

News Release

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

UK service sector activity increases at strongest pace in four months during July

Data collected 12–27 July

Key Points:

- Activity supported by marked increase in new business volumes
- Employment cut fractionally
- Price indices both move lower in July

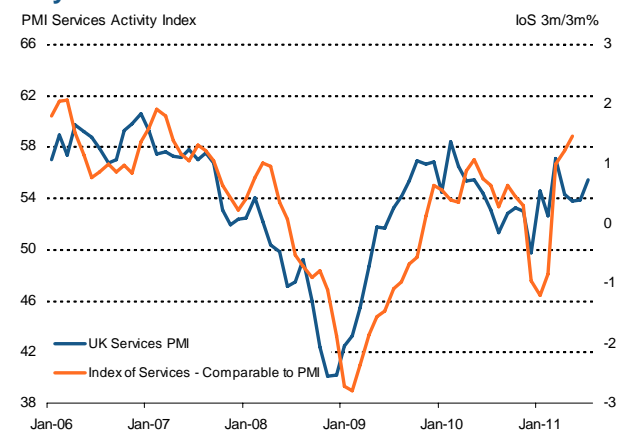
Summary:

The UK service sector expanded in July at a marked and accelerated rate. Activity was supported by an equally strong gain in new business as demand and market conditions were reported by panellists to have improved. However, lingering uncertainty over the direction of the economy undermined expectations and hiring decisions. Business confidence remained historically low and payroll numbers were fractionally down following two months of negligible gains.

July's headline seasonally adjusted **Markit/CIPS Business Activity Index** recorded 55.4, up from 53.9 in June, to indicate a rise in activity that was the strongest for four months and above the series average. Business Services and IT & Computing registered the steepest gains in activity, but falls were seen in the Financial Intermediation, Hotels, Catering & Restaurants and Personal Services categories.

Strengthened market conditions, higher enquiry levels and improved demand all supported a rise in **new business** to the UK service sector in July. As with activity, the rate of growth strengthened, reaching a three-month high in the latest survey period.

Activity rises at marked and accelerated rate in July...



...in line with stronger gain in new business



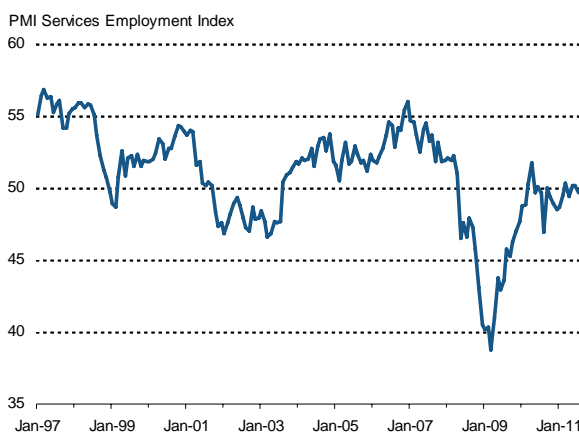
Sources: Markit; ONS ¹.

¹ ONS Index of Services (IoS) growth rates based on weighted data covering Hotels & Restaurants, Financial Intermediation, Real Estate, Renting & Business Activities, Transport, Storage & Communications and Other Services.



Despite the marked increases in activity and new business, levels of **work outstanding** were down for a fourth month in succession. Moreover, backlog reduction was achieved despite a drop in payroll numbers, which were down fractionally in July. Company restructuring, the non-replacement of leavers and natural wastage were all noted as factors leading to the slight drop in employment.

Employment fractionally down in July



Latest survey data also pointed to some uncertainty among UK service providers, as **business confidence** remained at an historically low level

Comment:

Paul Smith, Senior Economist at survey compilers Markit:

“A pleasant upside surprise was provided by the UK services PMI in July, with growth of activity reaching a four-month high. Higher output was supported by an equally robust rise in incoming new business, and the latest data are consistent with the private service sector growing around 0.7%-0.8% q/q at the start of Q3. However, with the drag from industry highlighted by the earlier manufacturing survey, we estimate the economy was probably expanding at a more modest rate of 0.5% q/q in July.

“A key question will be whether July’s above average increase in service sector activity can be sustained going forward. Given the headwinds of austerity at home and the ongoing public debt issues in major export markets, the scenario of a continued choppy recovery would, at the present time, be the best forecast for the sector’s performance in the coming months.

despite improving on June’s low. Where positive sentiment was signalled, this was linked to recent gains in new business, positive pipelines and planned investment.

On the price front, **input cost inflation** continued its recent steady slide in July but nonetheless remained at an elevated level. Higher energy and utility bills, supply chain pressures and increased food costs were reported as the principal drivers of inflation.

Output price inflation also weakened, easing to a marginal pace that was the weakest in ten months of rising charges. Efforts to protect margins from increased operating costs were generally thwarted by ongoing competitive pressures.

“This is how service companies appear to be assessing the future, with a cautious outlook again indicated by the survey panel which in turn fed through to hiring decisions – employment was fractionally down in July following two months of negligible rises.”

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

“These are surprisingly strong figures for the UK Services sector, following on from a disappointing manufacturing PMI at the start of the week. However, it’s far too early to expect any improvement on employment figures as any green shoots will need time to blossom before businesses confidence can improve.

“Business Services and IT & Computing are looking pretty upbeat, but it remains to be seen whether nerves about difficult economic conditions in the US and Eurozone will start to have a greater impact on demand.



“Yet again it’s the segments most exposed to consumers’ lack of disposable income that suffered most, and all businesses are being hit by inflation

and rising utility bills. In a fiercely competitive environment, passing on these costs to customers is easier said than done.”

The August Report on Services will be published on Monday 5th September 2011 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.

About Markit

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com.



About PMIs

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 leading international body representing purchasing and supply management professionals. It is the world-wide centre of excellence on purchasing and supply management issues. CIPS has 60,000 members around the world, including senior business people, high-ranking civil servants and leading academics. The activities of purchasing and supply chain professionals can have a major impact on the profitability and efficiency of all types of organisation.

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