

News Release

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

Strong activity growth sustained in September

Data collected 12-26 September

Key Points:

- Sharp gain in activity rounds off best quarter since Q2 1997
- Sales growth sustained as confidence continues to strengthen
- Capacity pressures underpin solid employment gains

Summary:

The UK service sector continued to perform strongly in September to thereby round off the best quarterly performance of the sector since Q2 1997. Activity and new business both rose at rates close to August's highs, while there was a return to solid employment growth following the previous month's slowdown.

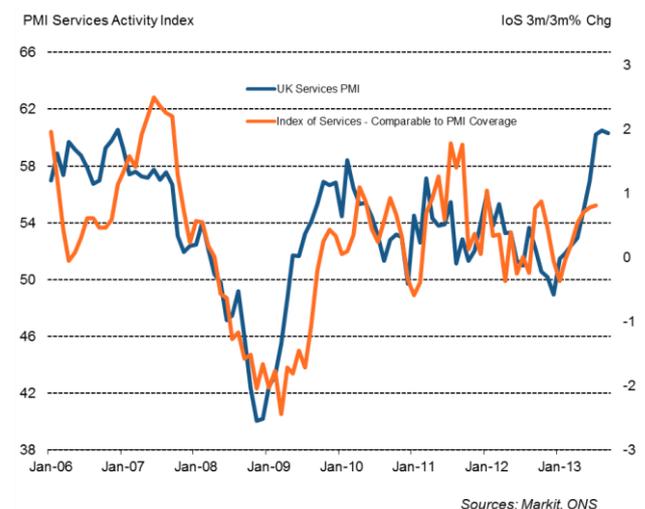
After accounting for seasonal factors, the headline figure from the report, the **Business Activity Index**, recorded a level of 60.3, only fractionally down on August's near seven-year high of 60.5. That signalled another strong rise in activity on a monthly basis, and extended the current run of continuous growth to nine months. Over the third quarter as a whole, the index averaged its highest level since Q2 1997.

September's sharp rise in activity was again supported by a marked gain in **incoming new business**. Panellists reported that underlying market demand improved as business confidence strengthened. This led to a greater willingness amongst clients to commit to new contracts. Service providers noted greater success in converting enquiries into hard contract wins.

Growth of new work has also been registered throughout the past nine months, and September's rise was only slightly down since August (when

sales increased at the sharpest pace since May 1997).

Business activity rises at sharp pace¹



The sharp rise in new business placed strain on company resources during September, as highlighted by a marked increase in **backlogs**. Latest data showed work outstanding rising to the greatest degree since February 2000.

A number of service providers responded by adding to their payrolls. September's survey showed **employment** growth accelerating to a solid rate that was only fractionally lower than June's near six-year high.

Payroll numbers were also expanded in line with positive **expectations** for activity growth. September's survey showed that business

¹ ONS Index of Services (IoS) growth rates based on weighted data covering Accommodation & Food Services, Transport, Storage, Information & Communications Services, Finance, Real Estate, Professional, Admin & Support Services and Other Services.

confidence strengthened with over 50% of the survey panel forecasting an increase in activity from present levels in 12 months' time. Companies were buoyed by the recent positive trend in new business and are widely expecting economic conditions to strengthen further in the coming year.

Finally, **operating costs** continued to increase during the latest survey period. Inflation remained marked, with fuel and utilities remaining amongst the primary driver of higher overall prices. Some panellists reported that wages had increased.

Efforts to pass these higher costs onto clients were generally thwarted by ongoing price competition. **Output prices** rose, but only modestly and at the slowest rate in four months of inflation.

Return to solid employment growth signalled in September



Source: Markit

Comment:

Chris Williamson, Chief Economist at survey compilers Markit:

“Businesses in the vast service sector reported an ongoing growth spurt in September, expanding at a rate just shy of August’s recent high. The buoyant data follow similar upbeat surveys of the manufacturing and construction sectors, and collectively the surveys suggest the economy will have expanded by as much as 1.2% in the third quarter; its fastest growth rate since the pre-crisis days of 2007.

“Growth is being led by financial services (linked in part to increased housing market activity) and the business sector. Consumer-facing services continue to struggle, reflecting the ongoing squeeze on incomes due to weak pay growth and high inflation.

“There are encouraging signs that the strong pace of expansion will persist in the coming months: September saw one of the largest inflows of new business ever seen by the services survey, business confidence about the year ahead picked up again and other surveys have shown the mood among households to have also improved.

“Not surprisingly, employers are taking on more staff to meet growing demand, which should help bring unemployment down.

“Although third quarter growth of 1.2% still leaves the economy 2.2% smaller than its peak before the crisis, growth is clearly running much faster than

the government and Bank of England anticipated earlier in the year. If such strong expansion persists, it’s hard to see how the Bank can avoid a review of its ‘forward guidance’ policy.”

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

“After nearly six lost years of economic output, the UK economy looks to have really found its feet. The services sector signed off September to complete its best quarter since 1997. In conjunction with manufacturing and construction, Q3 2013 represents the best ever quarterly performance in 15-years of combined UK PMI history.

“The numbers reflect the stability we are currently seeing in the global economy, and the services sector is taking full advantage. The industry sustained August’s impressive business growth, dipping only fractionally from a near seven-year high, and new orders have now been growing for nine months consecutively.

“As a result, confidence is stronger, encouraging firms to invest both in staff and contracts. The boost to employment is particularly welcome, having lagged in recent months. The reversal of August’s slowdown comes as firms seek to meet growing demand and, perhaps more encouragingly, in anticipation that growth will be sustained into the next quarter.”

The October Report on Services will be published on Tuesday 5th November 2013 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 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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