

News Release

MARKET SENSITIVE INFORMATION
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CIPS/Markit UK Services PMI

Slowest contraction of services economy since September 2008, but job shedding accelerates to new record

Key points:

- Headline Business Activity Index rises to six-month high.
- Survey indicates record job losses as companies streamline staff.
- Business confidence at highest since last August.

Summary:

March's CIPS/Markit survey indicated a further easing in the rate of contraction of the UK services sector. Both business activity and incoming new work declined at their slowest rates in six months, while confidence hit its highest since the collapse of Lehman Brothers last September triggered an intensification of the global economic downturn.

However, despite March's improvements in index values, rates of contraction in activity and new business remained historically steep, while sentiment was still well below its long-term average. Moreover, jobs were lost at a survey record pace as service providers looked to streamline operations at a time of ongoing uncertainty.

The Business Activity Index posted 45.5 in March, up from 43.2 and a fourth successive monthly improvement from November 2008's record low. Nonetheless, the latest index is consistent with a marked reduction in activity, and signalled the eleventh successive monthly contraction – the longest such run in the survey history.

Companies reported that lower incoming new work was the primary factor driving activity down in March. Sales fell for an eleventh month running, reflective of ongoing market uncertainty, which continued to undermine clients' willingness to commit expenditure. However, the overall decline in new work was the lowest in six months. Where new

business rose, this was attributed to a combination of aggressive sales techniques and successful advertising.

The relative improvements in activity and new business trends were not replicated in the jobs market. March's survey indicated that payrolls were cut at a survey record pace as companies responded to the ongoing downturn in sales by shedding jobs. Anecdotal evidence also indicated that service providers were streamlining operations as overall workloads continued to fall steeply and excess capacity remained prevalent.

Backlogs of work declined in March for an eighteenth successive month and at a historically sharp rate.

Service providers continued to utilise discounting strategies, reducing their average charges for a fifth successive month in a bid to secure new work and in response to competitive pressures.

Average input prices continued to rise, despite evidence of falling supplier charges and lower wages being paid. Weak sterling was reported to have raised the price of imported goods, while there was also some evidence of higher fuel and food costs.

Finally, UK service providers were at their most confident since August 2008. A number of companies are forecasting that the downturn will see competitive pressures reduced in a year's time as rivals struggle to stay in business (while also increasing the opportunity for acquisitions).

Comment:

Roy Ayliffe, Director of Professional Practice at the Chartered Institute of Purchasing & Supply (CIPS), said:



“Though March saw another slight easing in the rate of decline in the UK services economy and long-term confidence nudged upwards, purchasing managers have now reported persistent contraction of the services economy for almost a year.

“Services businesses are straining every muscle to survive the testing environment and operating conditions remain similar to those seen in Q4 of last year when the industry saw around 160,000 jobs culled as the country sank into recession. And sadly it doesn't stop there, since more firms are now slashing employees' salaries in a bid for survival.”

Paul Smith, Senior Economist at Markit Economics said:

“The latest upturn in the activity index and another improvement in business confidence to a post-Lehman Brothers high provide further evidence that the severe contractions in services output at the end of last year may now be behind us. These developments subsequently augur well for an improvement in GDP later in the year.

“However, bear in mind that the activity index had never been as low as its current reading prior to last October and subsequently remains consistent with a historically marked contraction of the sector at the end of Q1. Service providers are operating with an understandable psychology of caution, exhibiting a desire to streamline operations to alleviate excess capacity. This was highlighted by the survey record fall in jobs during March.”

The April CIPS/Markit UK Services PMI will be published on Wednesday 6th May 2009

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Notes to Editors:

The CIPS/Markit 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.

Where appropriate, please refer to the survey as the CIPS / Markit UK Services PMI.

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 54,000 members in



153 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.

About Markit

Markit is a financial information services company with more than 1,000 employees in Europe, North America and Asia. Over 1,000 financial institutions use our independent services to manage risk, improve operational efficiency and meet regulatory requirements.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The 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.

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