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IHS MARKIT / CIPS UK SERVICES PMI®

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Sharp fall in business activity in January, but vaccine rollout helps lift optimism to its highest since May 2014

KEY FINDINGS

Fastest decline in business activity since May 2020

Job shedding accelerates amid shrinking order books

Growth expectations rise to highest for nearly seven years

January data were collected 12-27 January 2021.

January data pointed to a steep and accelerated fall in UK service sector output, with the rate of decline the fastest recorded since May 2020. Survey respondents overwhelmingly linked lower activity to the impact of restrictions on trade and temporary business closures during the third national lockdown.

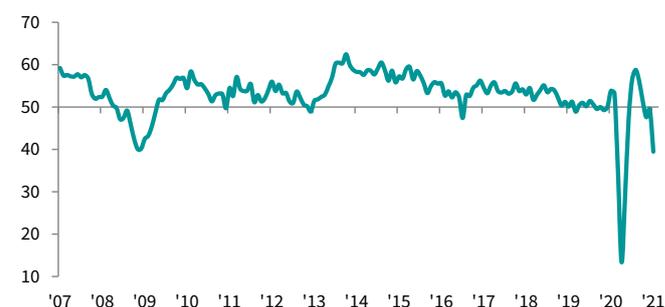
Despite a sharp downturn in client demand due to the coronavirus disease 2019 (COVID-19) pandemic, the latest survey indicated that business optimism improved for the third consecutive month. The degree of positive sentiment was the strongest since May 2014. This largely reflected the successful UK vaccine rollout so far in 2021 and hopes of a strong rebound in economic conditions as the pandemic situation improves.

At 39.5 in January, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index dropped sharply from 49.4 in December and signalled the fastest reduction in business activity for eight months. Around 41% of survey respondents indicated a decline in output during January, while only 15% registered an expansion.

Lower levels of service sector activity were attributed to the third national lockdown in January and a subsequent slump in output among travel, leisure and hospitality businesses. Survey respondents also cited cautious spending patterns among clients and renewed delays to projects due to the pandemic. Where growth was reported, this was often linked to resilient demand for residential property ahead of the

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

stamp duty deadline, alongside rising demand in areas such as digital services and e-commerce.

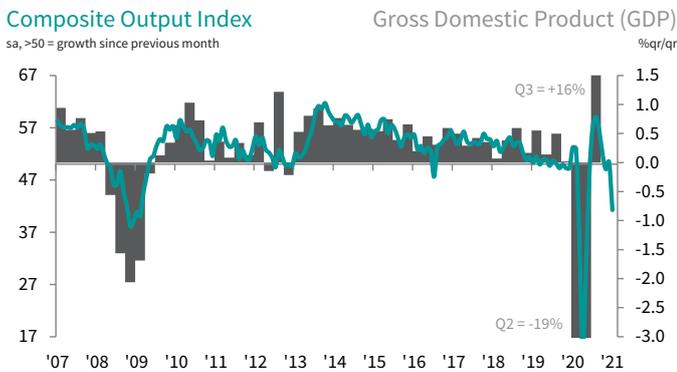
Total volumes of new work across the service economy decreased at a sharp and accelerated pace in January. The latest downturn in order books was also the fastest seen since May 2020. New business from abroad continued to fall at a steeper pace than domestic sales, with the rate of contraction the sharpest for seven months in January. Survey respondents mainly cited the negative impact of international travel restrictions on export sales, but there were also reports citing Brexit as a factor leading to lower orders from clients in the European Union.

Staffing numbers decreased for the eleventh month in a row during January. The rate of job shedding intensified since December, but remained less severe than at the start of the pandemic. Reduced employment was linked to a combination of shrinking demand and pressure to cut overheads. Higher input costs have been recorded in each of the past seven months, with the latest rise driven by transport expenses and higher salary payments.

