Business activity stabilises during December, helped by a rebound in new work

New orders rise at fastest pace since July 2019
Marginal increase in service sector employment
Business optimism reaches its highest since September 2018

UK service providers indicated that business activity was unchanged in December, following a marginal reduction in the previous month. The stabilisation of service sector output was helped by a return to improving order books, as signalled by the sharpest rise in new work since last July.

Job creation also strengthened in the latest survey period, partly driven by a rebound in business optimism to its highest for 15 months.

The seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 50.0 in December, up from 49.3 during November, to signal a stabilisation of overall service sector activity. Moreover, the latest reading was higher than the earlier ‘flash’ estimate for December (49.0).

Some survey respondents noted a boost to activity from higher underlying customer demand at the end of 2019. Meanwhile, those reporting a drop in output generally cited a headwind from delayed spending decisions ahead of the general election.

December data revealed a modest overall expansion of new work received by service sector companies, which ended a three-month period of decline. Anecdotal evidence suggested that domestic political uncertainty in the run up to the general election was the main factor weighing on new orders. Moreover, export sales dipped for the fourth month running in December, which was often linked to the lack of clarity in relation to Brexit.

There were signs that service providers have become hopeful that a more stable political backdrop will help to support business conditions over the course of 2020. This was highlighted by a rebound in business optimism to its highest since September 2018, with a number of survey respondents predicting a short-term boost to business activity when the first stage of Brexit is resolved.

Rising workloads and a recovery in business confidence underpinned a marginal increase in staffing levels across the service sector during December. The latest upturn in employment was the fastest for five months, despite reports suggesting that heightened business uncertainty ahead of the general election had encouraged the non-replacement of some voluntary leavers.

Backlogs of work decreased for the fifteenth consecutive month in December, although the rate of decline was only modest. Service providers often cited sufficient spare capacity to complete both new and outstanding orders.

Meanwhile, latest data signalled a strong increase in average cost burdens, with the rate of inflation picking up from the 39-month low recorded in November. Higher input prices were mostly attributed to stronger wage pressures and a corresponding rise in staff salaries.

However, prices charged by service sector firms increased only slightly in December, and the rate of inflation slowed to its weakest since February 2016.
Slight fall in UK private sector output during December

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.

The seasonally adjusted IHS Markit/CIPS UK Composite Output Index registered 49.3 in December, unchanged from that seen in November and slightly below the neutral 50.0 threshold. Moreover, the latest reading was the joint-lowest since July 2016.

A stabilisation of service sector activity (index at 50.0) was offset by a sharp and accelerated decline in manufacturing output (index at 45.6).

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

“Service companies widely commented on delayed spending decisions and a headwind to sales from domestic political uncertainty in the run-up to the general election. With manufacturing and construction output also subdued in December, the latest PMI surveys collectively signal an overall stagnation of the UK economy at the end of 2019.

“However, the latest UK service sector figures are an improvement on those seen in November and strike a slightly more positive tone than the earlier ‘flash’ PMI for December. The final IHS Markit/CIPS UK Services data includes survey responses from after the election, unlike the earlier flash estimate.

“It is notable that the forward-looking business expectations index is now the highest since September 2018 and comfortably above its ‘flash’ reading for December. The modest rebound in new work provides another signal that business conditions should begin to improve in the coming months, helped by a boost to business sentiment from greater Brexit clarity and a more predictable political landscape.”

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

“A marginally less volatile picture emerged in December as the sector was rescued by a small uplift in new orders for the first time since August, elevating it out of its doldrums, but only just. European customers were less convinced, experiencing ongoing Brexit nerves, and were unwilling to take out their wallets.

“Any improvement in the sector’s fortune is of course welcome, but this small improvement to the no change mark means stagnation is also a possibility. With the lowest prices charged inflation since July 2016, intense competition between firms meant costs were not passed on to consumers and a further rise in fuel costs and salaries could dampen the sector’s hopes of improved margins in the coming months.

“Other clouds of uncertainty must also include the potential for further political instability as negotiators and policymakers take the next steps. But with the fastest level of job creation since the summer and a bounce in business optimism not seen since September 2018, commentators could be forgiven for believing there could potentially be a turning point on the horizon if the UK plays its cards right.”
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 it 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.

December data were collected 06-19 December 2019.

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.

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

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. To learn more go to ihsmarkit.com/products/ PMI.html.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com.

To read our privacy policy, click here.

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 Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

© 2020 IHS Markit