



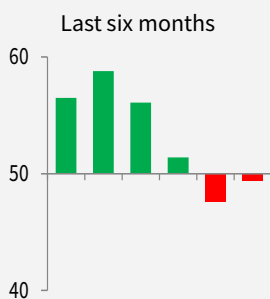
**KEY FINDINGS**

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

**UK SERVICES BUSINESS ACTIVITY INDEX**



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, 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.

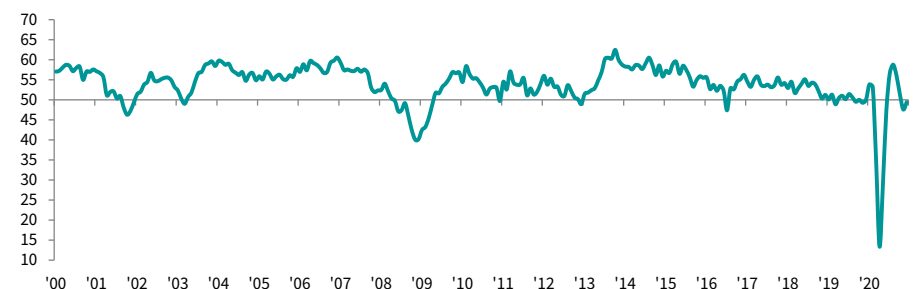
The latest survey pointed to another drop in backlogs of work across the service economy, which suggested a lack of pressures on business capacity due to falling customer demand. However, staffing numbers moved closer to stabilisation in December, with the rate of job shedding the slowest since the downturn 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.

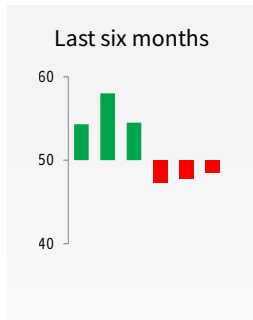
Expectations for business activity growth meanwhile rose to the highest since March 2015. Companies frequently cited hopes that the pandemic will be brought under control, leading to a strong rebound in UK economic conditions in the second half of 2021.

**Services Business Activity Index**

sa, >50 = growth since previous month



## NEW BUSINESS INDEX

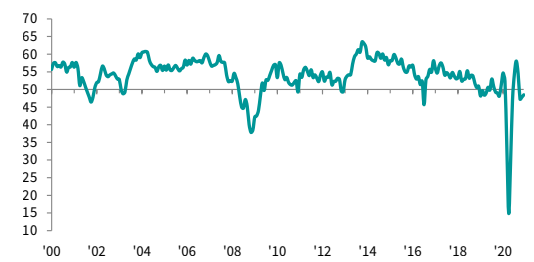


The seasonally adjusted New Business Index registered below the 50.0 no-change value for the third month running in December, to signal a sustained reduction in new work received by service sector companies. That said, the rate of decline was only modest and the least marked seen during this period.

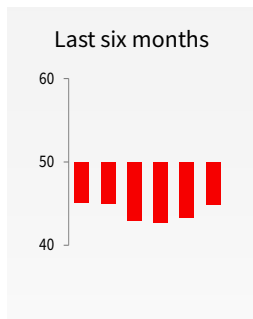
Weaker order books were mainly attributed to clients' reluctance to spend, alongside ongoing business closures due to the COVID-19 pandemic.

New Business Index

sa, >50 = growth since previous month



## NEW EXPORT BUSINESS INDEX

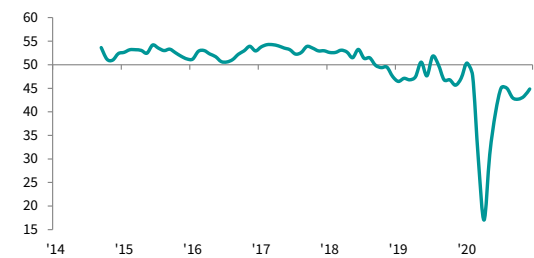


December data pointed to another steep fall in new business from overseas clients. The seasonally adjusted New Export Business Index has remained below the neutral 50.0 threshold in each month since February 2020.

