



# KPMG UK Tech Monitor

**UK tech sector growth projections  
reach four-and-a-half year high**



January 2021

[kpmg.com/uk](https://kpmg.com/uk)



# KPMG UK

# Tech Monitor

## Key findings

**UK tech sector output expands again amid uptick in new orders**

---

**Employment increases at fastest pace for one-and-a-half years**

---

**Optimism soars to highest since Q2 2016 as tech firms anticipate strong recovery from pandemic**

“The UK tech sector continued to expand in the final quarter of 2020, showing resilience in the face of pandemic disruptions and some client spending delays ahead of the Brexit transition deadline.

“Tech firms recorded fresh increases in sales and employment alongside rising output during the fourth quarter. This was in sharp contrast to the falls seen across other parts of the UK economy, particularly consumer-facing services. Tech companies often reported that clients had decided to press on with previously delayed projects as priorities pivot from real estate expenditure to spending on digital infrastructure, including e-commerce, software assets and business process improvements.

“Despite severe pandemic challenges in the near-term, the global economic outlook is starting to look much brighter thanks to the deployment of successful vaccines over the course of 2021. Business confidence across the tech sector has reached a four-and-a-half year high, with survey respondents forecasting a sustained rebound in demand amid recovering UK economic conditions and greater prioritisation of corporate spending on technology services and equipment.”

**Bernard Brown, Vice Chair,  
KPMG in the UK**



## Welcome to the KPMG UK Tech Monitor Index

We have compiled the quarterly UK Tech Monitor Index by taking a representative sample of tech companies from IHS Markit's widely-watched Purchasing Managers' Index® (PMI®) surveys. The tech sector is defined in this report as technology software, technology services and manufacturing of technology equipment. Historical data is available since Q1 2003 and full details are in the methodology section.

Our panel of tech sector executives are asked about actual changes in business activity, new work, backlogs, employment, costs and charges. The headline UK Tech Monitor Index measures changes in business activity on average over the most recent quarter. Results are seasonally adjusted. Index numbers vary between 0 and 100, with readings above 50 indicating an overall increase and below 50 a decrease.

### UK tech sector activity continues to expand in Q4 2020

The tech sector saw a further rise in business activity in the final quarter of 2020, though the pace of expansion softened amid a wider slowdown across the UK economy. At 51.6 in Q4, the KPMG UK Tech Monitor Index fell from 53.0 in Q3, but remained comfortably above the 50.0 no-change value. The latest reading marked a further recovery from the unprecedented drop in activity at the start of the coronavirus disease 2019 (COVID-19) pandemic. In the final three months of 2020, tech sector output expanded at a stronger rate than across the UK private sector as a whole (equivalent index at 50.5).

### Growth supported by stronger client demand and rising sales

Greater business activity at tech firms was supported by a fresh rise in new work in the fourth quarter. The respective index posted 51.7 in Q4, up from 49.1 in Q3, to highlight the fastest increase in new work since Q2 2019.

Companies linked the upturn to the recommencement of projects, robust demand for digital services and increased spending by clients in areas such as e-commerce.

However, ongoing disruptions related to the pandemic and, in some cases, uncertainty leading up to the Brexit deadline reportedly hampered overall sales growth.

### Job creation at tech firms contrasts with private sector trend

Rising new order inflows and efforts to increase capacity encouraged tech companies to raise their staffing levels during Q4. At 51.6, the index measuring employment rose from 48.2 in Q3 and pointed to the first increase in workforce numbers since the start of the pandemic.

Furthermore, the rate of tech sector job creation was the steepest since Q2 2019, and contrasted with a further steep decline in employment across the UK as a whole (equivalent index at 44.3).

### Sharp rise in operating costs

Tech companies highlighted the

sharpest rise in input costs for two years. This reportedly stemmed from supplier price hikes, exchange rate movements and greater salary costs. However, efforts to attract and secure new work led to only a slight rise in selling prices, which suggested a further squeeze on tech sector margins.

### Business optimism strengthens further amid vaccine news

Latest data revealed a marked rise in business confidence across the tech sector regarding the year-ahead outlook. The index measuring growth expectations rose to its highest since Q2 2016, with tech companies also remaining more upbeat than the UK private sector overall.

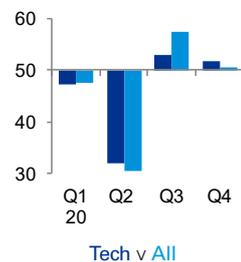
Optimism was attributed to expectations that global economic conditions will recover in 2021 with the roll-out of vaccines and loosening of virus-related restrictions. Some firms also foresee opportunities for growth through new product releases and expansion into new overseas markets.

## KPMG UK Tech Monitor Index

Above 50 = business activity growth, seasonally adjusted



## Tech Sector Output: Business Activity Index



### Tech sector activity continues to expand, albeit at softer pace

At 51.6, the seasonally adjusted Business Activity Index pointed to a sustained increase in tech sector output during the final quarter of 2020. Higher activity levels were widely linked to improved sales and the resumption of business operations among clients. The reading was down from 53.0 in Q3 and pointed to a modest expansion overall.

