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## IHS MARKIT / CIPS UK SERVICES PMI®

INCLUDING IHS MARKIT / CIPS UK COMPOSITE PMI®

### Sharpest increase in service sector activity since April 2015

#### KEY FINDINGS

Business activity expands for the second month in a row

Rising domestic demand leads to faster growth of new work

Rate of job shedding accelerates in August

August data were collected 12-26 August 2020.

UK service providers reported another rise in business activity during August, with the rate of expansion accelerating to its fastest for over five years. Higher levels of output were primarily attributed to the reopening of the UK economy after the lockdown period in the second quarter of 2020. Survey respondents often commented on a strong recovery in domestic consumer spending.

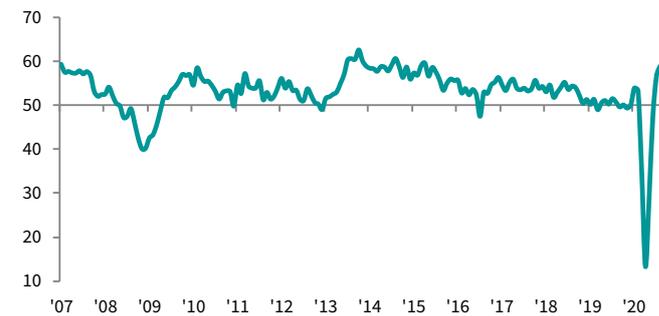
Despite the improvement in business conditions since the start of the coronavirus disease 2019 (COVID-19) pandemic, latest data indicated a setback for employment numbers. The rate of job shedding across the service sector was the steepest since May.

The headline seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 58.8 in August, up from 56.5 in July and in expansion territory for the second month running. Moreover, the latest reading was much higher than the average in the second quarter (29.8) and signalled the fastest pace of output growth since April 2015. Higher volumes of business activity were linked to a post-lockdown bounce in both business and consumer spending during August.

Latest data also pointed to the sharpest increase in new work since December 2016. Service providers noted pent up demand across the housing market, rising spending as a result of the UK government's Eat Out to Help Out scheme and a gradual recovery in demand for business services from the low point seen during April.

Services Business Activity Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

Companies reporting a sustained decline in new work generally cited restrictions on international travel, ongoing global economic uncertainty due to the pandemic and falling export sales. August data indicated that new work from abroad decreased for the seventh successive month and the speed of the downturn was little-changed since July.

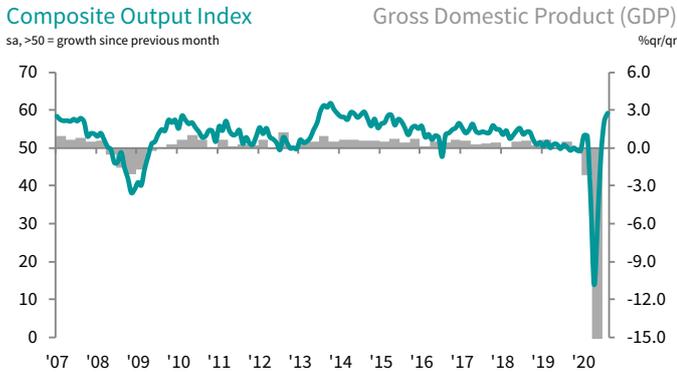
Signs of excess capacity were evident in August as service providers reported another reduction in backlogs of work and a sharp drop in employment numbers. Around one-in-three survey respondents (34%) reported a drop in staffing levels during August, while only 11% reported a rise. Among those companies reporting a drop in payroll numbers, this was mainly linked to reviews of staffing needs and redundancy measures as their usage of furlough started to wind down.

Subdued wage pressures contributed to a slowdown in input cost inflation during August. Where rising input prices were reported, this was often attributed to higher fuel bills and PPE expenditure. Meanwhile, average prices charged by service providers were broadly unchanged since July, which suggested an ongoing squeeze on margins.