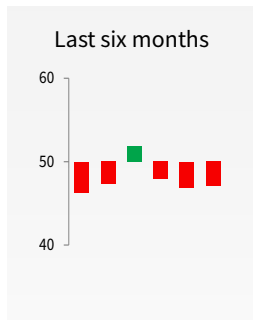
Survey respondents linked falling volumes of new work from abroad to a combination of international travel restrictions and Brexit-related uncertainty at the end of the year.

New Export Business Index

sa, >50 = growth since previous month



## OUTSTANDING BUSINESS INDEX

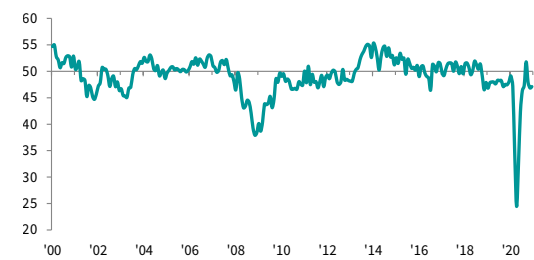


UK service providers indicated a reduction in backlogs of work during December, which extended the current period of decline to three months.

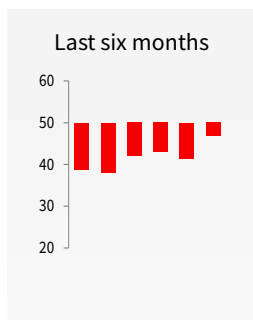
Lower volumes of outstanding business were often attributed to weaker-than-expected customer demand and a subsequent lack of pressure on operating capacity.

Outstanding Business Index

sa, >50 = growth since previous month



## EMPLOYMENT INDEX

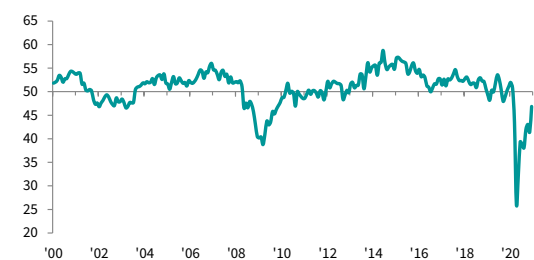


Staffing numbers moved closer to stabilisation in December. The seasonally adjusted Employment Index registered below the 50.0 no-change mark, but signalled the slowest pace of job shedding for 10 months.

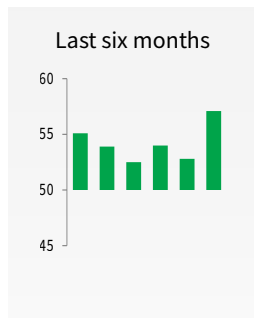
Some service sector companies noted that additional redundancies had been avoided due to the extended government furlough scheme, fewer working hours and the non-replacement of voluntary leavers.

Employment Index

sa, >50 = growth since previous month



## INPUT PRICES INDEX

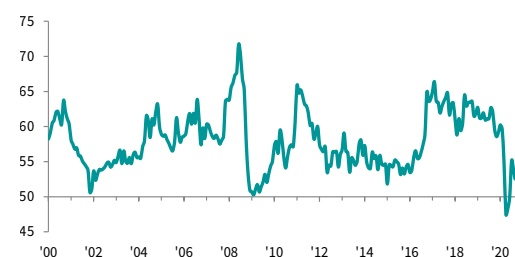


Average cost burdens increased at a sharp and accelerated pace in December. The seasonally adjusted Input Prices Index signalled the fastest overall rate of cost inflation since February 2020.

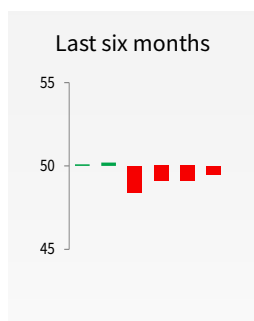
Reports from survey respondents cited higher prices paid to suppliers for imported items amid rising freight costs and shortages of transport availability. There were also reports of higher payroll costs, in some cases reflecting the unwinding of salary cuts that had been made in response to the pandemic.

