

## News Release

**Purchasing Managers' Index<sup>®</sup>**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 09:30 (UK), 3 July 2014**

### Markit/CIPS UK Services PMI<sup>®</sup>

## Survey record increase in employment

**Data collected 12-26 June**

#### Key Points:

- Activity rises markedly again
- Ongoing new business growth and capacity constraints drive payrolls higher
- Reports of higher wages push up operating costs

#### Summary:

UK service providers signalled a survey record increase in payroll numbers during June as new business rose at the fastest pace in six months and capacity remained under pressure with backlogs rising at an accelerated rate. Companies raised activity to deal with higher workloads, whilst also retained a high degree of positive sentiment regarding future activity with over 50% of the survey panel forecasting growth in the coming 12 months.

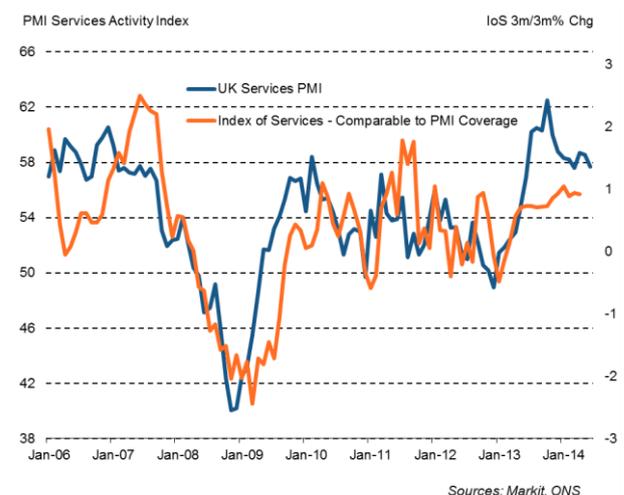
The headline index from the report, the seasonally adjusted Business Activity Index, recorded 57.7 in June. That was down from May's 58.6 and a three-month low but nonetheless indicative of a sharp increase in activity. Nearly 28% of the survey panel recorded growth, with increased workloads the primary factor driving activity higher during the latest survey period.

June's survey signalled the sharpest increase in new business volumes for six months. Latest data marked the eighteenth month in succession that a rise in new work has been signalled, with panellists reporting that trading conditions remained positive and market confidence high in June. Marketing activities and better weather were also noted as factors driving new business higher.

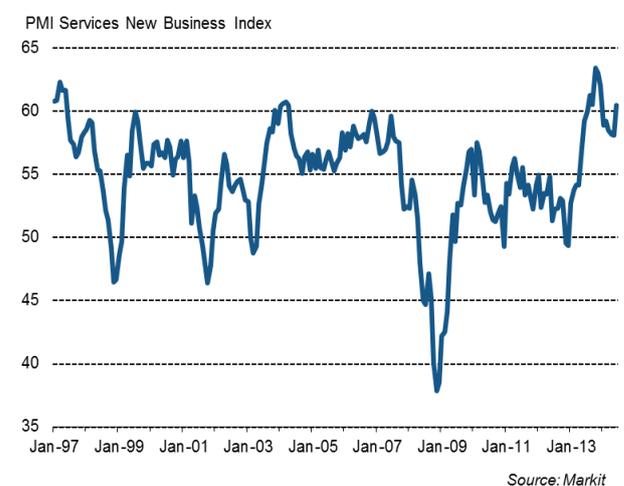
Another substantial increase in new work in June placed additional pressure on capacity levels. Volumes of work outstanding held by UK service

providers increased at the strongest rate for four months, with growth also well above the survey's historical average.

#### Activity growth remains strong



#### Strongest rise in new work of 2014 so far



Higher backlogs in part reflected staff shortages, according to panellists. This was despite a survey record increase in staffing levels. June's survey data indicated an unprecedented rise in employment, with over 27% of the survey panel recording an increase in staff numbers since May.

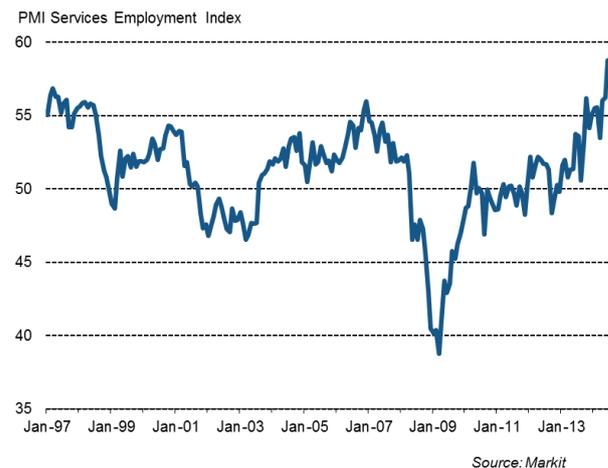
Payroll numbers have now been rising for 18 months in a row, with growth in part underpinned by positive projections for activity. Despite easing to the lowest since last November, business confidence remained high during June amid forecasts of sustained demand improvements and hoped for returns on capital investment.

A by-product of the tightening service sector labour market was reports of increased wages. Many panellists attributed another net rise in their operating costs during June to higher average salaries and wage costs. Overall input prices were also driven higher by reports of increased food, insurance and sub-contractor costs.

Passing on higher costs to clients remained a challenge. Latest data showed an increase in

output charges for the thirteenth successive month, but at only a marginal rate. Competitive pressures continued to weigh on pricing power.

### Record increase in service sector employment



#### Comment:

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

*"Yet another strong services sector PMI number indicates the UK economy continued to boom in June. Alongside an ongoing surge in construction and the largest quarterly rise in manufacturing output for 20 years, the services PMI confirms that the economy is firing on all cylinders. We expect the economy to grow by 0.8% again in the second quarter, taking GDP to a new all-time high."*

*"A renewed upturn in growth of new orders across all three sectors suggests that the economy should also pick up speed again as we move into the second half of the year."*

*"The persistent strength of the PMI surveys raises the likelihood of policymakers deciding that a pre-emptive rise in interest rates later this year is warranted, especially given the speed at which the labour market is improving. With the survey having seen new record rates of job creation in each of the past three months, unemployment should continue to plummet in the second quarter from the 6.6% rate seen in the first quarter. A jobless rate below 6% is achievable by the end of the year if anything*

*like the current pace of job creation is sustained in the coming months."*

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

*"A hiring spree among the UK's services firms arrived in response to the sharpest increase in new business in six months. As levels of activity surged higher, along with strong customer demand and favourable market conditions, job creation accelerated to a record survey high in June. With optimism increasing and momentum continuing to build, there is no evidence to suggest that the speed in the recovery is about to slow down anytime soon."*

*But, the elevated levels of new work in June resulted in notable capacity constraints, which in turn, also caused an increase in backlog accumulation and a tightening labour market. Reflecting these shortages in staffing levels, wages increased during this month, pushing running costs up. Services companies have been, however, only able to pass on a limited proportion of these higher costs to clients."*

*Overall in June, the UK services sector, alongside strong performances from manufacturing and construction, has cemented expectations that the economic recovery can power ahead into the second half of the year."*

**The July Report on Services will be published on Tuesday 5<sup>th</sup> August 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](mailto:economics@markit.com).

#### **About Markit**

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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](http://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.

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