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## IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT / CIPS UK COMPOSITE PMI®

### Service sector activity falls again in December

#### KEY FINDINGS

Business activity declines for the second month in a row

Sharpest rate of input cost inflation since February 2020

Year ahead growth expectations strengthen in December

December data were collected 4-21 December 2020.

UK service providers recorded a sustained drop in overall activity during December, with the downturn overwhelmingly linked to business disruptions, restrictions on trade and temporary closures due to the coronavirus disease 2019 (COVID-19) pandemic. At the same time, margins were under pressure from sharply rising input costs and ongoing price discounting across the service economy.

On a more positive note, business expectations for the next 12 months strengthened in December and were the most optimistic for almost six years. Around 59% of the survey panel forecast a rise in activity over the course of 2021, while only 13% predict a decline.

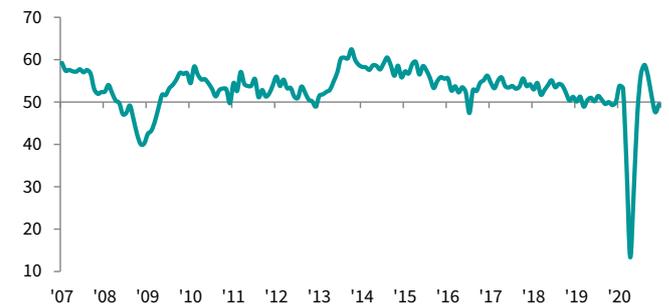
The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index posted 49.4 in December, up from 47.6 in November but still below the 50.0 no-change threshold. Moreover, the downturn in service sector output recorded on average in the final quarter of 2020 (49.5) contrasted with a solid pace of recovery during the third quarter (57.1).

Companies reporting a decline in business activity in December almost exclusively cited shrinking client demand and restrictions on trade due to the COVID-19 pandemic. Where growth was reported, this was mostly confined to residential property, business-to-business services (especially e-commerce), and providers of digital consumer services.

December data indicated a fall in total new business across the UK service sector for the third consecutive month,

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

reflecting a general reluctance to spend among clients. That said, the latest decline in new work was only modest and much softer than seen during the initial lockdown period in the first half of 2020. Export sales remained a weak spot, with new business from abroad decreasing sharply in December. Survey respondents commonly cited severe restrictions on international travel and heightened Brexit uncertainty.

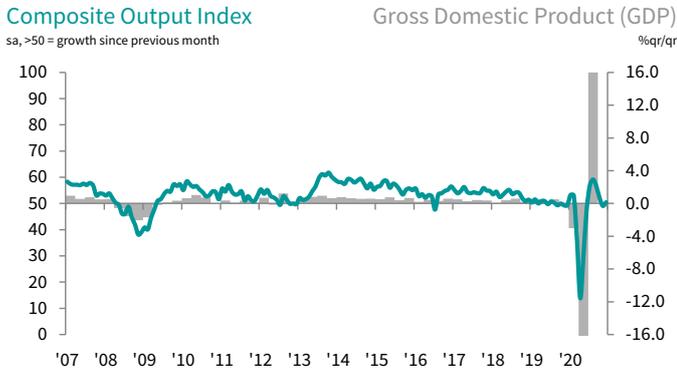
The latest survey pointed to another drop in backlogs of work across the service economy, which suggested a lack of pressures on business capacity due to falling customer demand. However, staffing numbers moved closer to stabilisation in December, with the rate of job shedding the slowest since the downturn began in March 2020. In some cases, service providers noted that additional redundancies had been avoided due to the extended government furlough scheme.

Input price inflation accelerated sharply since November and reached a ten-month high. This was linked to rising charges by suppliers amid higher freight costs and transport shortages. Prices charged by service sector companies nonetheless decreased for the fourth month running in December.

