News Release

MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09.30 (UK), 6 January 2011

Markit/CIPS UK Services PMI™

Poor weather led to marginal fall in activity during December. Cost pressures intensified.

Summary:

- Activity and new business both fall in December.
- Job losses recorded for third successive month.
- Input price inflation accelerated to strongest since September 2008.

Summary:

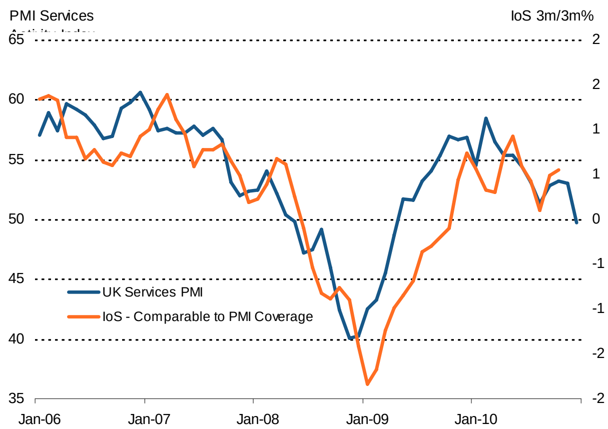
Poor weather and snow impacted heavily on the UK service sector at the end of 2010. Both activity and new business were down marginally in December, and there were again reports that underlying trends remained subdued. This led to another month of job losses and also served to subdue business confidence.

On the prices front, cost pressures intensified, with input price inflation accelerating to the steepest in over two years. However, competitive pressures continued to restrict the pace at which companies could increase their own charges.

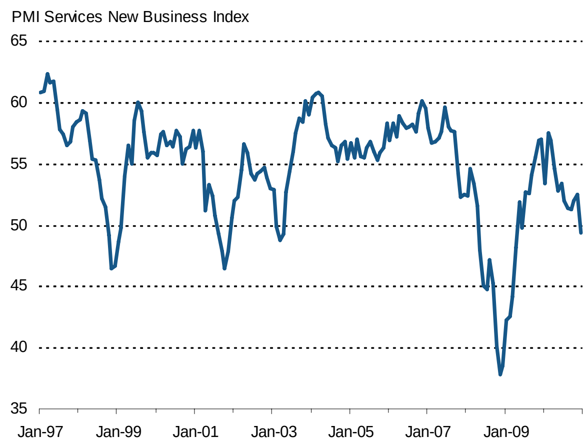
After accounting for seasonal factors, the headline Business Activity Index registered 49.7, down markedly from 53.0 in November. Posting below the 50.0 no-change mark for the first time since April 2009, the index therefore pointed to a marginal decline of service sector output.

A similarly marginal fall in incoming new business was signalled during December, with companies widely blaming the poor weather for causing market disruptions. Sectors particularly affected were Hotels, Catering & Restaurants and Personal Services.

Business activity down slightly…



…as incoming new orders also fell marginally in December



Sources: Markit; ONS [1].

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

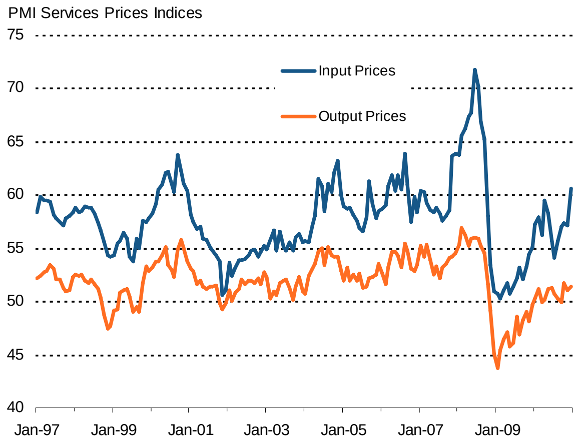
A number of panellists also continued to comment on a reluctance amongst clients to commit significant new business spend, with the public sector again noted as a source of demand weakness. This continued to impact adversely on service sector business confidence which remained well below its trend level.

With companies retaining a cautious outlook, a number pressed on with restructuring programmes or chose to not replace voluntary leavers. Employment in the service sector was subsequently down for a third successive month and at a slightly faster rate of decline than in November. A degree of spare capacity also influenced payroll decisions – backlogs of work fell for a thirty-ninth consecutive month and at the fastest pace since September.

Amid reports of rising food and fuel prices, average cost inflation accelerated markedly in December to reach the highest level since September 2008. Over a fifth of the survey panel indicated that average input costs were higher than one month ago, with the Hotels, Catering & Restaurants sector signalling the strongest inflation.

Service providers raised their own charges during December in response to higher operating costs and ahead of January's VAT increase. However, the rate of inflation remained relatively modest and well below that of input prices.

Cost pressures intensified, but service providers' pricing power remained subdued



Comment:

Chris Williamson, Chief Economist at survey compilers Markit:

"A very disappointing end to the year in the service sector matches a similar deterioration in the construction sector. With manufacturing the only sector still expanding, the economy as a whole stagnated in December, taking GDP growth in the final quarter down to around 0.4% – a far cry from the 1.1% growth spurt seen in the spring.

"Bad weather undoubtedly hit service sector business in December, but there are also clear signs that domestic demand has weakened as households and business continued to reign in their spending.

"From the three PMI surveys, there is therefore a strong indication that UK economic growth is completely reliant upon export sales while domestic demand has wilted."

"Looking ahead, employment fell at a faster rate in December as service providers hunkered down for tough trading conditions. Expectations regarding business activity in the coming 12 months remain at a level which tends to be associated with economic crises and falling activity. Further weak economic growth should be expected in early 2011 and the drop in services activity, alongside the decline in construction, is a warning that manufacturing alone is unable to sustain the economic recovery."

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

"It was a gloomy end to the year in the UK services sector with reports of reduced activity, falls in work backlogs, and less new business. Meanwhile, profits continue to be squeezed as input price inflation accelerated at its steepest rate in over two years. Fiscal tightening will continue to be a big theme in the coming year, particularly for companies reliant on the domestic market such as hotels, caterers and restaurants which also suffered the most in the winter chill.

"On the plus side, it's encouraging to see that business confidence for next year continued to improve slowly with the promise of stronger economic recovery. We must hope that there will be spill over from the booming manufacturing sector which might ease some of our worries."

The January *Report on Services* will be published on Thursday 3rd February 2011 at 9.30am

-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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About PMIs
Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become 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 almost 60,000 members in

150 different countries, 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.