Looking ahead, service sector firms remain optimistic overall that business activity will expand over the next 12 months. That said, the degree of confidence eased for the first time since March. A number of firms cited concerns about the strength of the recovery as government support measures taper off.

## IHS MARKIT UK COMPOSITE PMI®

## Private sector output expands at fastest pace for six years in August



Sources: IHS Markit, ONS.

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 59.1 in August, up from 57.0 in July, the final IHS Markit/CIPS UK Composite Output Index signalled the strongest expansion of private sector business activity since August 2014.

Strong output growth reflected positive contributions from both the manufacturing and service sectors in August. Manufacturing production increased for the third month running and to the greatest extent since May 2014 (index at 61.0).

The latest Composite PMI data nonetheless signalled another steep decline in private sector employment, with the rate of job shedding the fastest since May. Service providers reported a sharper reduction in employment (index at 38.1) than manufacturing companies (index at 43.8).

Business optimism across the private sector as a whole weakened in August, with confidence easing from the five-month high seen during July. Mirroring the trend recorded throughout the pandemic, manufacturers remain more likely to anticipate growth in the year ahead than companies operating in the service economy.

### COMMENT

Chris Williamson, Chief Business Economist at IHS Markit, which compiles the survey:

*"A further surge in service sector business activity in August adds to signs that the economy is enjoying a mini boom as business re-opens after the lockdowns, but the concern is that the rebound will fade as it appeared."*

*"The current expansion is built on something of a false reality, with the economy temporarily supported by measures including the furlough and Eat Out to Help Out schemes. These props are being removed."*

*"The burning question is how the economy will cope as these supports are withdrawn. Worryingly, many companies are already preparing for tougher times ahead, notably via further fierce job cutting, the rate of which re-accelerated in the service sector in August to a pace exceeding that seen at the height of the global financial crisis."*

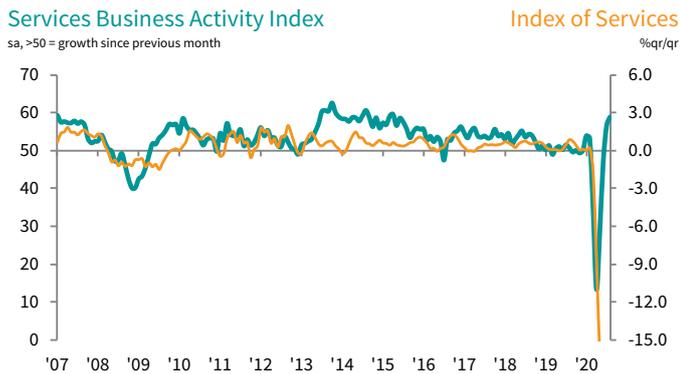
*"Policymakers face a huge challenge in sustaining this recovery and avoiding a 'bounce and fade' scenario, especially if virus numbers escalate further, in which case we may be looking at a 'bounce and slump'."*

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

*"As the UK economy continues to wake from its pandemic slumber, the services sector reported a higher than expected rise in new orders and at the strongest levels since December 2016. Buoyed up by increased consumer spending from domestic markets and unfettered by lockdown measures, businesses continued to be optimistic even though obstacles to stronger growth lingered on."*

*"Export business remained subdued as overseas sales declined for the seventh month in a row, hampered by unsettled supply chains and continuing restrictions on logistics and travel. The distressing employment numbers also darkened the mood with a high number of job cuts this month. Government support was a blessing to many firms but as this comes to an end, many service providers are resorting to redundancy schemes under the weight of operating in a tough marketplace."*

*"With rising input costs for fuel and essential safety equipment and a potential downturn in business again, the ripple effect of this pandemic will be felt throughout the winter. Firms need to make some lasting headway to give this recovery some energy, so policymakers should be waiting in the wings to offer more support if needed."*



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.

August data were collected 12-26 August 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](mailto:economics@ihsmarkit.com).

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