News Release

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IHS MARKIT / CIPS UK SERVICES PMI®

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Expansion of service sector remains marked in September

KEY FINDINGS

Third successive month of growth, albeit at slower rate
Rise in new business linked to improved market conditions
Cost concerns lead to another round of job losses

Septembers data were collected 11-28 September 2020.

The UK service sector continued its recent recovery from the sharp downturn related to the start of the coronavirus disease 2019 (COVID-19) pandemic earlier in 2020, with business activity rising for a third successive month. Growth was supported by another upturn in new work amid reports that market conditions continued to improve.

However, growth across the services sector was uneven with gains principally focussed on areas such as business-to-business services. Those sub-sectors more exposed to social contact such as Hotels, Restaurants & Catering reported a downturn in business during the month, exacerbated in part by the withdrawal of government schemes or the tightening of restrictions related to COVID-19.

After accounting for seasonal factors, the IHS Markit/CIPS UK Services PMI® Business Activity Index fell from August’s 58.8, which was the strongest reading since April 2015, to a level of 56.1 in September. Although the lowest reading since June, the index nonetheless pointed to a marked rate of growth.

Supporting activity was a further increase in levels of incoming new work, also the third in successive months. With the withdrawal of the UK government’s Eat Out to Help Out scheme, plus an introduction of some tighter restrictions on activity in September, growth in new business was softer than in August. A lack of international tourism was also reported to have weighed on foreign business, which overall continued to fall sharply.

Nonetheless, there remained many reports, especially from those operating in business-to-business services or real estate activities, that market demand was continuing to improve compared to earlier in the year. This helped to bolster confidence about the future, with sentiment about the year ahead remaining comfortably inside positive territory (despite easing to a four-month low). Companies expect that investment in new products and services, plus an uplift in sales and demand once the pandemic has been brought fully under control, will help to drive business expansion.

However, the near-term outlook remains unusually uncertain and firms continued to take an extremely cautious approach to cost management and hiring. Although panellists reported a third successive monthly rise in operating expenses – linked in part to dealing with COVID-19 (such as the purchase of PPE) and supplier stock shortages – the rate of inflation was modest amid reports of lower employment costs.

Indeed, latest data indicated that employee numbers in the UK service sector continued to fall. Whilst easing to the slowest since March, the rate of job losses was again marked amid evidence of ongoing spare capacity despite some tentative evidence of emerging capacity pressures: backlogs of work increased modestly during September, and for the first time in two years.

Finally, competitive pressures, efforts to drum-up new business and promotional activities led to a first month of discounting amongst UK service providers since June.
IHS MARKIT UK COMPOSITE PMI®

Growth eases, but remains strong heading into final quarter of 2020

The UK Composite Output Index, a weighted average of the UK Manufacturing Output Index and the UK Services Business Activity Index, eased from August’s six-year high of 59.1 in September, but remained well above the 50.0 no-change mark to signal another month of sharp growth. After accounting for seasonal factors, the index recorded 56.5 to signal a third month of growth.

Latest data showed slower gains in output across the private sector, although for both manufacturing and services rates of expansion remained sharp. Goods producers continued to lead the way, expanding at a pace that outstripped services for the third month in a row.

Less positive, however, was on the jobs front, with private sector employment continuing to fall at a steep rate. September marked a seventh successive month of job losses, with the greater decline again seen in services. Cost considerations amid an uncertain near-term outlook continued to weigh on the labour market.

That said, confidence about the future remained positive, with manufacturers especially upbeat compared to counterparts operating in the services economy, where sentiment fell to its lowest in the past four months.

*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

Chris Williamson, Chief Business Economist at IHS Markit, which compiles the survey:

“The UK service sector showed encouraging resilience in September, with business activity continuing to grow solidly despite the government’s Eat Out to Help Out scheme being withdrawn. Unsurprisingly, spending in the restaurant sector slumped after spiking higher in August, and many other consumer services activities showed a similar slide back into contraction as renewed lockdown measures were introduced, causing the overall rate of expansion to moderate.

“Optimism about the year ahead has meanwhile cooled somewhat, hinting that risks for coming months lie skewed to the downside. Companies grew increasingly worried about the impact of a second wave of virus infections and the gradual withdrawal of government support, especially the furlough scheme. Brexit worries are also rising again, causing hesitancy in spending and investment decisions. While the third quarter will inevitably see a strong economic rebound, growth in the fourth quarter looks likely to be far less impressive.”

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

“Though unable to maintain the highs from the previous month, September saw another steady improvement in trading conditions as reduced pandemic restrictions fuelled an expansion in services activity.

“New orders from domestic markets grew for the third month in a row, and business-to-business firms enjoyed stronger growth. In particular operations connected to property purchasing, fuelled in part by stamp duty concessions did well. Consumer facing firms remained hampered by covid-secure measures and cautious customer spending.

“Once again job losses remained the black spot amidst these pockets of recovery. With the seventh consecutive monthly drop in job numbers, redundancies have replaced job hiring in an attempt to shield firms from rising input costs but these strategies will devastate local communities. Business margins were squeezed further as firms sought to mitigate the impact of competition with discounting on their products and services.

“There is little expectation that these disruptions will come to an end soon, so many businesses are planning to ‘tick over’ until year end as months of toil and trouble lie ahead.”
Methodology
The IHS Markit / CIPS UK Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 600 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.

September data were collected 1-28 September 2020.

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