Tech sector growth weakest for three years as uncertainty begins to bite

Key findings
- UK tech companies indicate loss of momentum in the final quarter of 2018
- Business activity expands at slowest pace since Q4 2015
- Tech sector much more upbeat than the rest of the UK economy regarding business outlook in 2019

The tech sector experienced a difficult end to 2018, as business activity growth eased to its weakest for three years and new work remained subdued. Global trade frictions and Brexit-related uncertainty were widely reported to have acted as a headwind to client spending.

At 52.4 in Q4, the KPMG UK Tech Monitor Index - which measures the strength of business activity across the sector - remained above the crucial 50.0 no-change value, which continued the upward trend signalled since the summer of 2012.

However, the latest reading was down from 54.0 in Q3 and pointed to the slowest rate of tech sector business expansion since Q4 2015.

Tech companies also signalled the sharpest fall in backlogs of work for seven years, suggesting a lack of new work to replace completed projects at the end of 2018.

Staff hiring slows from peak
Some tech companies have responded to subdued business investment across the wider economy by putting the brakes on staff hiring at the end of last year.

While employment numbers continued to rise overall in Q4, the rate of growth continued to soften from a survey-record high seen at the start of 2018.

Higher wages drive up costs in Q4
Operating expenses continued to rise sharply at tech firms, albeit at a weaker pace than the record highs seen in 2017. Difficulties filling vacancies pushed up staff costs, while exchange rate depreciation fuelled input cost pressures for dollar denominated purchases.

Business outlook remains upbeat
Looking ahead to 2019, there are positive signs in the latest report. While tech firms report that projections
for demand growth have softened, they remain highly upbeat about their capital expenditure plans.

A strong record of R&D spending continues to drive confidence regarding new product launches, according to survey respondents. Some suggest that a competitive boost from the weak pound will help achieve new export sales.

Tech businesses appear set to remain a strong engine of job creation. Almost half of the survey panel expect to boost workforce numbers, while less than one-in-ten forecast a fall.

Tech sector employment plans are far stronger than that reported by the UK private sector as a whole, which are now the lowest since Q1 2013.

Comment

Bernard Brown, vice chair at KPMG UK said:

“Our survey reveals that political uncertainty has dented client confidence contributing to a slowdown in growth at the end of last year. But, buoyant staff hiring and capital expenditure plans are still in place for 2019. This confidence is reflected in the statistic that almost 50% of UK tech firms intend to add jobs over the next year, whilst many traditional manufacturers are considering moving jobs offshore. This demonstrates the strength and resilience of the UK tech sector in the new digital economy.”

Contact

KPMG
Nahidur Rahman
+44 (0) 20 7694 8812
+44 (0)73 9376 0775
nahidur.rahman@kpmg.co.uk

IHS Markit
Joanna Vickers
Corporate Communications
+44-207-260-2234
joanna.vickers@ihsmarkit.com

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).

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News Release

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