



IHS MARKIT / CIPS UK SERVICES PMI®

UK service sector recovery slows sharply during October

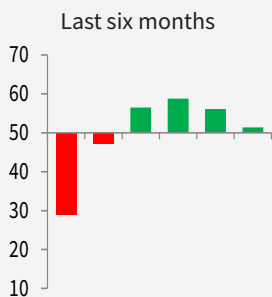
KEY FINDINGS

Business activity rises at much softer pace than in September

New orders decline for the first time since June

Sharp drop in employment reported again in October

UK SERVICES BUSINESS ACTIVITY INDEX



October data pointed to a much weaker rise in business activity across the UK service sector, with the rate of expansion the slowest for four months. There were also signs of a sharp reversal in demand conditions, with new work falling for the first time since June. Survey respondents in the hospitality, transport and leisure sectors widely commented on an adverse impact from tightening restrictions on trade due to the coronavirus disease 2019 (COVID-19) pandemic.

Adjusted for seasonal influences, the IHS Markit/CIPS UK Services PMI® Business Activity Index registered 51.4 in October, down sharply from 56.1 in September but slightly above the crucial 50.0 no-change mark. The latest reading signalled the weakest service sector performance since June.

Growth was often linked to a continued recovery in business operations after the national lockdown period and the restart of work on delayed projects. Some firms cited a boost from higher housing market transactions and a rebound in demand from clients in the construction sector.

In contrast to the upward trend for business activity, latest data indicated a drop in new orders for the first time since June. The rate of decline across the service sector as a whole was modest in comparison to the second quarter of 2020. However, the overall figure masked a slump in demand for customer-facing service providers, especially those in the hotels, restaurants and catering category.

Survey respondents overwhelmingly attributed lower new business to the impact of COVID-19 restrictions on trade during October and a subsequent lack of demand for hospitality and leisure services.

Reduced volumes of new business resulted in lower backlogs across the service economy in October. Companies reporting a decline in unfinished business widely commented on spare capacity and a lack of forward bookings for customer-facing services.

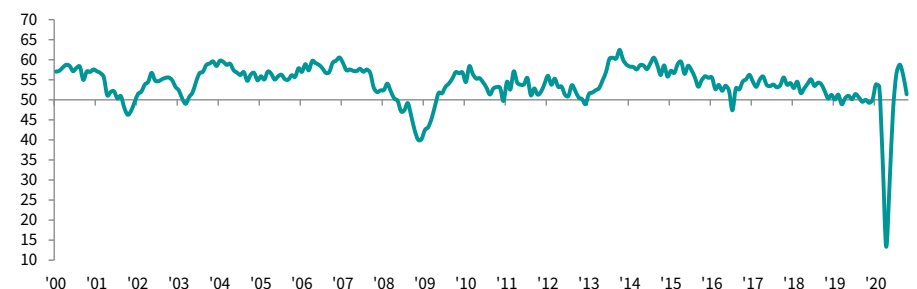
Employment numbers decreased for the eighth consecutive month in October, which was primarily linked to redundancies in response to shrinking revenues during the pandemic. More than twice as many survey respondents (26%) reported a drop in employment as those that indicated a rise (12%). This signalled a sharp downturn in staffing numbers, although the overall rate of job shedding was the slowest since March.

Margins were under pressure from a solid increase in average cost burdens during October. At the same time, prices charged by service providers fell for the second month in a row amid discounting to stimulate sales.

Service providers are optimistic overall about their prospects for growth in the next 12 months, but the degree of confidence slipped to its lowest since May. Expectations were again contingent on the trajectory of the pandemic and often reflected plans to rebuild business operations when the impact abates.

Services Business Activity Index

sa, >50 = growth since previous month



NEW BUSINESS INDEX

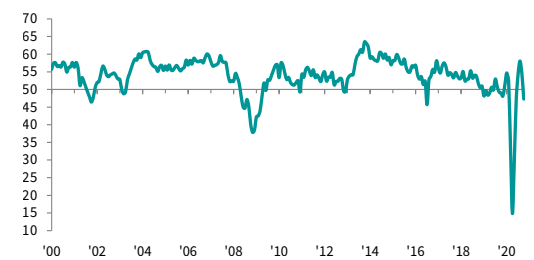


October data indicated a reduction in new business received by UK service sector companies, which ended a three-month period of expansion. Survey respondents widely commented on shrinking demand due to the pandemic, especially for leisure and hospitality services.