### Input Prices Index

sa, >50 = inflation since previous month



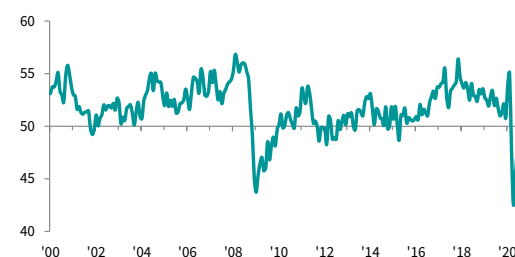
## PRICES CHARGED INDEX



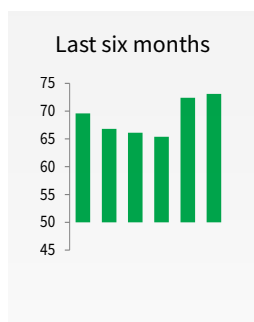
In contrast to the upward trend for operating expenses, latest data revealed another fall in average prices charged by service sector companies. The seasonally adjusted Prices Charged Index has registered below the neutral 50.0 threshold in each of the past four months, but the latest decline was the slowest seen in this period. Panel members mostly commented that price discounting reflected efforts to stimulate sales amid intense competitive pressures.

### Prices Charged Index

sa, >50 = inflation since previous month



## FUTURE ACTIVITY INDEX



The proportion of survey respondents expecting an increase in business activity during the year ahead (59%) exceeded those forecasting a decline (13%) by a wide margin in December. Moreover, the resulting Future Activity Index picked up since November and was the highest since March 2015.

Service providers anticipating a rise in business activity over the year ahead overwhelmingly cited hopes that the pandemic will be brought under control and more normal trading conditions will emerge over the course of 2021.

### Future Activity Index

>50 = growth expected over next 12 months



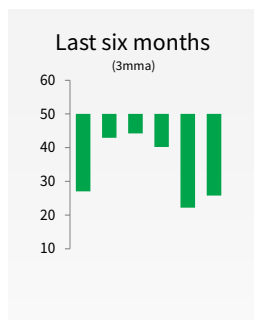
## INDEX SUMMARY

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

	Business Activity	New Business	New Export Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
07 '20	56.5	54.3	45.1	46.3	38.8	55.1	50.1	69.6
08 '20	58.8	58.0	45.0	47.3	38.1	53.9	50.2	66.8
09 '20	56.1	54.5	43.0	51.8	42.0	52.5	48.4	66.1
10 '20	51.4	47.3	42.7	47.9	43.0	54.0	49.1	65.4
11 '20	47.6	47.8	43.3	46.9	41.4	52.8	49.1	72.4
12 '20	49.4	48.5	44.9	47.1	46.8	57.1	49.5	73.1

## SERVICES SUB-SECTORS: THREE-MONTH MOVING AVERAGE

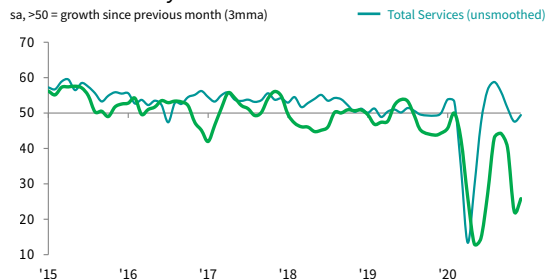
### HOTELS, RESTAURANTS & CATERING



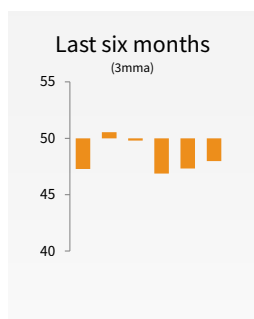
Business activity at Hotels, Restaurants & Catering companies continued to decline sharply in the three months to December. Lower activity was almost exclusively attributed to tighter restrictions on trade, temporary business closures and reduced underlying demand due to the pandemic.

