PMI™ Output Index



Source: Markit.

Weaker overall output growth during December in part reflected a further slowdown in the pace of new business expansion across the service sector. Moreover, latest data indicated that new business growth moderated for the third month running to its least marked since September 2012. Some firms cited more cautious spending patterns among clients and associated delays in the launch of new projects.

However, service providers remain strongly upbeat about the prospects for output growth over the next

12 months, with almost half of the survey panel (48%) forecasting a rise in business activity and less than 5% anticipating a reduction.

Payroll numbers increased again in December, with service providers attributing job creation at their units to rising workloads and positive business sentiment. That said, the rate of employment growth was only marginal in December and the weakest for eight months. Meanwhile, volumes of work-in-hand (but not yet completed) increased for the fifth month running, but the rate of expansion was the slowest seen over this period.

December data indicated that service sector input cost inflation was only fractionally higher than the 19-month low recorded in November. Subdued cost pressures contributed to the slowest rise in service providers' output charges since July.

Comment:

Commenting on the PMI data, **Chris Williamson, Chief Economist at Markit** said:

"The US economy lost significant growth momentum at the close of the year. Excluding the drop in activity caused by the October 2013 government shutdown, the manufacturing and service sector PMIs collectively signalled the weakest expansion since the end of 2012. This is also not just a one-month wobble: the pace of growth has now slowed for six consecutive months.

"The PMI surveys act as good leading indicators of GDP data, and suggest that the pace of US economic growth will have slowed in the fourth quarter. According to the PMIs, fourth quarter growth is looking more like 2.0% rather than the 5.0% annualised rate of expansion enjoyed in the third quarter.

"Job creation has waned alongside the slowdown, with the survey indicating that monthly payroll growth has slipped significantly below the 200,000 mark. Companies have become increasingly reluctant to take on staff due to the cloudier economic outlook, in turn linked to various factors ranging from global geopolitical concerns, worries about higher interest rates and uncertainty about rising staff healthcare costs.

"However, it's important to note that growth is merely slowing from an unusually powerful rate rather than stalling. Lower oil and fuel prices should also help foster stronger economic growth as we move into 2015, by reducing the fuel bills of households and companies. Measured across both sectors, input costs showed the smallest rise since April 2013 in December. Lower prices will also of course provide added leeway for interest rates to remain on hold for longer."

-Ends-

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Note to Editors:

The U.S. Services *PMI*[™] (*Purchasing Managers' Index*[™]) is produced by Markit and is based on original survey data collected from a representative panel of over 400 companies based in the U.S. service sector. Markit originally began collecting monthly PMI data in the U.S. service sector in October 2009.

The final U.S. Services *PMI* follows on from the flash estimate which is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final *PMI* data.

The Markit U.S. Services PMI complements the Markit U.S. Manufacturing PMI and enables the production of the Markit U.S. Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the percentage of positive responses plus a half of the percentage of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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.

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