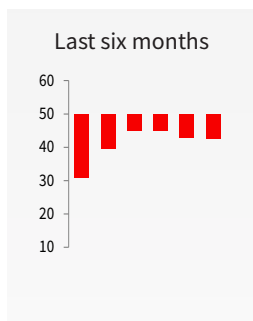
The seasonally adjusted New Business Index dropped to its lowest since June, but the overall rate of decline was much slower than seen during the national lockdown period.

New Business Index

sa, >50 = growth since previous month



NEW EXPORT BUSINESS INDEX

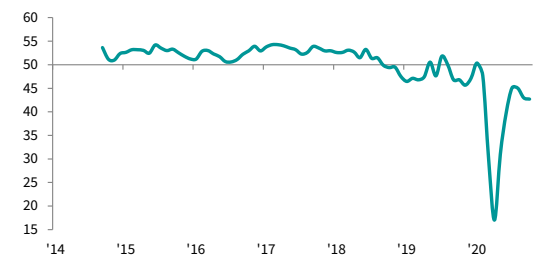


Service providers indicated a sharp and accelerated downturn in new work from abroad during October. The seasonally adjusted New Export Business Index has posted below the 50.0 no-change mark for nine consecutive months and the latest reduction in overseas sales was the fastest since June.

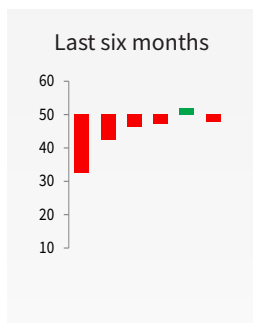
Restrictions on international travel and extremely low tourism numbers were the main factors cited by survey respondents in October.

New Export Business Index

sa, >50 = growth since previous month



OUTSTANDING BUSINESS INDEX

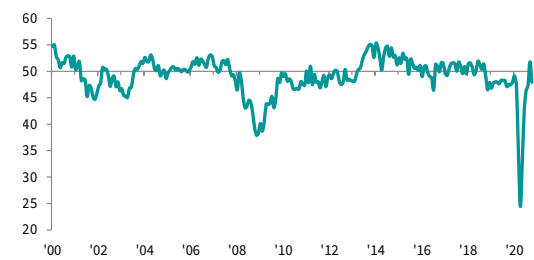


Backlogs of work decreased across the service sector in October, which followed a brief increase during the previous month. This was highlighted by the seasonally adjusted Outstanding Business Index dropping back below the neutral 50.0 threshold.

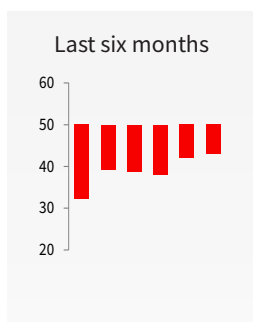
Lower levels of unfinished work were mainly linked to shrinking demand and spare business capacity. A number of hospitality businesses also commented on a slump in forward bookings due to tighter restrictions on trade.

Outstanding Business Index

sa, >50 = growth since previous month



EMPLOYMENT INDEX

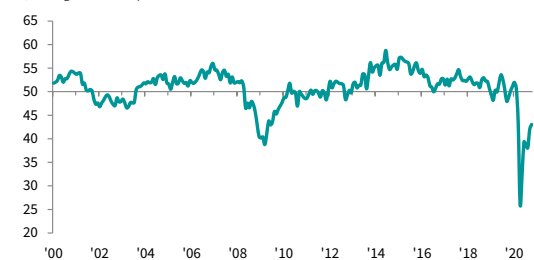


The seasonally adjusted Employment Index signalled another steep fall in payroll numbers at service sector companies during October. That said, the rate of job shedding eased to the least marked since March. More than twice as many survey respondents (26%) reported a drop in employment as those that indicated a rise (12%).

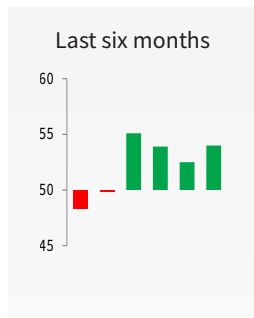
The latest decline in payroll numbers was mainly linked to redundancies and restructuring in response to a slump in revenues during the pandemic.