Business optimism towards the year ahead outlook nonetheless improved in the final quarter of 2020, reflecting hopes of easing restrictions over the next 12 months.

#### Business Activity Index



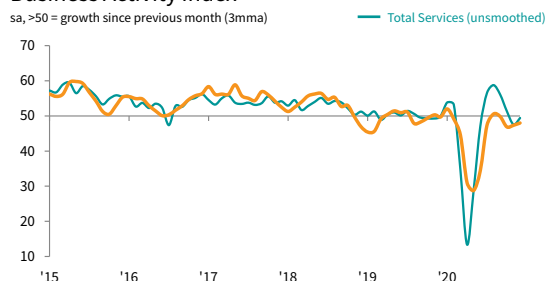
### TRANSPORT & COMMUNICATION SERVICES



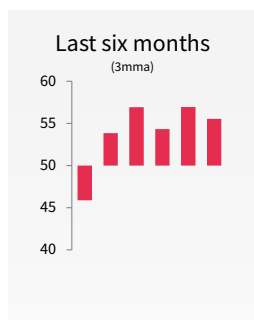
Transport & Communications Services recorded a sustained downturn in business activity and sharply reduced employment numbers during the three months to December.

The latest survey also indicated that Transport & Communications Services was the least optimistic sub-category regarding the year ahead business outlook.

#### Business Activity Index



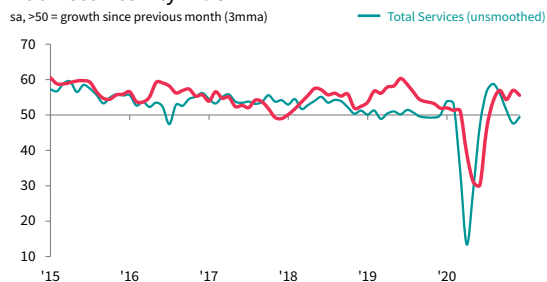
### COMPUTING & IT SERVICES



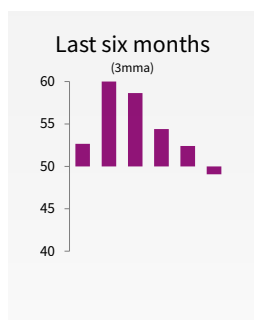
Latest data showed that Computing & IT Service providers bucked the downturn in business activity across the service sector as a whole in the final quarter of 2020. Moreover, Computing & IT Services was the best-performing of the six broad sub-sectors monitored by the survey.

Higher levels of new work and rising backlogs contributed to another solid increase in staffing numbers during the three months to December.

#### Business Activity Index



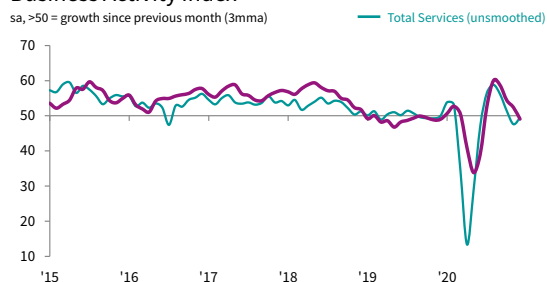
### FINANCIAL INTERMEDIATION



Business activity across the Financial Intermediation sub-sector decreased in the final three months of 2020, which reversed the upward trend seen in the third quarter.

On a more positive note, latest data indicated that payroll numbers moved closer to stabilisation, with the rate of job shedding easing to the slowest since the start of the pandemic.

#### Business Activity Index



## SERVICES SUB-SECTORS

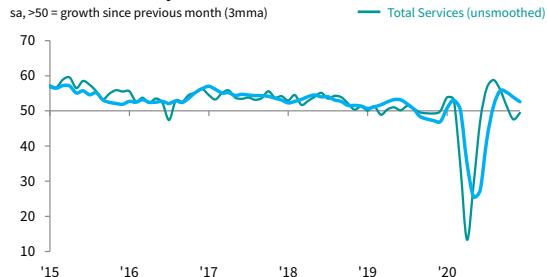
### BUSINESS-TO-BUSINESS SERVICES



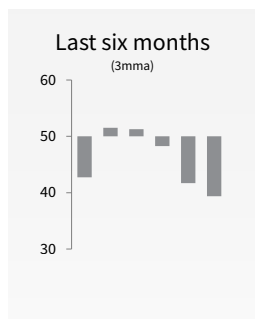
Business-to-Business services experienced another expansion of activity levels in the three months to December, which contrasted with the downturn seen across the service economy as a whole.

