

News Release

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IHS MARKIT / CIPS UK SERVICES PMI®

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Services PMI data continues to improve from April's survey-record low

KEY FINDINGS

Headline index jumps to 47.1 in June, from 29.0 in May

New orders fall at much slower pace in June

Business expectations recover to a four-month high

June 2020 data were collected 12-26 June 2020.

June data continued to signal a turnaround in business conditions across the UK service sector. The headline seasonally adjusted final IHS Markit/CIPS UK Services PMI® Business Activity Index posted 47.1 in June, up sharply from 29.0 in May and the highest for four months. This compared with the earlier 'flash' figure of 47.0 in June. As a result, the latest reading was well above April's survey-record low (13.4), but still under the neutral 50.0 threshold.

Around 33% of the survey panel reported a drop in business activity during June, while 28% signalled an expansion. The proportion of service providers experiencing a fall in business activity has eased sharply from 54% in May and 79% in April.

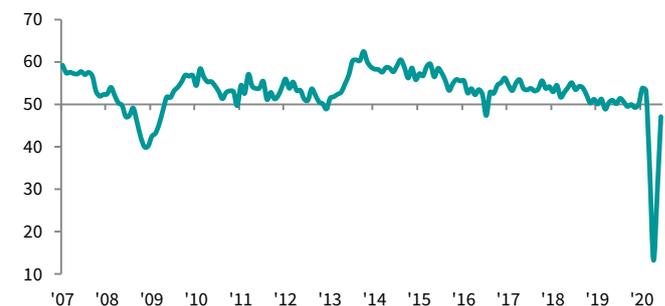
Survey respondents again cited highly subdued demand and disruptions related to the COVID-19 pandemic as factors constricting business activity in June. However, there were also reports that an easing of lockdown measures and reopening of the UK economy had a favourable impact on business activity.

In line with the trend for service sector output, latest data signalled the slowest fall in new work since the downturn began in March. Companies reporting a drop in new orders mostly attributed this to cautious business and consumer spending. Where growth was recorded, this was often linked to reopened business operations and pent up demand.

Export sales continue to decrease at a steeper rate than overall new business volumes during June. Reduced intakes of new work from overseas clients largely reflected ongoing

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

international travel restrictions. Some firms also reported longer timescales for securing new projects in external markets, linked to logistical difficulties and heightened global economic uncertainty.

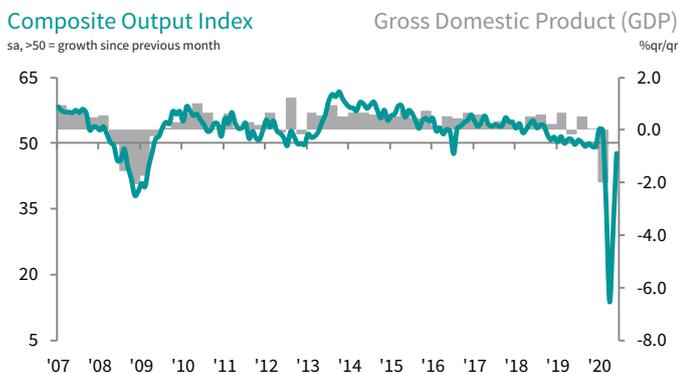
Signs of excess capacity persisted in June, as indicated by another steep reduction in backlogs of work across the service sector. This was mostly linked to a slump in demand and cancellations of orders during the COVID-19 pandemic. However, a sizeable minority of the survey panel noted that constrained operating capacity and a phased return to work had led to an accumulation of unfinished business during June.

Cutbacks to staffing numbers were reported again in June, although the rate of job shedding eased to its least marked since the start of the downturn in March. Some service providers mainly commented on cost reduction measures and a slump in demand. That said, more than half of the survey panel (53%) anticipate a rise in business activity during the year ahead, compared to 21% that foresee a decline. The resulting business expectations index reached a four-month high in June.