Employment Index

sa, >50 = growth since previous month



INPUT PRICES INDEX



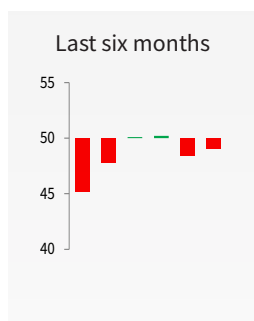
Average cost burdens increased at a solid pace in October and the rate of inflation accelerated since the previous month. The seasonally adjusted Input Prices Index has pointed to higher operating expenses in each month since July.

Anecdotal evidence attributed rising input prices to higher transportation costs, exchange rate depreciation and payroll costs. In some cases, survey respondents noted a temporary increase in staff costs due to redundancy payments and the return of other employees from furlough.

Input Prices Index



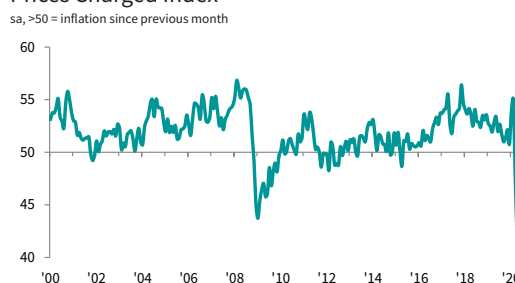
PRICES CHARGED INDEX



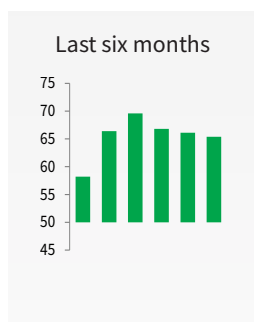
The seasonally adjusted Prices Charged Index remained below the neutral 50.0 threshold in October, to signal ongoing price discounting across the service sector. However, the latest reduction in average prices charged was only marginal.

Lower charges were linked to promotional activities and the need to stimulate sales following a downturn in customer demand.

Prices Charged Index



FUTURE ACTIVITY INDEX



Business optimism eased slightly since September and was the lowest for five months. Nearly half of the survey panel (49%) anticipate an increase in business activity over the year ahead, while only 18% forecast a decline.

Growth expectations mainly reflected pent up customer demand, hopes of an improvement in the COVID-19 situation and a bounceback across the UK economy in 2021. There were also reports citing new product launches and plans to ramp up business operations when the pandemic abates.

Future Activity Index



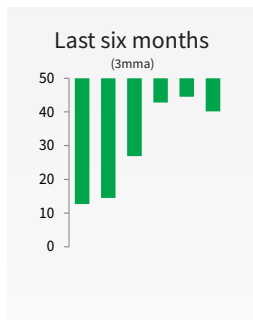
INDEX SUMMARY

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*
05 '20	29.0	29.6	31.0	32.6	32.2	48.3	45.2	58.2
06 '20	47.1	46.8	39.7	42.3	39.3	49.9	47.8	66.4
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

SERVICES SUB-SECTORS: THREE-MONTH MOVING AVERAGE

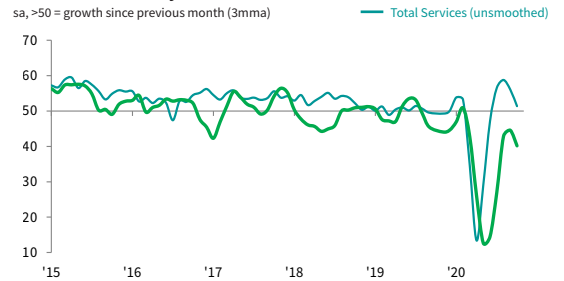
HOTELS, RESTAURANTS & CATERING



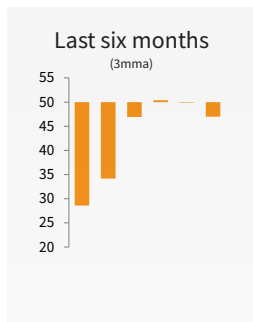
Latest data signalled a sharp and accelerated fall in business activity across the Hotels, Restaurants & Catering sector in the three months to October. The sector was by far the worst-performing broad category of activity monitored by the survey and the rate of decline was the fastest since the three months to June.

