

## News Release

**Purchasing Managers' Index<sup>®</sup>**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 09:30 (UK), 4 June 2014**

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

## Service sector employment growth strengthens to joint fastest rate in 17 years

Data collected 12-28 May

#### Key Points:

- Further strong rises in activity and new work encourage staff recruitment
- Confidence remains high as companies signal expansion plans
- Operating costs up amid reports of higher wages

#### Summary:

Business activity in the UK service sector continued to increase markedly during May, supported by another firm increase in volumes of incoming new work. Capacity was subsequently tested and encouraged service providers to take on staff at the joint sharpest rate since May 1997. Wages were also reported by a number of service providers to have increased, which led to the sharpest rise in operating costs for four months.

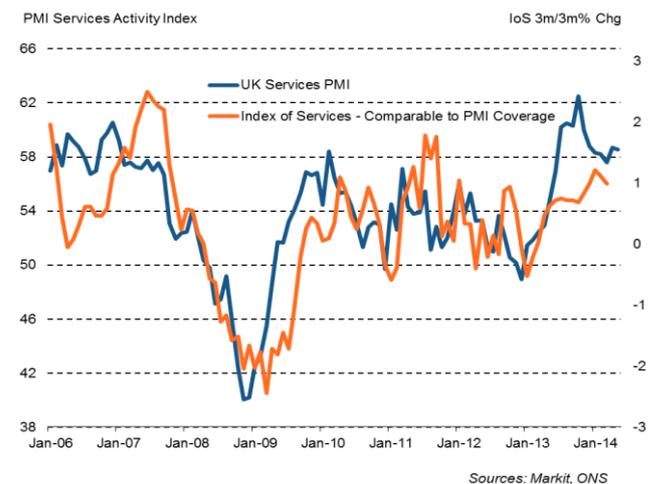
Despite the uptick in cost inflation, confidence with regards to future activity was retained, with over 50% of the survey panel forecasting growth over the next 12 months.

After accounting for seasonal factors, the headline Business Activity Index was little changed in May, recording 58.6 compared to April's 58.7. The index remains historically high and consistent with sharply rising levels of activity in the service sector.

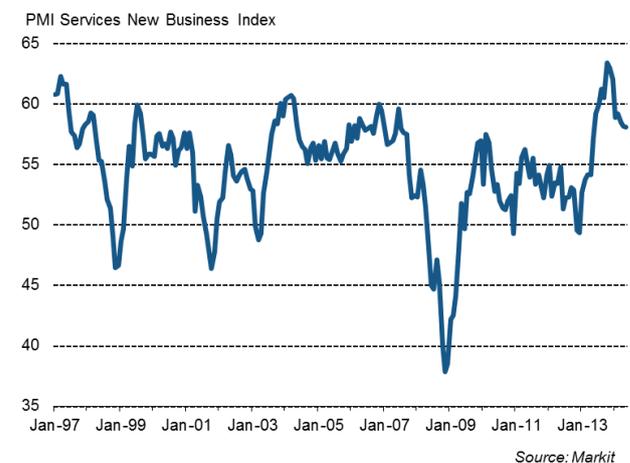
Growth was again underpinned by an increase in volumes of incoming new business amid reports of high levels of market activity. Although edging down slightly to a 12-month low, the degree to which new work rose was again strong as client confidence remained firm. There were reports from panellists

that they had raised their marketing activity and launched new services over the month.

#### Activity up sharply in May



#### Incoming new business rises markedly



Providing a further boost to service sector activity was an increase in capacity via the recruitment of

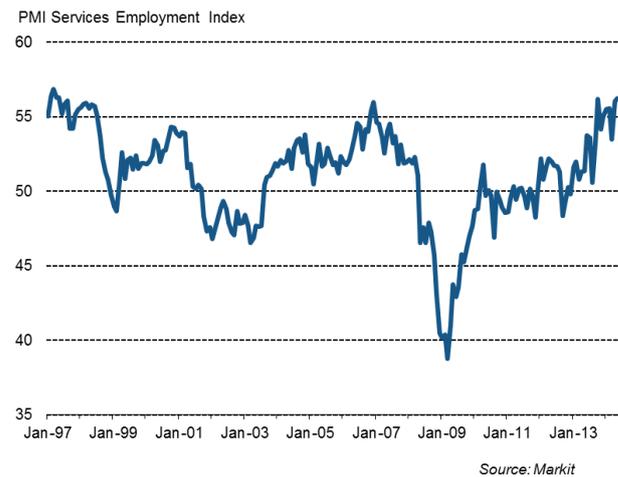
additional staff. May's survey showed the strongest increase in employment for seven months and the joint sharpest rise for 17 years as staff were hired to help deal with higher sales and work outstanding. Backlogs of work rose for a fourteenth successive month in May and at a solid pace.

Business expansion plans were also at the heart of service providers' decisions to take on extra staff during May. Confidence with regard to future activity remained high as companies retained expectations for continued market growth. Buoyed by an increased willingness to commit to new contracts, service providers are expecting to take advantage of the improved business climate to bolster market share and expand their businesses.

With the labour market tightening, and increased staff numbers being taken on, several UK service providers noted an increase in their average wage costs during May. This served to support a marked increase in average input costs, with the rate of cost inflation accelerating to a four-month high. Utility prices were also noted to have increased, while suppliers were reportedly taking advantage of strengthened demand to raise tariffs.

Firmer market conditions also encouraged several service providers to increase their own charges, although competitive pressures continued to keep a lid on output price inflation in May.

### Rapid increase in employment during May



#### Comment:

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

*“The UK economy continued to boom in May, in what is the best spell of growth since 2007. The buoyant services PMI follows similar upbeat manufacturing and construction reports, which collectively suggest that the economy is on course to grow by 0.8% again in the second quarter. That would push the economy above its pre-crisis peak.*

*“The really great news is that job creation continued to run at the record pace seen in April, meaning unemployment looks set to fall further.*

*“With every strong PMI reading, the more lively the discussion will become among the Bank of England’s Monetary Policy Committee that a pre-emptive early hike in interest rates is warranted. However, with inflationary pressures remaining subdued, the case for higher rates is by no means clear cut. Higher wage growth is starting to follow the labour market upturn, but until substantial increases in pay rates materialise in the official data, the chances are that the Bank of England will keep its foot firmly on the accelerator pedal to help keep the economy booming.”*

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

*“Firms in the services sector are creating jobs at a level seen only once since 1997 and offering bigger salaries to boot; a sign of ever-increasing confidence in the sector, which is enabling firms to support expansion and take advantage of improved economic conditions.*

*“This bullishness is built on a foundation of solid rises in business activity and new work. The increased capacity will also enable firms to work on their existing backlogs, which have risen for the fourteenth consecutive month.*

*“Whilst increased salaries are driving up operating costs, alongside suppliers looking to increase their margins, there is willingness to invest. This is being driven by strong domestic and overseas markets, suggesting we can be confident this positive trend will continue.”*

The June *Report on Services* will be published on Thursday 3<sup>rd</sup> July 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<sup>®</sup>.

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).

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#### About PMI

*Purchasing Managers' Index*<sup>®</sup> (PMI<sup>®</sup>) 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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