Price discounting was reported across the service sector for the fourth month in a row during June, but cost burdens were broadly unchanged. Some firms cited higher average costs due to spending on PPE and reduced operating capacity, although others noted lower fuel bills and reduced payroll costs.

IHS MARKIT UK COMPOSITE PMI®

Manufacturing rebound supports UK private sector output in June



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 47.7 in June, the final IHS Markit/CIPS UK Composite Output Index picked up from 30.0 in May. This was the highest reading for four months, although still below the neutral 50.0 mark. The earlier 'flash' figure in June was 47.6.

Manufacturing production (index at 50.7 in June) once again fared better than service sector output (47.1), with the latter hit by a sustained drag from business closures across vast swathes of the consumer services and leisure activity.

The latest Composite PMI data also showed a continued rebound in business expectations for the year ahead, with confidence reaching its highest since February. Mirroring the trend for current output levels, June data indicated that manufacturers are much more optimistic about the business outlook than service providers.

COMMENT

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

"June data highlights that the worst phase of the service sector downturn has passed as more businesses start to reopen and adapt their operations to meet social distancing requirements. The proportion of service providers reporting a drop in business activity has progressively eased after reaching a peak of 79% in April. Around 33% of the survey panel signalled a reduction in business activity during June, which compared with 54% in May.

"Encouragingly, more than one-in-four service providers reported an expansion of new business during June, which was commonly attributed to pent up demand and the phased restart of the UK economy. However, lockdown measures continued to hold back travel and leisure, while companies across all main categories of service activity commented on subdued underlying business and consumer spending in the wake of the COVID-19 pandemic.

"The latest UK Services PMI data highlighted another steep decline in employment numbers, despite a rebound in business expectations for the year ahead. Service providers widely commented on fears of a slow recovery in customer demand and an immediate need to reduce overheads. Moreover, survey respondents often noted the high cost of adapting operations during the COVID-19 pandemic, coupled with constrained business capacity and difficulties passing on rising expenses to clients."

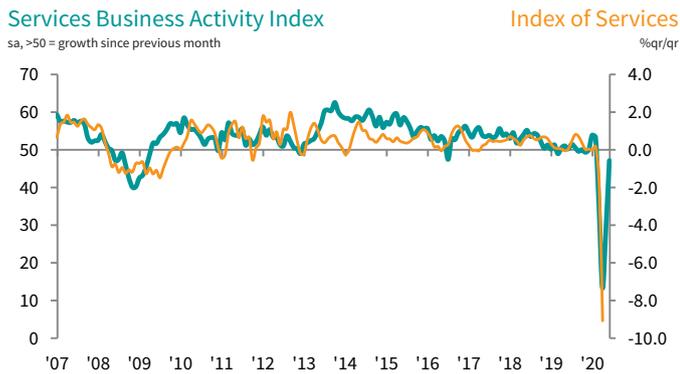
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

"A cessation in some lockdown policies enabled the services sector to emerge tentatively from the shadows last month and reclaim some normality, with the PMI leaping to a four-month high.

"Though the sector remained in overall contraction territory, the re-opening of businesses premises unclogged levels of dampened demand and created hope that the worst impact of the pandemic could be over. However, as consumers remain fairly cautious, tightening purse strings, the highest levels of business optimism in four months may be a little premature.

"Pipelines of new work were still severely weakened for the fourth consecutive month, and export orders were still in dire straits. With imposed travel and logistics restrictions disrupting supply chains overseas clients shied away from placing orders as the pandemic's presence is still felt.

"As the sector regains some momentum, employment levels amongst services personnel remain deeply concerning. Businesses securing their premises to ensure covid safety for staff and customers means operating costs are rising. Some firms are resorting to heavy discounting, others accelerating innovative solutions to change their operating model to stay in business. For others, the decision to shed jobs may be the only solution as the fight for survival continues and the UK economy grinds its teeth for the months ahead."



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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.

June data were collected 12-26 June 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 economics@ihsmarkit.com.

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