Employment number also dropped more quickly than in any other part of the service economy during the latest survey period.

Business Activity Index

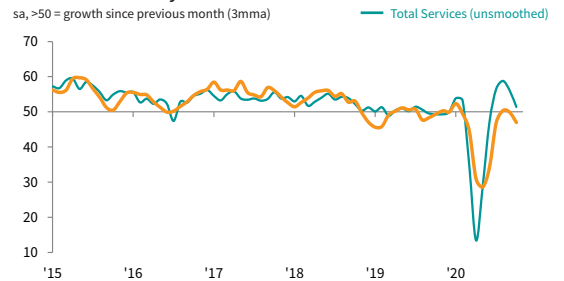


TRANSPORT & COMMUNICATION SERVICES

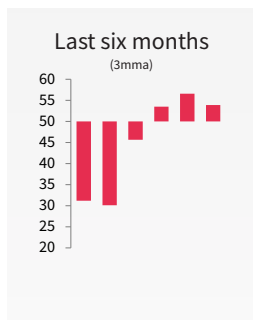


Transport & Communications Services registered a renewed fall in business activity during the three months to October. The rate of decline was the fastest since the second quarter of 2020 and contrasted with sustained growth across the UK service sector as a whole during the latest survey period.

Business Activity Index



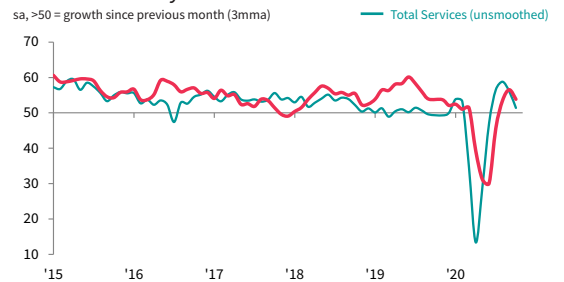
COMPUTING & IT SERVICES



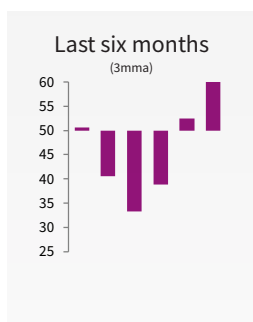
Business activity at Computing & IT Service providers remained in expansion on average during the three months to October. That said, the speed of recovery slowed since the previous survey period.

Computing & IT Services was the only sector to buck the downward trend for employment across the UK service economy in the three months to October. The rate of job creation was relatively subdued.

Business Activity Index



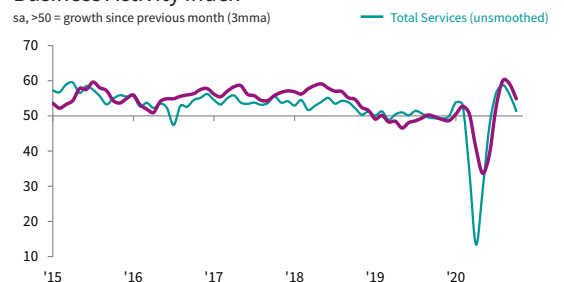
FINANCIAL INTERMEDIATION



Financial Intermediation was the best-performing broad category of activity during the three months to October. The rate of business activity expansion nonetheless slowed further from the peak seen this summer.

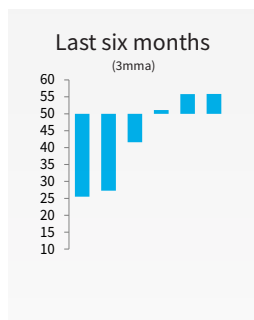
Employment dropped again among financial service providers, partly reflecting ongoing uncertainty about the longer-term economic outlook.

