

News Release

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

Service sector expands at weakest rate in over two years in August

Data collected 12-26 August

Key Points:

- Business Activity Index falls to 27-month low of 55.6
- Slowest rise in new business since April 2013
- Input price inflation eases for third straight month

Summary:

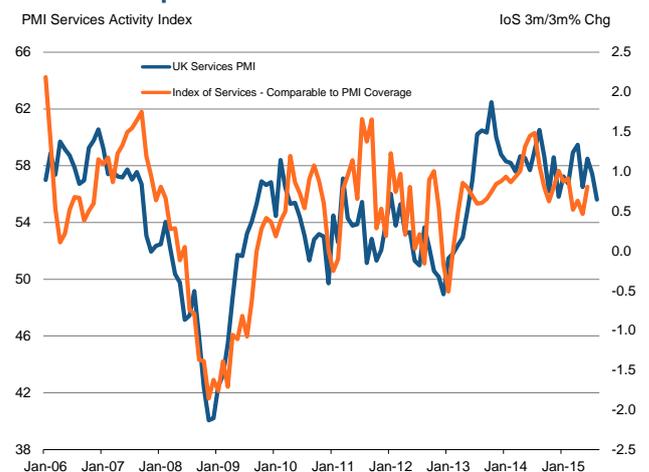
Latest *PMI*® survey data from Markit and CIPS continued to signal growth of the UK service sector in August, but the weakest rate of expansion in over two years. Growth of business activity moderated for the second month running, primarily as a result of the slowest increase in new business since April 2013. Growth remained strong overall, however, and was broadly consistent with the long-run survey average. Firms raised headcounts at a faster rate than July's recent low, albeit one that remained slower than those registered during the first half of 2015. Inflationary pressure on input costs eased further, and firms' charges rose only marginally.

The headline figure for the survey is the seasonally adjusted Markit/CIPS UK Services Business Activity Index, a single-figure measure designed to track changes in total UK services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

The Business Activity Index fell for the second month running in August, from 57.4 in July to 55.6. The latest figure remained above the long-run survey average of 55.2, but signalled the weakest rate of expansion since May 2013. On a quarterly basis, data for July and August point to the

slowest rate of growth since the second quarter of 2013. Business activity has nonetheless risen for 32 consecutive months, the second-longest sequence of growth since the survey started in July 1996.

Services expansion slows



New business received by UK service providers rose for the thirty-second successive month in August. The rate of expansion remained strong in the context of the survey history, but slowed since July to the weakest since April 2013.

Reflecting the slower rise in new business, the volume of incomplete work in the service sector increased at a weaker pace in August. That said, backlogs have now risen in every month since April 2013, barring a slight fall in June.

Service sector employment in the UK continued to rise in August. The rate of job creation picked up from July's recent low, but was nonetheless the second-weakest since March 2014. That said, all areas of the service sector except Hotels &

Catering posted growth of workforces during the latest period.

Business expectations remained strongly positive overall in August, with almost half of the survey panel anticipating growth at their units. That said, sentiment eased to the weakest since February.

Cost pressures eased for the third month running in August. The rate of inflation hit the weakest since January, with some firms reporting lower fuel (especially diesel) prices. Wages remained the main source of higher average input costs. Prices charged by service providers rose only fractionally.

Comment

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

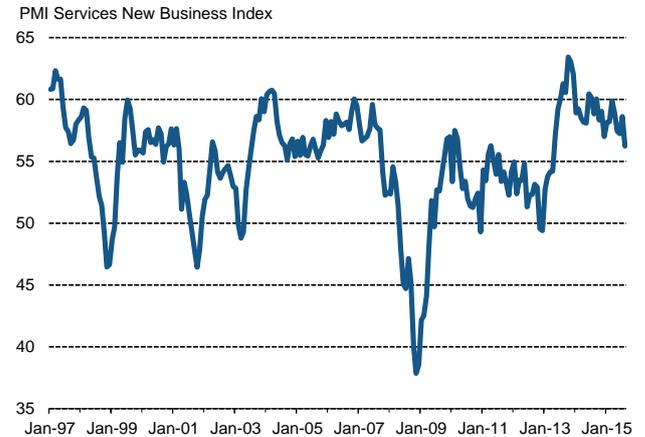
“Even after allowing for usual seasonal influences, August saw an unexpectedly sharp slowing in the pace of economic growth. The services PMI came in well below even the most pessimistic of economists’ forecasts¹ and follows disappointing news of a stagnation in the manufacturing sector earlier in the week.

“Although construction industry growth remained resilient, the three PMI surveys collectively are pointing to the weakest monthly expansion since May 2013.

“As such, the economy looks set to grow by 0.5% in the third quarter, down from 0.7% in the three months to June, with the ongoing upturn almost entirely dependent on the service sector.

“While some policymakers may be concerned by the slowing pace of expansion and the unbalanced nature of growth, others will be reassured that the economy continues to grow at a reasonably robust pace by historical standards. An upturn in employment growth could also put further upward pressure on wages. However, a marked waning of prices pressures other than wages during the month suggests the inflation outlook is benign and is therefore likely to help tip the argument towards postponing any rate hikes until the wider global economic picture becomes clearer.”

Weakest rise in new business since April 2013



Source: Markit

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

“The services sector left little to get excited about as the growth rate of new business was reported as the lowest for 28 months and the rate of overall activity growth the softest for 27 months.

“That said, services output has now risen for 32 consecutive months, and backlogs continued to rise.

“Staffing levels were higher and included some apprenticeships when compared to last month’s disappointing results, but concerns around the reality of the costs of the living wage were highlighted by respondents in a sector reliant on constant, high-quality, trained staff.

“Because activity growth remained solid in the context of the survey history, companies continued to display optimism around future business opportunities. Competitive pressures, marketing activity and strong contract negotiation skills kept output prices steady which was good news for consumers.

“In summary, the coming months are likely to show firms planning for more modest growth of opportunity rather than for the highs seen in the last few years.”

The September Report on Services will be published on Monday 5th October 2015 at 09:30

-Ends-

¹ Consensus of 26 economists was for 57.6, ranging from 56.8 to 58.5, according to Thomson Reuters polling unit.

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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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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.

About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues. CIPS has a global community of 114,000 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. www.cips.org

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