That said, the rate of growth was only modest and eased to the weakest recorded since the three months to August.

#### Business Activity Index



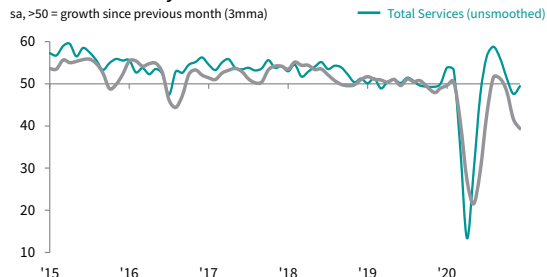
### OTHER PERSONAL & COMMUNITY SERVICES



Business activity in the Other Personal & Community Services category dropped sharply in the final quarter of 2020.

The rate of decline accelerated to the fastest since the three months to June, largely reflecting tighter restrictions on consumer-facing businesses.

#### Business Activity Index



### Services Sub-sector Index Summary, Oct'20 - Dec'20

sa, 50 = no change over previous month (3mma). \*50 = no change over next 12 months (3mma).

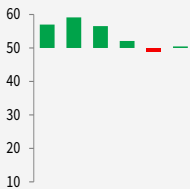
	Business Activity	New Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
Hotels, Restaurants & Catering	25.8	25.3	29.1	26.0	56.9	39.7	65.8
Transport & Communication Services	48.0	46.8	48.3	40.7	54.6	51.5	64.2
Computing & IT Services	55.5	54.9	52.0	52.9	57.2	49.3	77.5
Financial Intermediation	49.1	52.5	46.8	48.7	52.6	51.8	70.0
Business-to-Business Services	52.6	50.0	50.4	47.6	55.0	49.4	66.0
Other Personal & Community Services	39.4	39.8	38.5	36.2	56.7	49.6	69.2

IHS MARKIT UK COMPOSITE PMI®

## Strong manufacturing growth contrasts with downturn in the service sector

### COMPOSITE OUTPUT INDEX

Last six months



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.

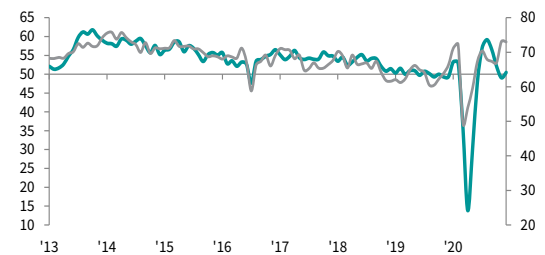
Severe supply chain disruptions resulted in higher input prices across the UK private sector during December. The overall rise in average cost burdens was the steepest since January 2020, driven by a rapid increase in prices paid by manufacturing companies.

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.*

#### Output Index

sa, >50 = growth since previous month

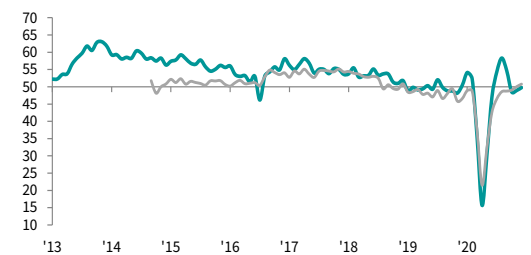


#### Future Output Index

>50 = growth expected over next 12 months

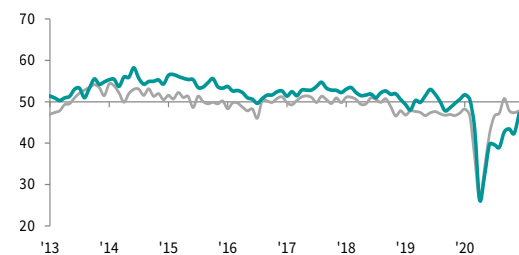
#### New Business Index / New Export Business Index

