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IHS MARKIT / CIPS UK SERVICES PMI®

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Renewed downturn in service sector activity, but optimism reaches its highest level since February

KEY FINDINGS

Output falls for first time since June amid national lockdowns

Fastest drop in employment for three months

Year-ahead business optimism hits nine-month high

November data were collected 12-26 November 2020.

UK service providers signalled a reduction in business activity during November, which ended a four-month period of sustained recovery. Survey respondents almost exclusively linked lower activity to tighter restrictions on trade and temporary business closures due to the coronavirus 2019 (COVID-19) pandemic.

Despite a second national lockdown in England and ongoing curbs on customer-facing enterprises elsewhere across the UK, the speed of the downturn was much softer than the slump recorded during the second quarter of 2020. Service providers often cited resilient spending among businesses in sectors that had remained open in November.

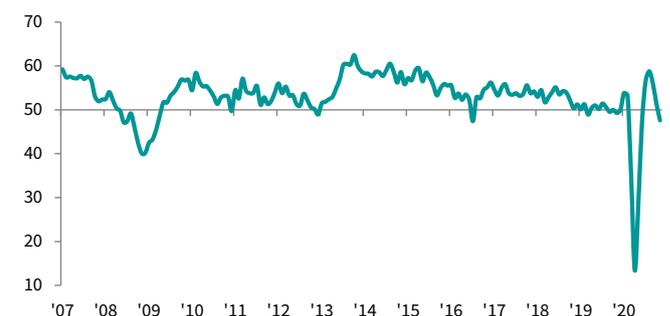
The seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index dropped to 47.6 in November, from 51.4 in October. As a result, the index was below the crucial 50.0 no-change mark for the first time in five months. The latest reading was higher than the earlier 'flash' estimate in November (45.8) and signalled a much slower downturn in business activity than the survey-record low seen in April (13.4).

November data indicated a fall in new business volumes for the second consecutive month. The overall rate of decline was only modest and primarily reflected temporary closures among hospitality, travel and leisure businesses.

Restrictions on international travel and tourism led to a severe downturn in overseas bookings received by customer-facing parts of the service economy. As a result, November

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

data signalled a further steep downturn in total new orders from abroad. However, some service providers commented on a boost to client demand in overseas markets due to recovering economic conditions across the US and Asia.

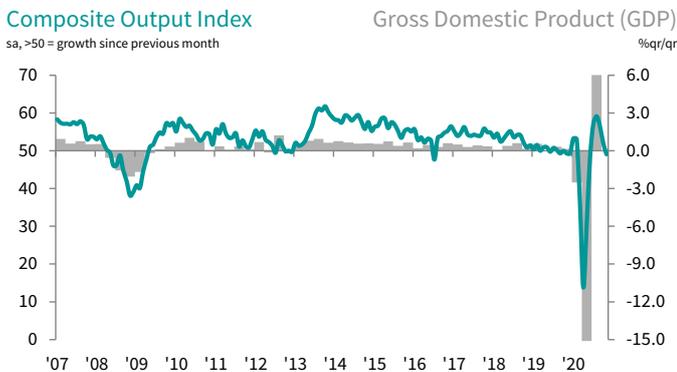
The latest survey highlighted fragile labour market conditions across the service sector, with employment numbers falling sharply since October. Moreover, the rate of job shedding accelerated to its fastest for three months. There were again widespread reports of redundancies, reflecting shrinking customer demand, pressure to cut costs and concerns about the speed of recovery.

Higher operating expenses were recorded for the fifth consecutive month, although the rate of inflation eased since October. Rising input costs contributed to a squeeze on margins, as service providers signalled another round of price discounting in November.

Meanwhile, positive news in relation to vaccines and hopes of a better stage ahead in the pandemic situation led to much greater levels of business optimism in November. The degree of confidence towards the year ahead outlook was the highest since February. Around 60% of the survey panel expect a rise in business activity during the next 12 months, while only 15% forecast a reduction.

IHS MARKIT UK COMPOSITE PMI®

UK private sector output falls, despite strong manufacturing growth



Sources: IHS Markit, ONS.

