

## News Release

**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 0930 (UK), 5 April 2011**

### Markit/CIPS UK Services PMI™

## Growth of UK service sector accelerated in March to the fastest pace in over a year.

#### Key Points:

- Strong rise in new business supported increase of activity.
- Employment raised for first time in nine months.
- Cost pressures intensify, but charges rose only modestly leading to margin squeeze.

#### Summary:

UK service sector activity growth surged in March to its strongest for thirteen months, as companies benefited from improved business conditions, higher sales and increased enquiries. Capacity levels were tested, leading to a slight rise in employment for the first time in nine months. However, optimism regarding future activity was slightly down since the previous month.

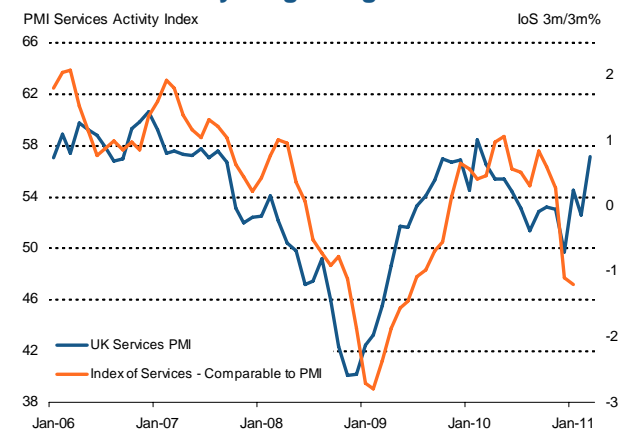
On the prices front, input costs continued to rise at a marked pace, with the rate of inflation only slightly lower than January's two-and-a-half year peak. Nonetheless, the degree of pass through remained muted – output charges rose at their slowest pace of the year so far.

After accounting for seasonal factors, the **Markit/CIPS Business Activity Index** registered 57.1 in March. The latest reading was a marked improvement on February's 52.6, and resulted in an average reading of 54.7 for Q1. That was the strongest out turn since Q2 2010 and only fractionally lower than the long-run series average.

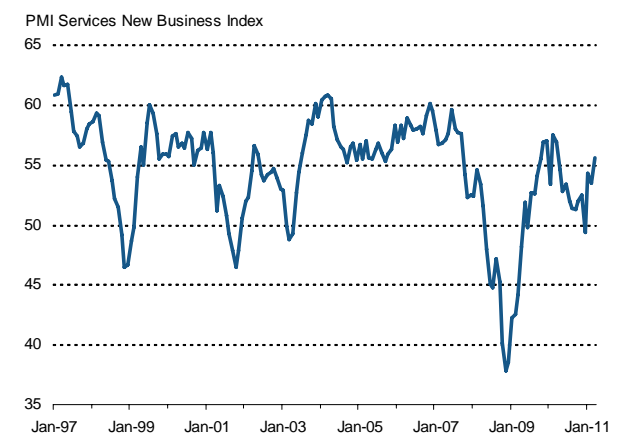
Driving activity higher was a combination of increased business enquiries and **higher levels of new work**. Growth of new business was the sharpest for a year amid reports of stronger demand and increased success in converting pipeline business into contracts wins. Latest data showed that the key Business-to-Business Services category performed particularly well in March as the

sector benefited from growth elsewhere in the economy.

#### Business activity surged higher in March...



#### ...as incoming new work rose at marked pace



Sources: Markit; ONS <sup>1</sup>.

<sup>1</sup> 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.



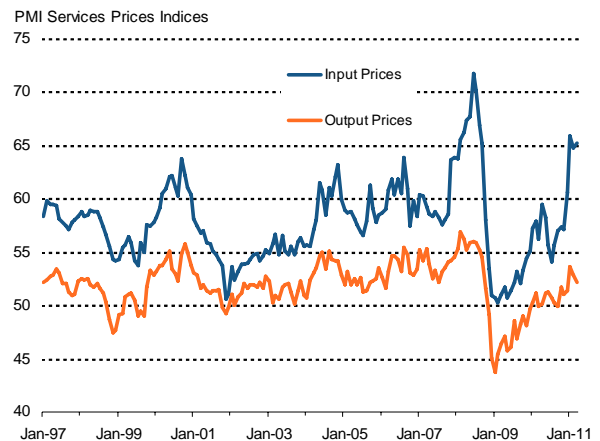
Marked gains in new business tested capacity in the latest survey period, with **backlogs of work** increasing for the first time since September 2007 (albeit only modestly). A number of service providers subsequently added to their payrolls, the net result being a marginal increase in **employment** (the first growth since June 2010).

Higher staffing levels also reflected **optimism regarding future activity**, with over 50% of respondents expecting growth over the coming twelve months. Companies expect the economic recovery to continue and were buoyed by the recent positive trends in new business and activity. Nonetheless, recent global events and the high price of oil served to dampen confidence, with the net result an easing in the degree of positive sentiment.

Meanwhile, high energy and fuel costs drove **input price inflation** to the second strongest since mid-2008. There were also reports of rising food costs and increased wages being paid.

Service providers continued to struggle to offset higher costs through increased **output charges**. Although charges rose for a sixth successive month, the rate of inflation was only modest and the slowest of the year so far.

#### Input costs rose at historically steep pace, but output charge inflation remained modest



#### Comment:

**Paul Smith, Senior Economist at survey compilers Markit:**

*“Services activity growth surprised well to the upside in March, and points to the strongest expansion of the sector since the economy was surging out of its recession early last year. Allied to a robust underlying growth trend in manufacturing and the recent improvement in construction, we look for GDP in Q1 to have rebounded by as much as 0.8% on a quarterly basis in the first quarter.*

*“Some encouraging news on the employment front was also provided by today’s PMI data, with job creation recorded for the first time in nine months. But the rise was only very marginal, suggesting that service providers remain very cautious about expanding headcounts in the face of numerous economic headwinds.*

*“The degree of confidence regarding prospects for the year ahead dipped lower, and cost pressures remained elevated, leading to doubts over whether the rate of services growth seen in March can be sustained in the coming months.”*

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

*“A complex array of forces were at play in the UK services sector last month, resulting in the strongest rate of growth for over a year but also a further squeezing of profit margins. Where possible companies tried to avoid passing on higher costs due to highly competitive market conditions.*

*“Leading performers such as business services seem to have been riding on the coat-tails of a stronger UK manufacturing sector in Q1; and meanwhile overseas demand for IT & Computing continued to boost confidence in that sector.*

*“It’s encouraging to see a marginal increase in recruitment for the first time in nine months but there are likely to be a few wobbles to come, not least as businesses wait to see the true impact of government spending cuts over the summer months.”*

The April Report on Services will be published on Thursday 5<sup>th</sup> May 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](mailto:economics@markit.com).

#### About Markit

Markit is a leading, global financial information services company with over 2,000 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](http://www.markit.com).

#### 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](http://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.



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