News Release

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IHS MARKIT / CIPS UK SERVICES PMI®

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Slump in UK service sector output as COVID-19 pandemic continues in April

KEY FINDINGS

Record declines in activity, new work and employment

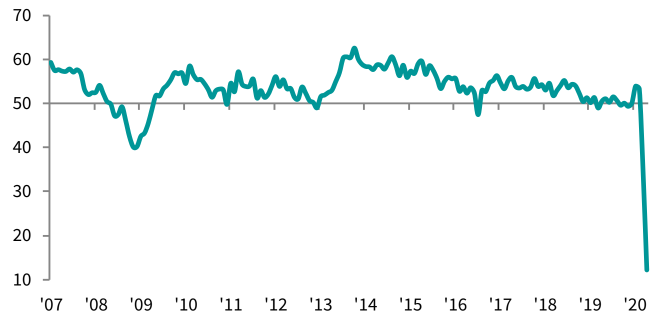
Input costs fall for first time since survey began in 1996

Business expectations up only fractionally since March

April 2020 data were collected 7-28 April 2020.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

April data indicated a reduction in UK service sector activity on an unprecedented scale since the start of the survey in July 1996, reflecting emergency public health measures to stem the coronavirus disease 2019 (COVID-19) pandemic. The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 13.4 in April, down sharply from 34.5 in March, to signal a rapid decline in UK service sector output. The earlier 'flash' reading for April was 12.3. Prior to the last two months, the survey-record low stood at 40.1 in November 2008.

Around 79% of survey respondents reported a drop in business activity during April, which was almost double the survey-record set in March (43%). Reduced volumes of activity in April were of course overwhelmingly attributed to either business closures, shutdowns among clients or shrinking sales due to a slump in non-essential spending.

Close to one-in-seven survey respondents (14%) commented on unchanged business activity since March, which was often viewed as a successful outcome after enacting business continuity plans and home working.

Mirroring the trend seen for business activity, latest data signalled survey-record declines in new work, backlogs and employment across the service economy. The small minority of firms reporting growth in new business during April mainly attributed it to online consumer spending, public sector contract awards and demand for services related to remote working. Some financial service providers also commented to resilient volumes of new business.

Adding to downward pressure on sales volumes, new business from abroad slumped in April, with transport, tourism and leisure companies often commenting on cancellations of all overseas bookings. Service sector firms also noted that international travel restrictions and business closures led to stoppages on new projects with clients in Europe, the US and Middle East.

Around half of the survey panel (49%) indicated a decline in payroll numbers during April. There were widespread reports that linked lower employment to the use of the UK government job retention scheme. However, service providers also commented on redundancies at their businesses amid severe cash flow constraints, which could lead to additional job cuts among those currently placed on furlough if support was not extended through the coming months.

A combination of lower payrolls costs, fuel prices and office overheads led to a drop in average cost burdens for the first time since the survey began in July 1996. That said, price discounting deepened in April, with the rate of decline in average charges among service providers the fastest in the survey history.

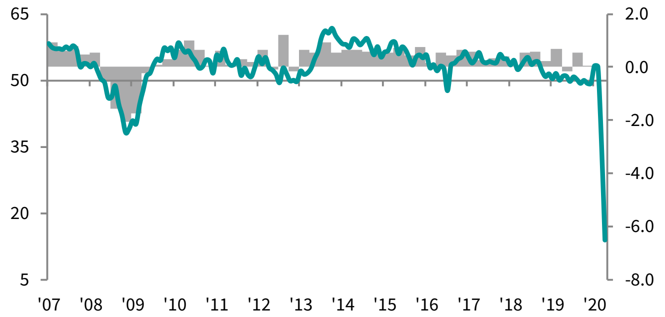
Business expectations for the next 12 months picked up very slightly from March's record low. However, service providers widely noted that their business operations were unlikely to return to normal in the immediate future.

IHS MARKIT UK COMPOSITE PMI®

Fastest downturn in UK private sector output since the index began in January 1998

Composite Output Index
sa, >50 = growth since previous month

Gross Domestic Product (GDP)
%qr/qr



Sources: IHS Markit, ONS.

Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The UK Composite Output Index is a weighted average of the UK Manufacturing Output Index and the UK Services Business Activity Index.

At 13.8 in April, the IHS Markit/CIPS UK Composite Output Index fell sharply from 36.0 in March and was by far the lowest recorded since the series began in 1998. The final index reading was slightly higher than the earlier 'flash' reading of 12.9 in April.

Service sector activity (index at 13.4) dropped at a slightly steeper rate than manufacturing output (16.3), with the latter supported to some extent by food and drink, pharmaceuticals and other healthcare-related production.

April data also pointed to survey-record declines in new business volumes, backlogs of work and employment across the UK private sector. In each case, the rate of contraction was faster in the service economy than the manufacturing sector, reflecting widespread business closures and shrinking customer demand.

COMMENT

Tim Moore, Economics Director at IHS Markit, which compiles the survey:

“April's PMI data highlights that the downturn in the UK economy during the second quarter of 2020 will be far deeper and more widespread than anything seen in living memory.

"Historical comparisons of the PMI with GDP indicate that the April survey reading is consistent with the economy falling at a quarterly rate of approximately 7%, but we expect the actual decline in GDP could be even greater, in part because the PMI excludes the vast majority of the self-employed and the retail sector.

"Just one-in-five service providers managed to avoid a drop in business activity since March, and those hardest hit by social distancing measures and travel restrictions often reported complete stoppages of business operations.

"While output, new work and employment indices all hit all-time lows in April, survey respondents indicated a tentative upturn in their business expectations amid hopes that a gradual re-opening of the economy can be achieved in the summer. However, service providers looking to re-establish business operations overwhelmingly commented that capacity would remain well below previous levels for an extended period and any timings remain highly uncertain.

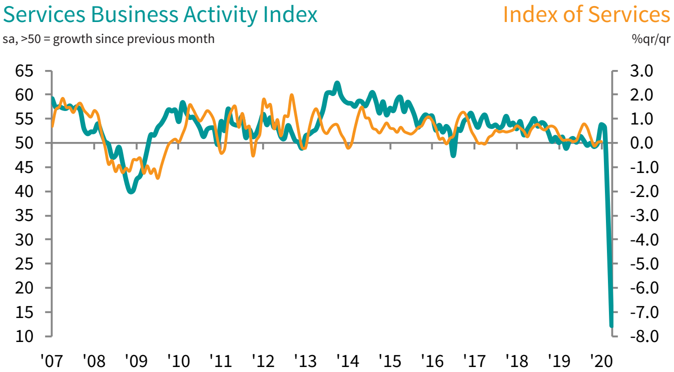
"Those relying on travel, social gatherings or face-to-face business continue to report severe cash flow concerns and mounting worries about retaining staff without an extended period of government support."

Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

“The services sector reached a stasis in April as the engine of business was put to sleep and the flow of new customers was cut off amidst public health concerns.

“The PMI graphs visibly show cataclysmically low levels of domestic and export new orders, along with outstanding business as companies simply shut up shop. Firms also resorted to quick redundancies to avoid bankruptcy or made use of the furlough scheme to suspend operations as job creation halted apart from some online operations or digitally-focused activity.

“Though a further downturn was anticipated after last month’s historically low figures, the scale of this fall is unnerving. A significant number of businesses in shutdown now may never reopen. Even with some movement in the lifting of restrictions on business activity, the UK economy is not a tap that can just be turned on. The flow of activity will take planning, Government support and an end to the pandemic in sight to have a strong effect on the biggest driver in the UK economy.”



Sources: IHS Markit, ONS.

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Methodology

The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 650 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

April data were collected 7-28 April 2020.

The final United Kingdom Services PMI follows on from the flash estimate which is released around a week earlier and is typically based on approximately 85%–90% of total PMI survey responses each month. The April 2020 flash was based on 84% of the replies used in the final data.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

About CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of 200,000 in over 150 countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

www.cips.org

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are 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.

ihsmarkit.com/products/pmi.html.