Business Activity Index



SERVICES SUB-SECTORS

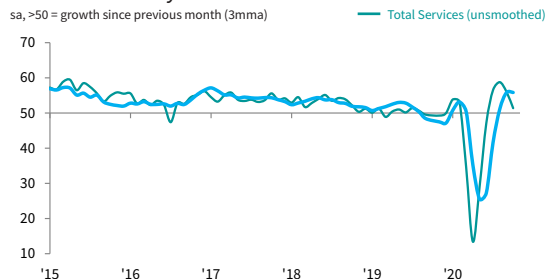
BUSINESS-TO-BUSINESS SERVICES



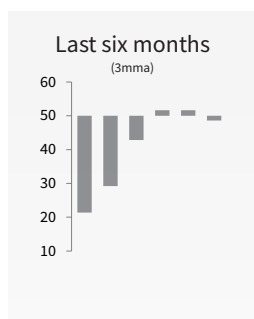
Business-to-Business services maintained a robust rate of expansion during the latest survey period and the speed of recovery was unchanged from that seen during the three months to September.

Mirroring the trend seen across the service sector as a whole, latest data indicated a moderation in business optimism regarding the year ahead outlook.

Business Activity Index



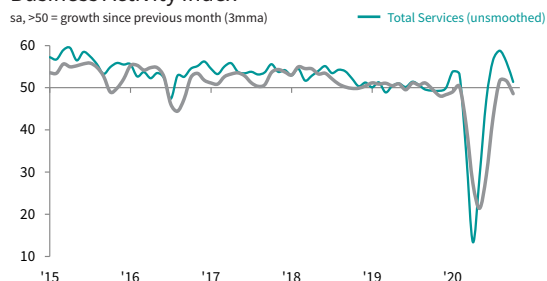
OTHER PERSONAL & COMMUNITY SERVICES



Latest data signalled a renewed downturn in business activity in the Other Personal & Community Services category during the three months to October. This contrasted with a steady recovery in business activity during the third quarter of 2020.

Moreover, incoming new work decreased in the Other Personal & Community Services sector during the latest survey period, which was partly linked to tighter restrictions on social mobility.

Business Activity Index



Services Sub-sector Index Summary, Jul'20 - Sep'20

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

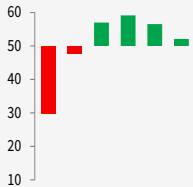
	Business Activity	New Business	Outstanding Business	Employment	Input Prices	Prices Charged	Future Activity*
Hotels, Restaurants & Catering	40.1	43.4	36.3	33.7	60.8	44.4	52.6
Transport & Communication Services	47.0	48.0	44.9	41.3	53.6	50.9	60.5
Computing & IT Services	53.9	49.7	45.9	50.7	55.8	48.9	71.2
Financial Intermediation	54.9	53.9	50.8	45.4	53.4	49.9	64.6
Business-to-Business Services	55.8	53.9	50.9	47.0	53.1	49.2	63.3
Other Personal & Community Services	48.6	47.4	40.7	34.4	56.0	51.3	67.1

IHS MARKIT UK COMPOSITE PMI®

Weakest rise in UK private sector output since June

COMPOSITE OUTPUT INDEX

Last six months



At 52.1 in October, the UK Composite Output Index dropped from 56.5 in September and was the lowest for four months. The index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Manufacturing production growth (index at 55.8 in October) continued to outpace service sector activity (51.4) by a considerable margin, although in each case the pace of expansion was the slowest since June.

New business across the private sector as a whole dipped for the first time in four months, with falling sales volumes at service providers offsetting a robust increase in orders received by manufacturing companies during October.

Latest data indicated another sharp fall in private sector employment, although the rate of decline was the slowest since March. Reduced payroll numbers were seen in both

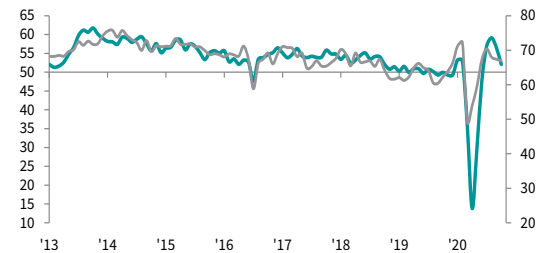
the manufacturing and service sectors.

Business optimism dipped slightly across the private sector as a whole in October. The overall downturn in confidence masked divergent trends among manufacturing and service sector companies. Expectations strengthened to the highest since January 2018 in the manufacturing sector, but service providers indicated the weakest optimism since May.

