

News Release

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

Strong growth of service sector sustained

Data collected 12-25 February

Key Points:

- New business increased at sharpest pace for three months
- Employment rises at second-fastest rate in survey history
- Input and output prices both increase at sharper rates

Summary:

The UK service sector continued to expand at a marked pace during February, supported by another sharp rise in volumes of incoming new business. Faced with higher backlogs and mild capacity pressures, companies recruited additional staff, with the rate of expansion the second fastest in the survey history.

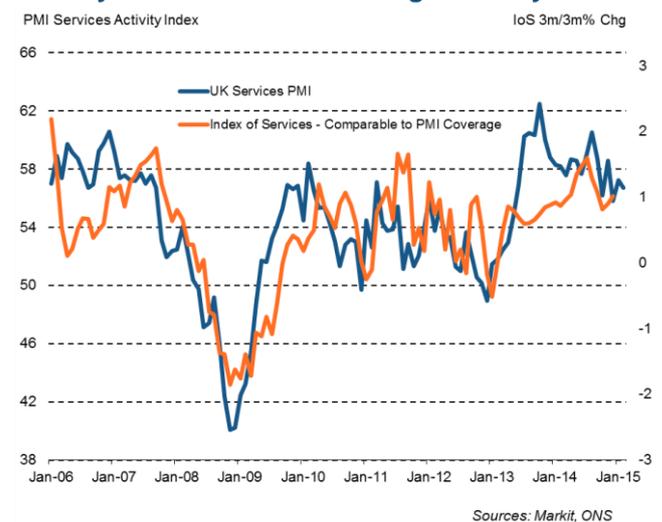
On the price front, average input cost inflation strengthened from January's recent low amid reports of suppliers being willing to increase their prices and higher wages being paid. In response, output charges were increased at a modest pace.

The headline seasonally adjusted Business Activity Index recorded 56.7 in February, compared to January's 57.2. Growth has now been registered for 26 months in a row, and the latest reading remained comfortably above the survey average (data have been collected continuously since July 1996).

Companies overwhelmingly commented that the latest increase in activity was the result of a rise in new business amid evidence of a pick-up in general market conditions. Advertising and promotional activities were also reported, helping to support the fastest increase in new business recorded by the survey for three months. A number of companies commented that sales were, at times, large in

nature, and that there was growth from both domestic and international markets.

Activity continues to rise during February



Growth of new business hits three-month high



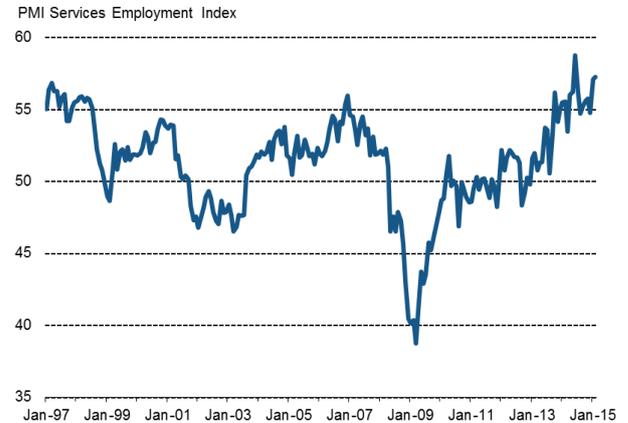
UK service providers responded to the sharp rise in new business by adding to their payroll numbers at the second sharpest rate in the survey history, with the latest pace of growth surpassed only by that seen in June 2014. Higher employment also reflected a response to capacity pressures, with backlogs of work increasing modestly and extending the current run of growth to 23 months.

Companies also signalled positive projections for future company growth, and recruited extra staff to help facilitate their plans. Business expectations improved marginally in February to a three-month high, with nearly 50% of the survey panel forecasting a rise in activity from present levels in 12 months' time. There were reports that business pipelines remained positive, and that the economic climate was conducive for growth.

An increased willingness of suppliers to raise their charges combined with evidence of higher wages being paid led to an accelerated rate of input price inflation during February. That was despite ongoing reports of lower fuel bills restricting the degree to which operating costs were increasing.

Service providers also increased their own average output charges in February. Prices have now increased for three months in a row, although the degree of inflation remained modest as competitive pressures placed some restriction on pricing power.

Second sharpest rise in employment in survey history signalled during February



Source: Markit

Comment:

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

“The UK economy is enjoying yet another impressive performance in the first quarter, with robust growth feeding through to near-record job creation.

“Although the rate of expansion slowed in the vast services economy, growth has picked up in both manufacturing and construction. The three PMI surveys collectively indicated a slight acceleration in economic growth for a second successive month in February as a result, consistent with GDP growth picking up to 0.6% in the first quarter.

“Employment growth across the three sectors has also accelerated so far this year, to a near-record rate, and there are welcome signs that the labour market tightening is feeding through to higher wages.

“The combination of relatively robust economic growth, the improving labour market and signs that wage growth will pick up in coming months

suggests the Bank of England will come under increasing pressure to tighten policy later this year.”

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

“The services sector has a spring in its step as it continues on a firm footing in February.

“Sharper growth in new business has been driven by an upward swing of activity in both the domestic and international markets, with a mix of new business and higher levels of interest from existing customers showing an overall improvement.

“At a modest level, the sector has become a victim of its own success as the resultant rise in incoming new business has increased pressure on capacity capability: outstanding work has been rising now for the last couple of years. The protracted length of backlog accumulation indicates that the recovery may now be sustainable following the rapid growth of last year.

“Staffing levels continue to rise, and at close to the fastest rate since the survey began, to clear current workloads but also with an eye on future expansion as the scrabble begins for the most talented in the workforce. Wages costs rose, as did output prices as the sector shows confidence in current market conditions.

“The future view continues to be expectant of further gains as businesses report investment in growth, restructuring and capacity to support ongoing rises in activity in the coming months, with half of all respondents showing optimism for business conditions in the year ahead.”

The March Report on Services will be published on Tuesday 7th April 2015 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 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 110,000 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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