sa, >50 = growth since previous month



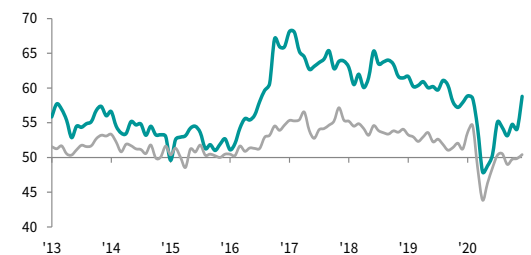
#### Employment Index / Outstanding Business Index

sa, >50 = growth since previous month



#### Input Prices Index / Output Prices Index

sa, >50 = inflation since previous month



### Composite Index summary

sa, 50 = no change over previous month. \*50 = no change over next 12 months.

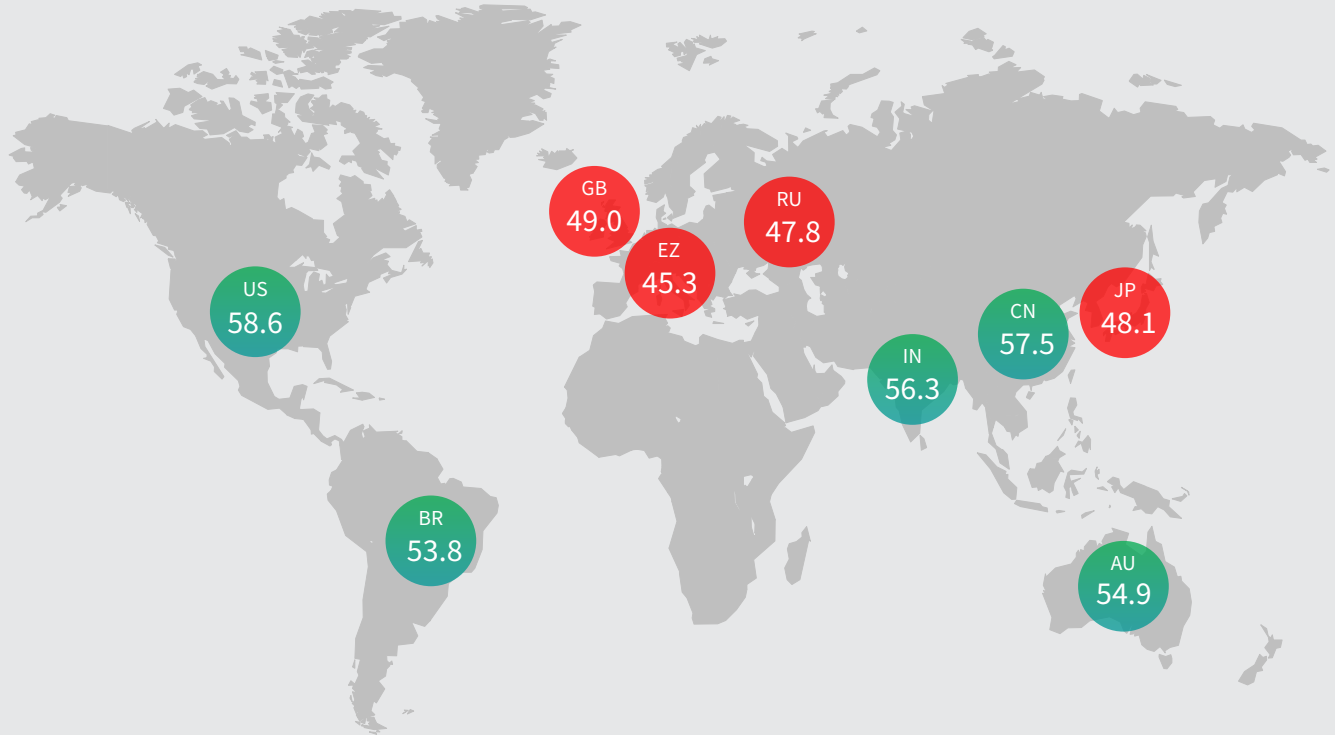
	Output	New Business	New Export Business	Outstanding Business	Employment	Input Prices	Output Prices	Future Output*
07 '20	57.0	54.4	46.5	46.6	39.6	55.1	50.3	70.4
08 '20	59.1	58.3	48.6	47.3	39.0	54.3	50.5	68.0
09 '20	56.5	54.7	48.8	50.8	42.7	53.1	49.0	67.4
10 '20	52.1	48.5	49.0	47.9	43.4	54.8	49.7	67.0
11 '20	49.0	48.9	50.0	47.4	42.3	54.1	49.9	73.1
12 '20	50.4	49.8	50.8	47.8	47.2	58.8	50.4	73.0

