News Release

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IHS MARKIT / CIPS UK SERVICES PMI®

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UK service sector recovery slows sharply during October

KEY FINDINGS

Business activity rises at much softer pace than in September

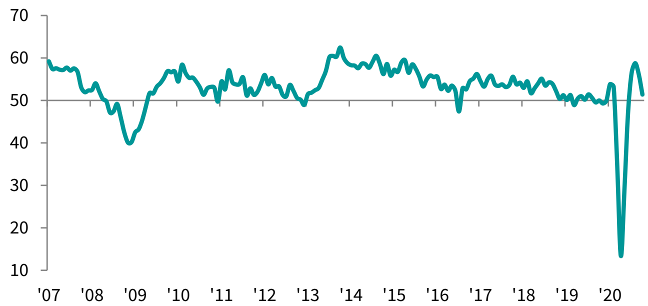
New orders decline for the first time since June

Sharp drop in employment reported again in October

October data were collected 12-28 October 2020.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

October data pointed to a much weaker rise in business activity across the UK service sector, with the rate of expansion the slowest for four months. There were also signs of a sharp reversal in demand conditions, with new work falling for the first time since June. Survey respondents in the hospitality, transport and leisure sectors widely commented on an adverse impact from tightening restrictions on trade due to the coronavirus disease 2019 (COVID-19) pandemic.

Adjusted for seasonal influences, the IHS Markit/CIPS UK Services PMI® Business Activity Index registered 51.4 in October, down sharply from 56.1 in September but slightly above the crucial 50.0 no-change mark. The latest reading was lower than the earlier 'flash' reading for October (52.3) and signalled the weakest service sector performance since June.

Growth was often linked to a continued recovery in business operations after the national lockdown period during the second quarter of 2020 and the restart of work on delayed projects. Some firms cited a boost from higher housing market transactions and a rebound in demand from clients in the construction sector.

In contrast to the upward trend for business activity, latest data indicated a drop in new orders for the first time since June. The rate of decline across the service sector as a whole was modest in comparison to the second quarter of 2020. However, the overall figure masked a slump in demand for customer-facing service providers, especially those in the hotels, restaurants and catering category. Survey respondents overwhelmingly attributed lower new business to the impact of COVID-19 restrictions on trade during October and a subsequent lack of demand for hospitality and leisure services.

Reduced volumes of new business resulted in lower backlogs across the service economy in October. Companies reporting a decline in unfinished business widely commented on spare capacity and a lack of forward bookings for customer-facing services.

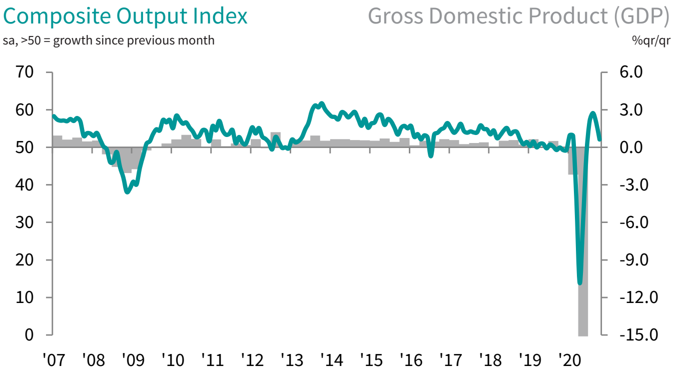
Employment numbers decreased for the eighth consecutive month in October, which was primarily linked to redundancies in response to shrinking revenues during the pandemic. More than twice as many survey respondents (26%) reported a drop in employment as those that indicated a rise (12%). This signalled a sharp downturn in staffing numbers, although the overall rate of job shedding was the slowest since March.

Margins were under pressure from a solid increase in average cost burdens during October. At the same time, prices charged by service providers fell for the second month in a row amid discounting to stimulate sales.

Service providers are optimistic overall about their prospects for growth in the next 12 months, but the degree of confidence slipped to its lowest since May. Expectations were again contingent on the trajectory of the pandemic and often reflected plans to rebuild business operations when the impact abates.

IHS MARKIT UK COMPOSITE PMI®

Weakest rise in UK private sector output since June



Sources: IHS Markit, ONS.

At 52.1 in October, the UK Composite Output Index dropped from 56.5 in September and was the lowest for four months. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Manufacturing production growth (index at 55.8 in October) continued to outpace service sector activity (51.4) by a considerable margin, although in each case the pace of expansion was the slowest since June.

New business across the private sector as a whole dipped for the first time in four months, with falling sales volumes at service providers offsetting a robust increase in orders received by manufacturing companies during October.

Latest data indicated another sharp fall in private sector employment, although the rate of decline was the slowest since March. Reduced payroll numbers were seen in both the manufacturing and service sectors.

Business optimism dipped slightly across the private sector as a whole in October. The overall downturn in confidence masked divergent trends among manufacturing and service sector companies. Expectations strengthened to the highest since January 2018 in the manufacturing sector, but service providers indicated the weakest optimism since May.

*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:

“October data indicates that the UK service sector was close to stalling even before the announcement of lockdown 2 in England, with tighter restrictions on hospitality, travel and leisure leading to a slump in demand for consumer-facing businesses. This was only partly offset by sustained expansion in areas related to digital services, business-to-business sales and housing market transactions.

"The service sector as a whole recorded its slowest output growth since June, while new orders declined for the first time in four months. A lack of forward bookings in parts of the economy most affected by lockdown measures led to widespread reports of redundancies and another sharp fall in total employment numbers during October.

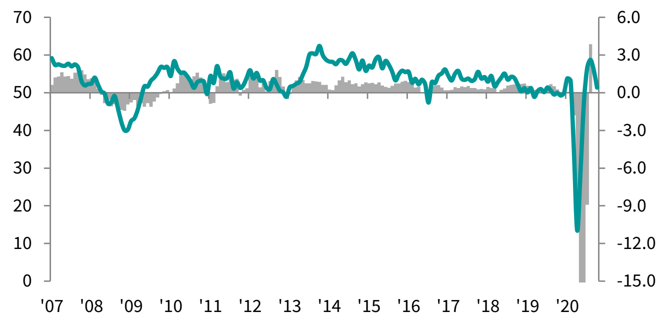
"November's lockdown in England and a worsening COVID-19 situation across the rest of Europe means that the UK economy seems on course for a double-dip recession this winter and a far more challenging path to recovery in 2021."

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

"Ongoing lockdown measures and covid disruption knocked the wind out of the sector’s sails last month, with the deepest fall in new orders since June. The return to uncertainty and curbs on free movement have started to wipe out the gains of the summer, and consumer-facing businesses were the hardest hit.

"Some supply shortages also continued to bite, resulting in higher business costs. These were increasingly difficult to pass on to a reduced pool of customers, as competition intensified and discounting continued.

"Instead, staff headcounts were cut with more businesses resorting to redundancy schemes to keep staff costs low and total service sector employment dropped for the eighth month in a row. Though government support will continue, this may not be enough for many businesses as large parts of the service sector enter a deep freeze state in November."



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.

October data were collected 12-28 October 2020.

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

About IHS Markit

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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.

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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.

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