Looking ahead, around 60% of the survey panel anticipate a rise in business activity over the next 12 months, compared to just 13% that predict a decline. Improved confidence towards the business outlook was strongly linked to the expected trajectory of the pandemic in 2021, with swift progress for the UK vaccine rollout providing hope of a timely return to growth and the release of pent up demand in 2021.

IHS MARKIT UK COMPOSITE PMI®

Renewed downturn in UK private sector output led by service economy



The seasonally adjusted UK Composite Output Index registered 41.2 in January, down from 50.4 in December and back below the crucial 50.0 no-change threshold. This signalled a sharp drop in private sector output, and the rate of decline was the fastest since May 2020. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

January data highlighted divergent trends between the manufacturing and service sectors. Production volumes increased slightly in the manufacturing sector (index at 50.7), while business activity fell again in the service economy (39.5). Nonetheless, the latest manufacturing data was much weaker than in December and signalled the slowest rate of output growth since June 2020.

UK private sector employment decreased for the eleventh month running in January, with job shedding in the service economy more than offsetting a marginal rebound in workforce numbers at manufacturing companies.

Sharply rising input prices were seen across the private sector during January, led by the fastest increase in manufacturing costs for four years. Survey respondents widely commented on higher transportation bills and the pass through of rising shipping costs by suppliers.

On a more positive note, business expectations picked up since December in both the manufacturing and service sector. Measured overall, confidence across the UK private sector reached its highest level since May 2014.

*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.

COMMENT

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

"Service providers experienced a steep downturn in business activity due to the third national lockdown in January, although the speed of decline remains much slower than last spring. Tight restrictions on travel, leisure and hospitality resulted in severely reduced trading among customer-facing businesses.

"Temporary closures led to shrinking demand for business services and a ripple effect of corporate spending cutbacks. As a result, total new work fell at the fastest pace since May 2020 and this setback contributed to a steeper rate of job shedding at the start of the year.

"While the UK economy is on course to contract sharply during the first quarter of 2021, businesses remain confident that pent up demand and an easing of pandemic restrictions will provide a springboard to recovery later this year.

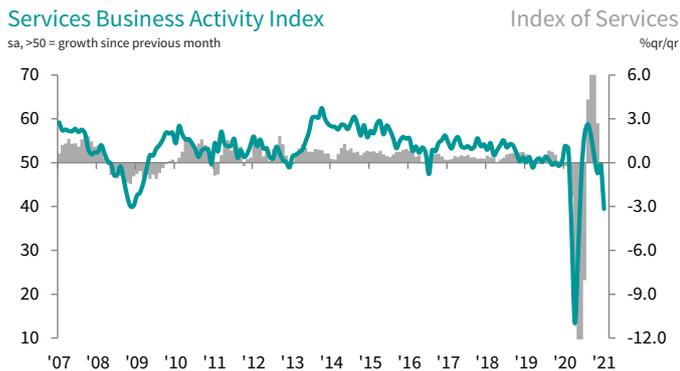
"Positive news on the UK vaccine rollout pushed up business optimism to its strongest since May 2014 and this improvement contrasted with a decline in confidence reported by service providers in the euro area during January."

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

"The cost of operating in the current economic climate continued to bear down on the services sector as shortages in shipping availability and higher transportation charges saw another inflationary rise in doing business. Lockdown measures and rising costs contributed to the steepest fall in overall activity since the historic lows of last year and the sector's hand was forced into also raising prices to consumers for the first time in five months.

"With the fastest fall in new orders since May, sales were lost in both domestic and export markets. Overseas customers postponed signing on the dotted line as Brexit supply chain issues and lockdown restrictions signalled the possibility of continued business disruptions. In the absence of new business the hopes of a revival in employment at the end of the last quarter never materialised as job losses continued for an eleventh month in a row.

"Regardless of the highest optimism since May 2014, the sector will remain in a parlous state until vaccination programmes give customers the confidence to start spending again and allow room for the Government to inject confidence into the economy by reducing covid restrictions."



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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.

January data were collected 12-27 January 2021.

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

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