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IHS MARKIT / CIPS UK SERVICES PMI®

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Severe downturn in service sector activity continues in May, but pace of decline eases since April

KEY FINDINGS

New work slumps amid cutbacks to business and consumer spending

Employment remains on sharp downward trajectory

Business expectations rise again from March's record low

May 2020 data were collected 12-27 May 2020.

UK service providers signalled a steep reduction in business activity during May, which was again almost exclusively linked to a slump in business and consumer spending amid the coronavirus disease 2019 (COVID-19) pandemic. The rate of decline in service sector output moderated from April's survey record, but was still faster than at any other time since the survey began in July 1996.

At 29.0 in May, the headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index remained well below the 50.0 mark that separates expansion from contraction, but rose slightly from the earlier 'flash' estimate of 27.8. The latest reading was also up from 13.4 in April, to signal a slower pace of decline than in the previous month.

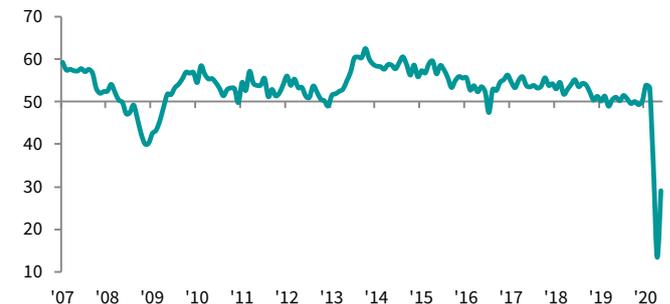
Just over half of the survey panel (54%) reported a drop in business activity during May, while only 13% signalled an increase. Those indicating a decrease in output since April often commented on a severe lack of new business to replace work that had been completed after the lockdown, following deep cutbacks to corporate spending in response to the COVID-19 pandemic.

There were some reports that the gradual reopening of the UK economy, especially the construction sector, had a positive impact on client demand. Other service providers commented on a tentative revival in business conditions following the initial shock of the lockdown period.

May data pointed to a further sharp drop in total new work received by service sector companies, although the rate of

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

contraction eased from April's survey record. Lower volumes of new business were often attributed to the cancellation of new projects, customer closures and constrained sales operations with staff placed on furlough.

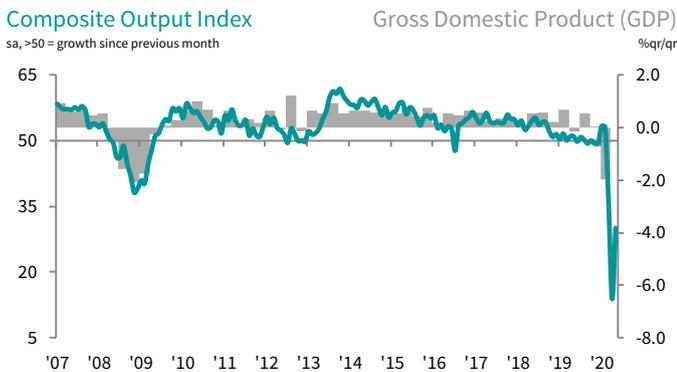
New export work also fell rapidly in May, despite sporadic reports of rising demand in the Asia-Pacific region and new online sales initiatives. Moreover, a number of service providers noted that they had ceased taking any new work from abroad due to severe restrictions on international travel during the COVID-19 pandemic.

Mirroring the trend for business activity and new work, latest data highlighted that employment decreased at the second-steepest rate since the survey began in July 1996. Anecdotal evidence frequently indicated that employees had been placed on furlough, while some reported redundancies amid an expected slump in customer demand over the long term. Reflecting this, the index measuring business expectations for the year ahead remained at a very subdued level in May, despite rising to a three-month high.

Input prices decreased modestly in May, linked to falling wage bills, lower fuel prices and utility costs. However, there were also reports citing supplier surcharges amid rising air freight costs and higher prices paid for the procurement of PPE. At the same time, service providers signalled another marked fall in their average prices charged in May.

IHS MARKIT UK COMPOSITE PMI®

UK private sector output falls at a slower rate than April's record



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 30.0 in May, the IHS Markit/CIPS UK Composite Output Index was entrenched below the 50.0 no-change mark, but picked up from April's record low of 13.8. The final index reading was also marginally higher than the earlier 'flash' estimate of 28.9 in May.

Manufacturing output and service sector activity both remained on a downward trajectory, with the former showing the greater degree of resilience in May (index at 35.0).

The latest Composite PMI data also highlighted steep declines in private sector employment numbers, with the overall pace of job shedding the second-fastest since the series began in January 1998.

Meanwhile, business expectations improved further from March's low, led by a strong upturn in the manufacturing sector. Service sector optimism also picked up since April, but remained at a very subdued level in comparison to the long-run survey average.

COMMENT

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

"The COVID-19 pandemic continued to have a severe impact on UK service sector activity in May, despite a boost in some areas from the gradual easing of lockdown measures. Survey respondents noted that deep cuts to corporate spending had been a major factor dragging down business activity in May, leading to a lack of work to replace completed projects."

"A number of firms cited limited opportunities to win new orders with clients placed on furlough, as well as a hit to workloads from the postponement of new projects. Consumer demand also remained very subdued, with large areas of the service economy still in the planning stage of restarting business operations."

"Service providers recorded another modest improvement in their business expectations from the low point seen in March, with some hopeful that the reopening of clients' business operations would start to boost activity in the coming months."

"However, customer-facing businesses continue to report extreme levels of concern about their near-term prospects, with efforts to adapt to social distancing measures set to hold back capacity and generate a sharp increase in costs."

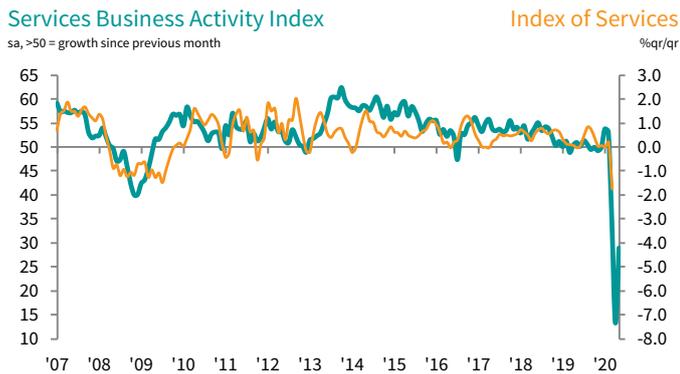
Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply, said:

"May's survey data painted a deeply concerning picture of a lockdown slowdown across the service sector as employment dropped at the second fastest rate on record, pipelines of new work were woefully empty and business confidence continued to suffer."

"As the pandemic progressed any hoped-for bounceback in business output never really got going in May following the previous month's awful results, though a modicum of recovery will offer small respite in some sectors. Pockets of trading began again as firms began adapting to social distancing measures, though only 15% of companies reported a rise in new orders this month."

"In this aggressively unsympathetic marketplace, supply chain managers voiced their concerns that any significant improvement is unlikely to happen at least in the medium-term. As supply chains began to awaken from their deep slumber, continuing logistics challenges increased costs for some firms though reduced wage bills helped to alleviate the pressure."

"As restrictions are eased, there is still extreme uncertainty about how the pandemic will pan out. Continued anxiety about the coronavirus means consumer spending may not be the wind beneath the sails of any immediate return to pre-virus economic activity."



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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.

May data were collected 12-27 May 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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