November data indicated a reduction in UK private sector output for the first time in five months, with weakness across the service economy more than offsetting robust manufacturing growth.

The seasonally adjusted UK Composite Output Index registered 49.0 in November, down from 52.1 in October and below the neutral 50.0 threshold for the first time since June. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Lower volumes of service sector activity (index at 47.6) contrasted with a strong increase in manufacturing output (index at 56.7). A similar pattern was recorded for new orders in November as shrinking demand for services kept the composite index in contraction territory in spite of rising sales across the manufacturing sector.

Private sector employment meanwhile decreased for the ninth month running during November. A sharper rate of job shedding among service providers contrasted with a slowdown in layoffs across the manufacturing sector.

Both manufacturing and service sector companies recorded an improvement in business optimism towards the year ahead outlook. Measured overall, the degree of positive sentiment across the UK private sector was the strongest since March 2015. Survey respondents mostly cited hopes that the impact of the pandemic on business operations would ease substantially over the next 12 months.

*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:

"New lockdown measures and tighter pandemic restrictions unsurprisingly tipped UK private sector output back into decline during November. However, the collateral damage on areas outside of hospitality, leisure and travel has been far more modest than in the first lockdown period. Back in April, nearly 80% of all service providers reported a monthly drop in business activity, while the equivalent figure was only 30% in November.

"The final Services PMI reading is also almost two points higher than the earlier 'flash' estimate of 45.8, highlighting that the speed of the downturn was not as steep as suggested by the early responses to the survey in November. Overall service sector output was still severely impacted by widespread business closures among consumer-facing service providers, but other types of firms often commented on successfully adapting to the new lockdown restrictions and seeing a reduced impact on client spending than initially expected.

"Hopes that the pandemic will be brought under control from an effective vaccine resulted in a sharp improvement in business optimism during November. Across the UK private sector as a whole, confidence about the year ahead outlook reached its highest since March 2015. That said, survey respondents also cited rising business uncertainty in the short-term, largely due to ongoing restrictions on trade, which contributed to another round of job cuts and efforts to rein in discretionary spending during November."

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

"After four months of welcome recovery, November's figures revealed an inevitable downturn in the services sector, as further lockdown restrictions impacted customer-facing businesses and any new work was rapidly extinguished. Though the rate of depletion of new orders had softened from the previous month, this reduction was at least in part due to the reduced capacity for new work in firms still operating in a shrinking marketplace.

"Supply chain managers reported rising costs as a constant burden and firms faced higher wage expenditure linked to redundancy payments with more bad news on the employment front. Job shedding continued for the ninth month in a row and its ripple effect will have serious implications for an already-struggling UK economy. The spectre of reduced consumer and client spending looms over the festive period, and Brexit disruption fears are thrown into the mix of challenges as everyone holds on to their cash.

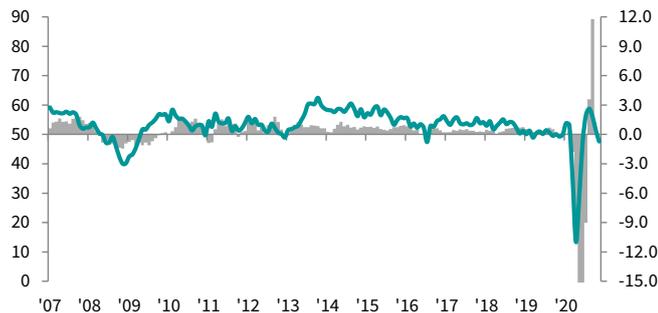
"Though the sector's fall into contraction is difficult to watch it was nowhere near the pandemic-induced lows seen earlier this year and the highest optimism since February means future expectations are upbeat. We can only hope that businesses can batten down the hatches and with grit and determination, get through the next few months. It could be spring until a more sustainable recovery appears, buoyed up by vaccine hopes and when lost workforces can return again."

Services Business Activity Index

sa, >50 = growth since previous month

Index of Services

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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.

November data were collected 12-26 November 2020.

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

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About PMI

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