**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.*

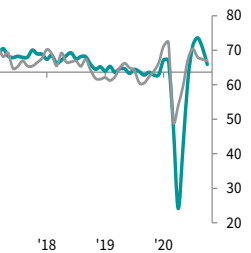
Output Index

sa, >50 = growth since previous month



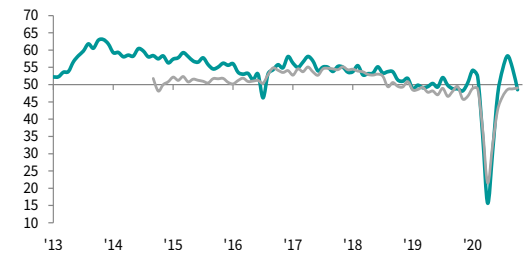
Future Output Index

>50 = growth expected over next 12 months



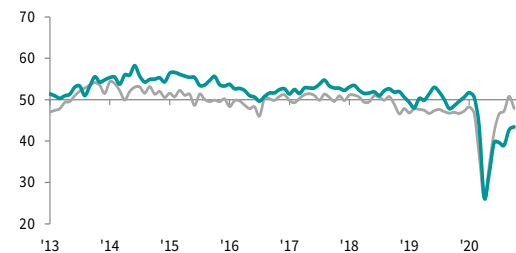
New Business Index / New Export Business Index

sa, >50 = growth since previous month



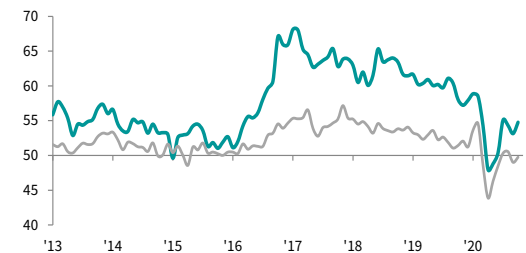
Employment Index / Outstanding Business Index

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.

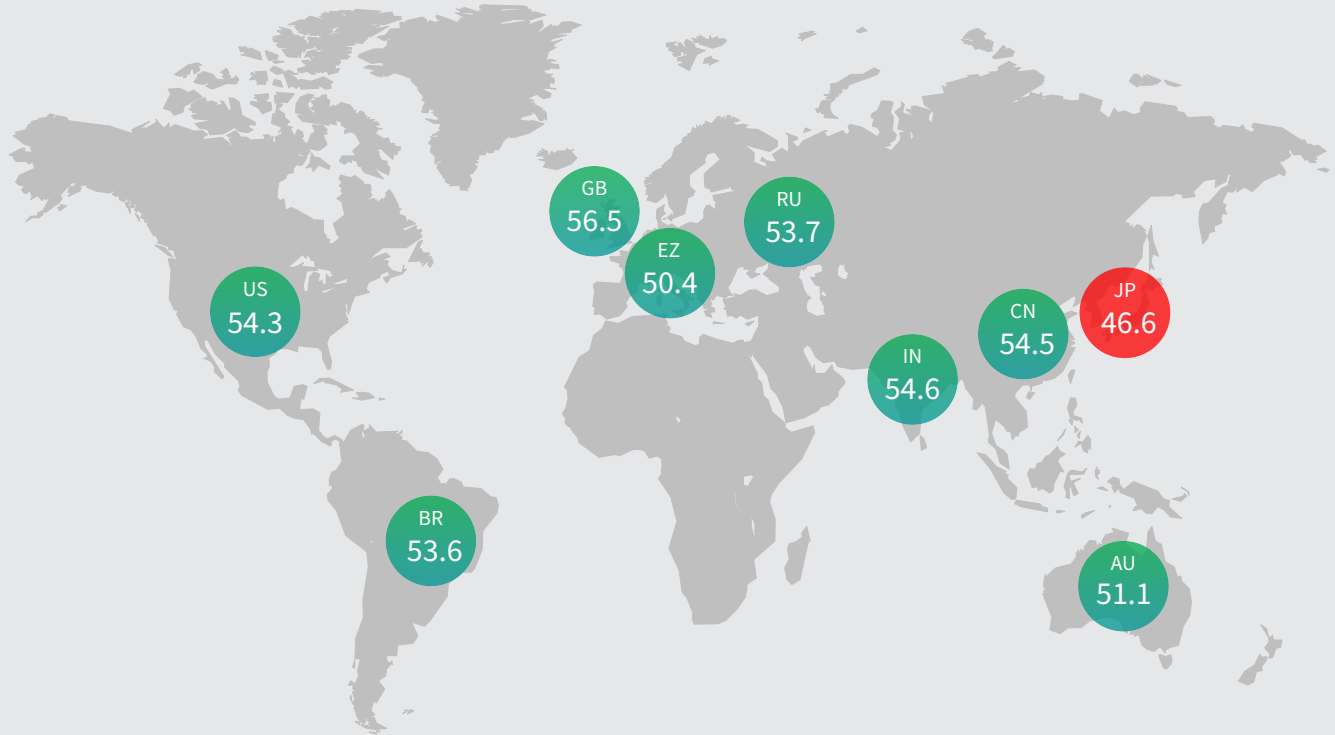
	Output	New Business	New Export Business	Outstanding Business	Employment	Input Prices	Output Prices	Future Output*
05 '20	30.0	30.5	32.6	34.0	32.1	48.8	46.3	59.5
06 '20	47.7	47.0	42.6	42.2	39.6	50.4	48.5	67.3
07 '20	57.0	54.4	46.5	46.6	39.6	55.1	50.3	70.4
08 '20	59.1	58.3	48.6	47.3	39.0	54.3	50.5	68.0
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

