News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 0945 (EST) / 1445 (UTC) February 24th 2016

Markit Flash U.S. Services PMI™

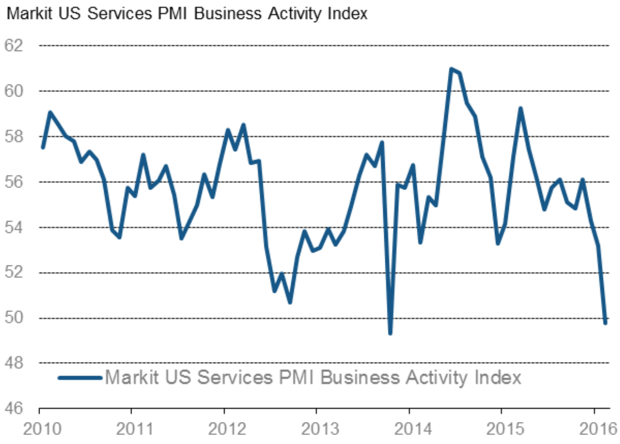
Weakest U.S. service sector performance for 28 months in February

Key points:

- Service sector business activity declines for the first time since October 2013
- East coast snow disruption and weakest rise in new work for 13 months act as a brake on activity
- Solid rate of jobs growth sustained in February
- Service providers report least favourable business outlook since August 2010

Data collected 12 – 23 February.

Service sector business activity (seasonally adjusted)



Sources: Markit

U.S. service providers indicated that overall business activity declined slightly in February, thereby ending a 27-month period of sustained growth. At 49.8, the seasonally adjusted **Markit Flash U.S. Services PMI™ Business Activity Index**[1] was down sharply from 53.2 in January, but only fractionally below the crucial 50.0 no-change threshold.

The index – which is based on approximately 85% of usual monthly replies – signalled the weakest service sector performance since the government shutdown temporarily disrupted business activity in October 2013. Reports from survey respondents suggested that softer underlying new order growth and uncertainty about the economic outlook had weighed on business activity in February. At the same time, disruptions related to heavy snowfall on the east coast were also a factor weighing on the headline index during the latest survey period.

New business growth moderated for the third month running in February. Moreover, the latest upturn in new work was one of the slowest since the survey began in late-2009. Service providers noted that some clients were more reluctant to commit to new projects, in part reflecting uncertainty about the economic outlook. This in turn led to the fastest reduction in **backlogs of work** since April 2014.

Looking ahead, service providers remain optimistic about the **outlook for business activity** over the next 12 months. However, latest data indicated that the degree of confidence dropped since January and was the lowest recorded for five-and-a-half years. Weaker business sentiment and softer new order growth did not prevent a further upturn in **payroll numbers** in February. Moreover, the rate of staff hiring was little-changed since January and above the average seen since the jobs recovery began six years ago.

On the prices front, the latest survey indicated only a moderate pace of **cost inflation** at service sector companies. A number of firms noted that lower fuel prices had helped to alleviate cost pressures at their business units. Meanwhile, **service sector charges** increased only fractionally in February and the rate of inflation slipped to a five-month low.

Markit Flash U.S. Composite PMI™

The seasonally adjusted **Markit Flash U.S. Composite PMI Output Index** posted 50.1 in February, down from 53.2 in January and the lowest since October 2013. As a result, the latest reading signalled that overall U.S. private sector

[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.

business activity stalled in February, following a relatively subdued growth outturn at the start of 2016.

A slight rise in manufacturing production during February ('flash' output index at 51.3) was offset by a fall in service sector activity ('flash' index at 49.8).

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:

"The PMI survey data show a significant risk of the US economy falling into contraction in the first quarter. The flash PMI for February shows business activity stagnating as growth slowed for a third successive month. Slumping business confidence and an increased downturn in order book backlogs suggest there's worse to come.

"With the exception of the government shutdown of October 2013, February has been the worst month for business since the recession. Business activity in services fell for the first time since the shutdown, accompanying a marked slowdown to near-stagnation in manufacturing.

"It's worth remembering that the month saw adverse weather affecting many parts of the country, so some bounce-back may be seen in March. But the weather can only explain part of the slowdown. It's clear that business confidence has faltered significantly, reaching the lowest since August 2010 in the service sector in February.

"Optimism about the outlook has been on a downward trend over the past two years, with worries about the global economic outlook, financial market volatility, the presidential election and interest rate policy all taking a further toll on business morale in February.

"Prices are falling again as companies compete to win market share; a boon for consumers but adding to the deflationary picture.

"Any bounce-back from the weather may therefore prove to be only a temporary improvement in a steady downward trend of business conditions."

-Ends-

For further information, please contact:

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

Markit Composite PMI and U.S. GDP

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

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 February data are published on 3 March 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.

About Markit
Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 4,000 people in 11 countries. Markit shares are listed on NASDAQ under the symbol MRKT. For more information, please see www.markit.com

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.