News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Markit Flash U.S. Services PMI™

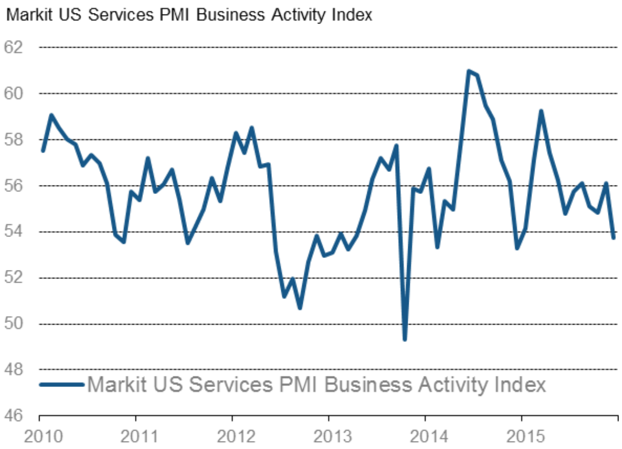
Service sector remains in expansion mode, but growth softens to 12-month low

Key points:

- Weakest rise in U.S. service sector output since December 2014
- Sharp slowdown in new business growth
- Business confidence among service providers slips to its lowest since August 2010
- Solid pace of staff hiring maintained in December

Data collected 5 – 17 December.

Service sector business activity (seasonally adjusted)



Sources: Markit

December data highlighted a renewed slowdown in output growth across the U.S. service economy. The seasonally adjusted **Markit Flash U.S. Services PMI™ Business Activity Index**[1] – which is based on approximately 85% of usual monthly replies – registered 53.7 in December, down from 56.1 and the lowest reading for 12 months. Although comfortably above the 50.0 threshold that separates expansion from contraction, the headline index signalled a softer rate of growth than seen on average since the survey began in late-2009 (55.8).

Reports from survey respondents suggested that improving domestic economic conditions remained a tailwind to growth in December. However, some service providers noted a more subdued willingness to spend among clients. Reflecting this, latest data indicated that **incoming new work** expanded at the slowest pace since January. Weaker growth of new business contributed to a decrease in **backlogs of work** across the service sector for the fifth month running in December.

Despite a moderation in new business growth and a corresponding fall in capacity pressures, the latest survey pointed to resilient **job creation** among U.S. service sector companies. Increased payroll numbers have been recorded in each month since March 2010, and the latest upturn was broadly in line with the average over this period. Anecdotal evidence pointed to job hiring in response to new product launches and long-term expansion plans.

Service providers were optimistic overall about their **prospects for growth** over the course of 2016, with just over one-third (34%) expecting a rise in business activity while only 5% forecast a reduction. However, the degree of positive sentiment dipped to its lowest recorded for just over five years. The subdued global economic outlook, election uncertainty and softer demand from the oil and gas sector were among the factors cited as weighing on business prospects.

On the prices front, latest data pointed to another slowdown in **cost inflation** across the service economy. Average input prices increased at the weakest pace since February, helped by falling transportation costs and commodity prices. At the same time, service providers noted that their **output charges** were little-changed in December.

Markit Flash U.S. Composite PMI™

At 53.5 in December, down from 55.9 in November, the seasonally adjusted **Markit Flash U.S. Composite PMI Output Index** pointed to a solid expansion of private sector output at the end of 2015. However, the latest rise was the weakest for

[1] Please note that Markit's PMI data, flash and final, are derived from information collected by Markit from a different panel of companies to those that participate in the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of Markit's PMI.

12 months, reflecting softer contributions to growth from both services and manufacturing ('flash' manufacturing output index at 52.7, down from 54.8 in November).

The composite index is based on original survey data from the Markit U.S. Services PMI and the Markit U.S. Manufacturing PMI.

Comment:

Commenting on the flash PMI data, **Chris Williamson, chief economist at Markit** said:

"A lack of inflationary pressures, slowing growth and a drop in business confidence to a five-year low are all disappointing news for an economy which has seen the first US interest rate hike for almost a decade. The Fed projections point to a further four quarter point hikes in 2016, but with data as weak as these, we're likely to see a far less aggressive rate hike progression.

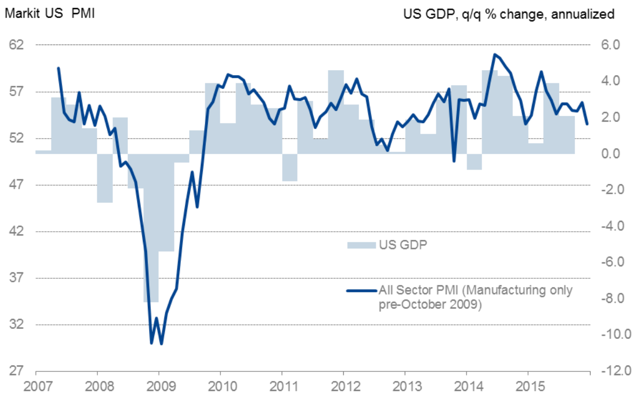
"The survey data are consistent with gross domestic product rising at an annualised rate of 1.8% in the fourth quarter. That's down only slightly from the 2.1% pace observed in the third quarter, but the survey shows a more severe slowing towards the end of the fourth quarter, with an annualised GDP growth rate of just 1.4% indicated for December alone.

"Hiring remained encouragingly resilient in the face of the weaker growth trend, pointing to a non-farm payroll increase of 170,000. That's below the average of 201,000 signalled in the preceding 11 months of the year (and below the official year-to-date average of 210,000), but still strong.

"However, with business expectations about the year ahead dropping in the service sector to the lowest since August 2010, the sustained growth of hiring may soon peter out unless demand revives."

-Ends-

Markit Composite PMI and U.S. GDP



Source: Markit, U.S. Bureau of Economic Analysis.

For further information, please contact:

Markit
Tim Moore, Senior Economist
Telephone +44-1491-461-067
Email tim.moore@markit.com

Ed Canaday, Corporate Communications
Telephone +1 646 679 3031
Mobile +1 917 434 5075
Email: ed.canaday@markit.com

Joanna Vickers, Corporate Communications
Telephone: +44-207-260-2234
Email: joanna.vickers@markit.com

Note to Editors:

Final December data are published on 6 January 2016.

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 flash estimate 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 indictors 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 positive responses plus a half 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 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.