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KPMG UK TECH MONITOR

Compiled by IHS Markit

UK tech sector resilient despite falling optimism

- Technology firms' optimism drops to 10-year-low amid skills shortage and fears of a subdued economy squeezing corporate client spending
- However, tech businesses still enjoyed a faster rise in output and new business in Q1 than the previous three months
- Tech sector outperforms UK economy in Q1

Optimism in the UK tech sector dropped to a 10-year low in Q1, despite business activity growth recovering to its fastest pace since Q2 of last year, according to the latest quarterly survey of UK technology sector companies by KPMG.

The KPMG UK Tech Monitor Index, which measures the strength of business activity across the sector, rebounded to 54.4 in Q1, from 52.3 at the end of 2018 - the weakest pace of growth registered in three years. A reading above 50 shows an increase in overall business activity across the sector, whereas a reading below indicates a decline.

The sector - which includes technology software and services providers, and technology equipment manufacturers - also outperformed the overall UK economy in Q1 2019, which grew at the weakest pace (50.6) for over six years.

Tech firms attributed faster sales growth to resilient demand from the US and from diversification into new overseas markets. The new business index registered at 55.1 in Q1, up from 51.9 in the final quarter of last year.

Despite improved growth in the sector, businesses had become less optimistic for the next 12 months, with the index measuring sentiment dropping from 69.8 in Q4 last year to 65.6. Firms reported that Brexit-related uncertainty and a subdued global economy had the potential to dampen corporate spending, alongside concerns on the tech sector skills shortage threatening growth.

While the rate of employment growth remained among the weakest since 2013 in Q1, 43% of tech firms said they expected to boost their workforces in the next 12 months, while only 11% forecast a reduction.

Bernard Brown, vice chair at KPMG UK said:

"The latest Index ultimately outlines the resilience of the UK tech sector, and the strength of its ability to compete globally.

"It's encouraging to see tech firms' output and order books rebound from the low levels of growth seen at the end of 2018, as corporate demand for technology services and a healthy pipeline of new product launches supported sector growth in Q1.

"While business may be concerned about global economic headwinds threatening customer spending, confidence is being buoyed by long term trends where we have a track-record for innovation.

"Advances in AI-enabled enterprise software, innovation in fintech and a strong demand for cloud technologies are all excellent opportunities for the sector to grow in the year ahead."

KPMG UK Tech Monitor Index

Above 50 = growth, seasonally adjusted



Sources: KPMG, IHS Markit

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UK Tech Sector Purchasing Managers Index® (PMI®) data

UK Tech Monitor Index data is derived from a representative sub-category of approximately 150 tech companies within IHS Markit's regular PMI® surveys of UK manufacturers and service providers. Tech is defined in this report as technology software, technology services and manufacturing of technology equipment. All figures are seasonally adjusted and smoothed using a three-month moving average, to better highlight underlying trends in the data.

UK Tech Sector Business Outlook data

Business activity expectations data are drawn from the monthly PMI® surveys question on companies' expectations for their activity/output over the next 12 months. Prior to July 2012, only service sector companies were asked this question. Employment, capex, profits and input cost expectations data are based on responses from UK services and manufacturing firms participating in IHS Markit's tri-annual Global Business Outlook survey, which is based on the same panel of companies as the PMI® surveys.

Technology sector industry groups

Software publishing (SIC 582), Computer programming, consultancy and related activities (SIC 620), Data processing, hosting and related activities; web portals (SIC 631), manufacture of computer, electronic and optical products (SIC 26), manufacture of electrical equipment (SIC 27).

About KPMG

KPMG LLP, a UK limited liability partnership, operates from 22 offices across the UK with approximately 16,300 partners and staff. The UK firm recorded a revenue of £2.338 billion in the year ended 30 September 2018. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. It operates in 154 countries and has 200,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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