## INTERNATIONAL PMI

### Composite Output Index, Nov '20

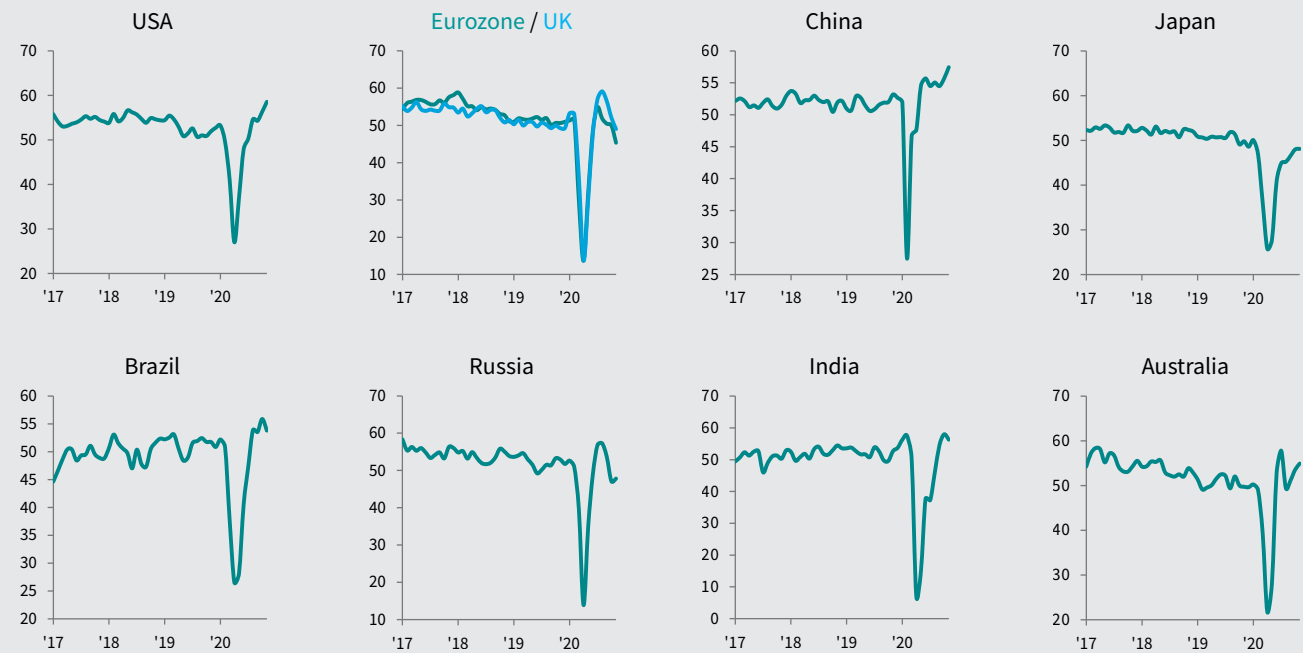
sa, >50 = growth since previous month

The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



### Composite Output Index

sa, >50 = growth since previous month



### 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).

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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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### About CIPS

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