Expectations for business activity growth meanwhile rose to the highest since March 2015. Companies frequently cited hopes that the pandemic will be brought under control, leading to a strong rebound in UK economic conditions in the second half of 2021.

## IHS MARKIT UK COMPOSITE PMI®

## Strong manufacturing growth contrasts with services downturn



Sources: IHS Markit, ONS.

At 50.4 in December, the UK Composite Output Index edged up from 49.0 in November and registered slightly above the 50.0 no-change threshold. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

The overall rise in UK private sector output reflected a strong contribution from manufacturing production (index at 55.9 in December). In contrast, service sector activity decreased again in the latest survey period (49.4).

A similar trend was recorded for new orders, with growth in the manufacturing sector helping to offset another decline in the service economy. The latest expansion of new work among manufacturing companies was the fastest since August 2020, which partly reflected pre-purchasing by export clients ahead of the Brexit transition deadline on 31st December.

Severe supply chain disruptions resulted in higher input prices across the UK private sector during December. The overall rise in average cost burdens was the steepest since January 2020, driven by a rapid increase in prices paid by manufacturing companies.

Business optimism across the UK private sector as a whole was little-changed from November's 68-month peak. Both manufacturers and service providers anticipate a sustained expansion of business activity amid hopes of a swift improvement in UK economic conditions as the pandemic is brought under control in 2021.

\*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:

*"December data confirm that the UK service sector has swung back into decline after the partial rebound seen during the third quarter of 2020, largely reflecting tighter restrictions on consumer services amid the worsening trajectory of the pandemic."*

*"Shrinking demand resulted in additional price discounting to stimulate sales at the end of the year. Margins were also hit by a sharp and accelerated rise in operating expenses, which were linked to transport shortages and the pass through of higher freight costs by suppliers."*

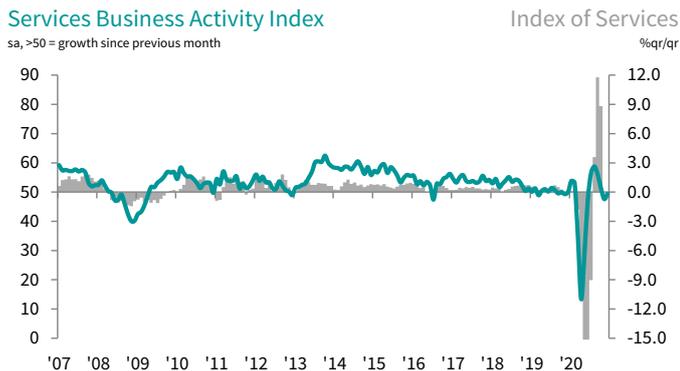
*"With a third national lockdown underway, service providers will be braced for a sustained period of subdued UK economic conditions and deferred client spending in the first quarter of this year. However, business optimism on a 12-month horizon was relatively upbeat in December and reached its highest level for almost six years, underpinned by hopes that a successful vaccine roll-out will help to deliver a strong economic rebound in the second half of 2021."*

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

*"From economic rebound to drop back as the COVID crisis maintained a stranglehold on the services sector with business restrictions leading to new orders falling for the third consecutive month. Both domestic and overseas customers were hindered by uncertainty around the continuing impact of the pandemic along with concerns ahead of Brexit which stopped client spending in its tracks apart from some stock building activity."*

*"However, seemingly contrary to this evidence, business optimism for the next year was at its highest since 2015. Lessons learned from previous lockdowns gave businesses hope along with a vaccine-fuelled confidence to find new and creative ways of operating, using government schemes and maintaining staffing levels as job falls slowed to March 2020 levels."*

*"Service companies face a tricky balancing act between rising costs for shipping and freight services along with stock shortages resulting in higher prices for raw materials which are being passed on to customers. The topline PMI figure belies the fact that the services sector is in a dark place with more hardships expected in the first quarter of 2021."*



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.

December data were collected 4-21 December 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### About IHS Markit

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### About CIPS

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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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