



News Release

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KPMG UK TECH MONITOR

Staff cuts easing as tech sector regains momentum in Q3 after pandemic setback

Key findings

- Solid increase in output following unprecedented drop in Q2
- Tech companies cut staffing levels at much softer pace than average UK firm
- New orders close to stabilising and business optimism rebounds in Q3

KPMG UK Tech Monitor Index

Above 50 = growth, seasonally adjusted



Sources: KPMG, IHS Markit

Tech sector performance bounced back in the third quarter of 2020, according to KPMG's quarterly survey of UK technology companies, compiled by IHS Markit, as business activity started to recover from a record drop caused by the COVID-19 outbreak and subsequent lockdown in Q2.

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Bernard Brown, vice chair at KPMG UK, said:

“The UK tech sector shines a ray of light through the economic gloom. The sector has demonstrated huge resilience with a strong V-shaped recovery in business activity over the last quarter with a positive outlook for the future, in spite of the uncertainties presented by COVID-19. This growing confidence and resilience of an increasingly significant sector, should be good news for the government in helping towards rebuilding a future-proof economy.”

Tech sector output rebounds in Q3, after record drop during Q2

The KPMG UK Tech Monitor Index shows that the sector jumped back into expansion mode during the third quarter of 2020, following a sharp decline in business activity in Q2.

At 53.3 in Q3, the headline Index posted above the neutral 50.0 level and was up sharply from 31.8 in Q2. The latest reading signals the fastest increase in output at UK tech firms since Q1 2019.

Tech sector output has now returned to a solid growth path in Q3 2020, as more parts of the UK economy reopened and clients resumed projects that had been delayed during the pandemic.

Encouragingly, growth momentum across the tech sector accelerated in each month of the third quarter and the rebound has taken hold in the absence of direct stimulus measures for the sector. By contrast, the speed of recovery in the UK economy slowed in September, with consumer-facing service providers experiencing a sharp drop in high-street footfall as the Government’s Eat Out to Help Out scheme ended.

Staff hiring close to stabilisation despite subdued new orders

Although activity across the tech sector increased as market conditions began to normalise in the third quarter, latest data pointed to subdued intakes of new work.

The index measuring new business rose from a record low of 29.7 in Q2 to 48.2 in Q3. This indicates relatively weak overall demand, albeit an improvement on the situation seen at an earlier stage of the pandemic.

A number of tech firms mentioned that corporate spending was pared back again in Q3 due to the highly uncertain global economic outlook and subsequent efforts to contain costs.

Despite a challenge from budget cutbacks among clients, staff hiring trends across the UK tech sector have been far more resilient than across the wider economy so far this year. The latest survey indicated that employment numbers among tech companies moved closer to stabilisation, which contrasted with another steep round of UK private sector job cuts in the third quarter.

While some tech firms noted that stretched margins and rising staff costs had weighed on employment, there were also reports that rising business optimism had helped to stabilise workforce numbers.

Recovery in business optimism among tech companies

UK tech firms are optimistic overall about their prospects for growth in the next 12 months, reflecting hopes of a sustainable recovery in client demand. At 69.7 in Q3, the business expectations Index was up sharply from 58.5 in Q2 and above that seen in the rest of the service sector.

Ian West, Head of Tech, Media & Telecoms at KPMG UK, concludes:

“With business closures, project cancellations and lower overall corporate spending defining the early stages of the COVID-19 pandemic, the record drop in business activity at that time was expected. All of these factors combined to offset the boost in other areas of the tech industry caused by a surge in consumer demand for digital services during the lockdown period.

“It’s emboldening to now see the cautious optimism reported by tech firms in the Tech Monitor, which reflects the conversations we are having with TMT clients in the face of economic uncertainty. The UK’s reputation in innovation, buoyant start-ups and disruptive technological advances are proving true once more.”

ENDS

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Notes to editors

UK Tech Sector Purchasing Managers Index® (PMI®) data

UK Tech Monitor Index data is derived from a representative sub-category of approximately 150 tech companies within IHS Markit’s regular PMI® surveys of UK manufacturers and service providers. Tech is defined in this report as technology software, technology services and manufacturing of technology equipment. All figures are seasonally adjusted and smoothed using a three-month moving average, to better highlight underlying trends in the data.

Technology sector industry groups

Software publishing (SIC 582), Computer programming, consultancy and related activities (SIC 620), Data processing, hosting and related activities; web portals (SIC 631), manufacture of computer, electronic and optical products (SIC 26), manufacture of electrical equipment (SIC 27).

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