INTERNATIONAL PMI

Composite Output Index, Sep '20

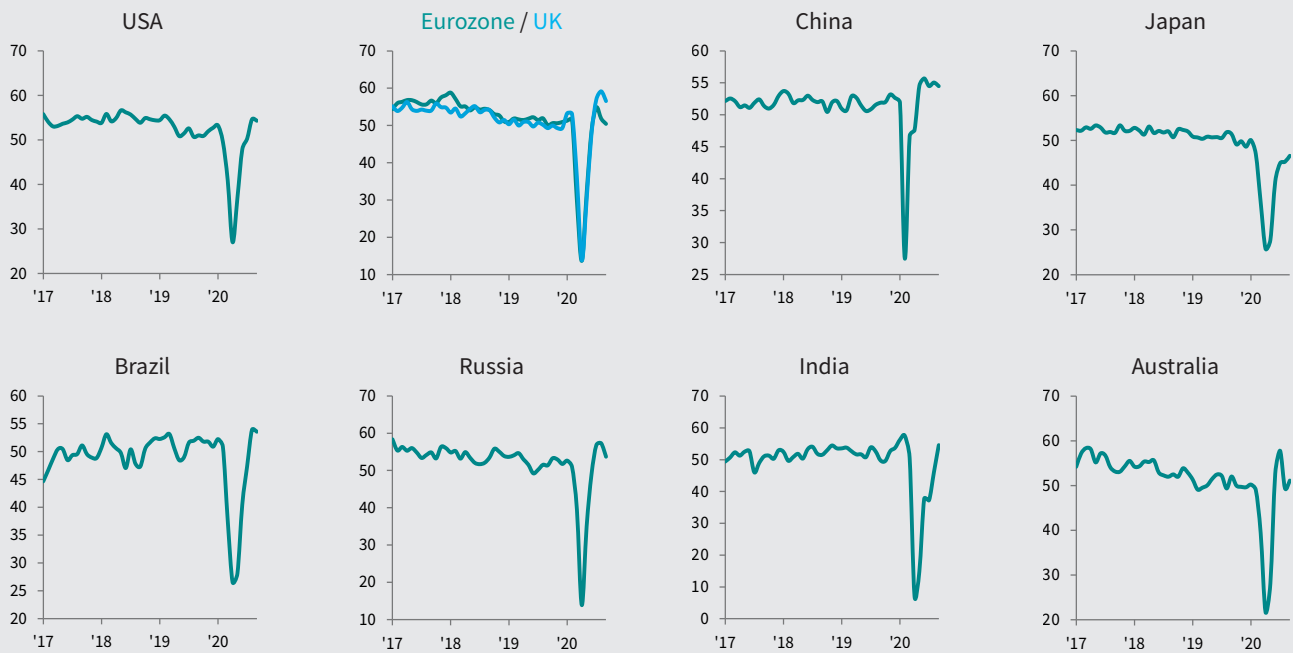
sa, >50 = growth since previous month

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.

October data were collected 12-28 October 2020.

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

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