UK service providers reported a strong increase in business activity during July, with the rate of growth the sharpest recorded for five years. New orders also rebounded during the latest survey period, reflecting an improvement in corporate and household spending. Growth was mainly linked to the phased reopening of business operations across the UK economy.

Employment was a weak point in July, with staffing numbers falling at a steep and accelerated pace amid concerns of only a partial recovery in longer-term demand from the levels seen prior to the coronavirus disease 2019 (COVID-19) pandemic.

At 56.5 in July, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index picked up from 47.1 in June and signalled the fastest pace of expansion since July 2015. The index has risen in each month after reaching a survey-record low of 13.4 in April, but the latest reading was the first to exceed the neutral 50.0 threshold since the pandemic began.

Around 38% of the survey panel reported an increase in business activity during July, while only 24% signalled a decline. The proportion of service providers reporting output growth had previously risen from just 7% in April to 13% in May and 28% in June. Higher levels of business activity were overwhelmingly linked to the easing of lockdown measures and subsequent increase in customer demand. However, survey respondents often noted that output had simply risen from an extremely low base and would take a long time to recover to pre-pandemic levels.

New business volumes meanwhile increased for the first time in five months and at the fastest pace since January. Growth was mostly attributed to reopened business operations and a return of clients from furlough. Service providers nonetheless also commented on project cancellations and subdued underlying demand as businesses and households sought to rein in non-essential spending. In contrast to the positive trend for total new work, international travel restrictions at home and abroad contributed to a sustained reduction in new export sales during July.

Backlogs of work dropped again during the latest survey period, although the rate of decline was the slowest since February. A lack of pressure on business capacity and weaker-than-expected demand resulted in lower staffing numbers. Around one-third of the survey panel reported a drop in employment, while only 11% signalled a rise. On a more positive note, business expectations rose further in July, with optimism reaching a five-month high amid hopes that easing lockdown measures would deliver a sustained boost to business activity.

Finally, average cost burdens increased at a robust pace in July, but intense competition for new work meant that service providers’ output charges were broadly unchanged since the previous month.
Composite PMI signals fastest private sector output growth since June 2015

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 57.0 in July, up from 47.7 in the previous month, the final IHS Markit/CIPS UK Composite Output Index rose back above the 50.0 no-change mark and signalled the fastest pace of expansion since June 2015.

July data indicated a turnaround in both manufacturing output (index at 59.3) and service sector activity (index at 56.5). In the manufacturing sector, output growth was the strongest since November 2017.

The latest Composite PMI data also revealed a broad-based improvement in business expectations for the year ahead, led by the strongest degree of confidence in the manufacturing sector since March 2018. Service sector optimism was more muted than that seen in manufacturing, but still picked up for the fourth month running in July.

Despite improved trends for both current and expected output levels, latest data signalled another sharp drop in UK private sector employment as businesses sought to adjust capacity following the slump in demand seen during the pandemic. Service sector employment (index at 38.8) fell at a notably faster pace than that recorded among manufacturing companies (index at 43.9). The composite measure was 39.6 in July, an unchanged reading since June and still well below the neutral 50.0 threshold.

COMMENT

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

“UK service providers are starting to see light at the end of the tunnel after a record slump in business activity during the second quarter of 2020. July data revealed the fastest increase in business activity for five years, which adds to signs of recovery across the manufacturing sector this summer.

“Higher levels of service sector output were almost exclusively linked to the reopening of the UK economy after lockdown measures and the subsequent return to work of employees and clients. However, these are still the very early stages of recovery and survey respondents often commented on achieving growth from an exceptionally low base.

“While the latest survey data provide a number of positive signs that the UK economy is back in expansion mode, the weakness of the employment figures reported in July is clearly a cause for concern and likely to hold back the longer-term recovery in business and consumer spending.”

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

“The services sector showed a strong return to form at the beginning of the third quarter, with the sharpest rise in overall activity since July 2015 and with new orders making a comeback at the fastest pace since the beginning of the year.

“This further progress on June’s improvements was propelled by the easing of lockdown measures, and returning staff built up operating capacity for any new orders. Business optimism was also at a five-month high in July as the economic situation improved.

“This undoubtedly good news is masking some underlying problems that will still need addressing. Employment fell even more quickly in July as some firms made redundancies in response to worries about the length of the recovery. Although in a small minority, other service providers found new opportunities to hire talent and had the pick of the bunch to fill vacancies from growing numbers of applications.

“Consumer choices also still remained cautious with pre-covid spending a distant memory in some categories. As the sector returns to work, increased competition between firms meant that increasing raw materials costs could not be passed on to customers. As the threat of further pandemic lockdown threatens to derail continuing progress, business will have to continue to absorb any additional costs coming their way or face the prospect of having to close their doors permanently.”
Services Business Activity Index

Index of Services

Sources: IHS Markit, CIPS.

CONTACT

IHS Markit

Katherine Smith
Public Relations
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Tim Moore
Director
T: +44-1491-461-067
tim.moore@ihsmarkit.com

CIPS

Trudy Salandia
Corporate Communications
T: +44-1780-761576
trudy.salandia@cips.org

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 index varies 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.

July data were collected 13-29 July 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 jespmi@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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

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.

www.ihs.com/products/pmi.html

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit’s prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“Data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Market Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

© 2020 IHS Markit