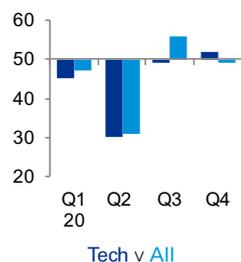
Tech sector firms recorded a stronger rate of growth than seen on average across the UK (index at 50.5).

### Business Activity Index

Above 50 = growth, seasonally adjusted



## Tech Sector Sales: New Business Index



### New orders rise for first time in one-and-a-half years

Tech sector firms signalled a renewed increase in new business during Q4, as highlighted by the respective index posting 51.7. This was up from 49.1 in Q3 and marked the fastest upturn in sales since Q2 2019. Across the UK as a whole, new orders fell marginally over the final quarter of the year.

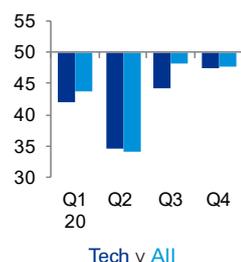
The increase in new work across the tech sector was often attributed to the resumption of projects at clients and an improvement in market conditions compared to earlier in 2020.

### New Business Index

Above 50 = growth, seasonally adjusted



## Tech Sector Capacity: Outstanding Business Index



### Backlogs of work decline at softest rate since Q2 2019

The level of work-in-hand (but not yet completed) at tech companies fell again in Q4. That said, the rate of backlog depletion was the slowest recorded for one-and-a-half years, as highlighted by the respective index rising from 44.3 in Q3 to 47.3. Outstanding business fell at a similar rate across the UK as a whole (equivalent index at 47.7).

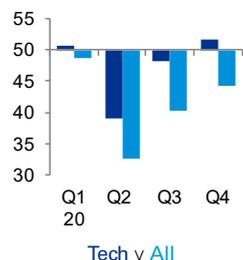
Where lower amounts of unfinished work were reported, firms commented on the presence of spare capacity.

### Outstanding Business Index

Above 50 = growth, seasonally adjusted



## Tech Sector Jobs: Employment Index



### Renewed increase in tech sector employment

Employment across the tech sector rose during Q4, after declining in the prior two quarters. At 51.6, the respective index rose from 48.2 in Q3, and pointed to a moderate increase in workforce numbers overall. This contrasted with a steep reduction in staffing levels across the UK as a whole (index at 44.3)

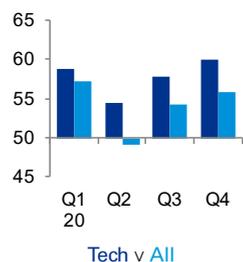
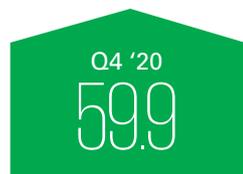
A number of tech firms mentioned hiring additional workers due to rising inflows of new work and planned company expansions in 2021.

### Employment Index

Above 50 = growth, seasonally adjusted



## Tech Sector Costs: Input Prices Index



### Input cost inflation accelerates to a two-year high in Q4

Latest data revealed a sharp and accelerated rise in cost burdens faced by tech companies in Q4. The respective index rose from 57.8 in Q3 to 59.9, which signalled the steepest increase in input prices for two years. The upturn in costs was also quicker than the UK all-sector average (index at 55.9).

Anecdotal evidence suggested that supplier price hikes, exchange rate movements and higher salary payments had been key drivers of inflation.

### Input Prices Index

Above 50 = growth, seasonally adjusted



## Tech Sector Margins: Prices Charged Index



### Output prices rise only slightly, despite greater costs

Adjusted for seasonal factors, the Prices Charged Index rose from 50.2 in Q3 to 50.9 in Q4. This suggested another marginal rise in selling prices. Companies that increased their charges generally commented on the pass-through of higher costs to clients. That said, the pandemic and relatively fragile demand conditions continued to weigh on firms' ability to raise prices.

Across the UK as a whole, output charges were broadly unchanged in the final quarter of 2020.

### Prices Charged Index

Above 50 = growth, seasonally adjusted



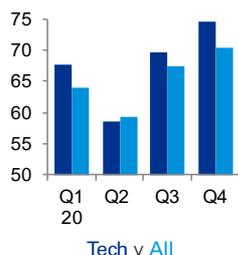
# Tech sector outlook

## Tech companies highly confident of post-pandemic rebound

Optimism towards the 12-month business outlook continued to improve in the final quarter of 2020, rising further from the slump seen in Q2 2020 at the onset of the pandemic. At 74.7, the Business Activity Expectations Index rose from 69.7 in Q3 to post the highest reading since Q2 2016. The level of positive sentiment also remained stronger than that seen for the average UK firm (equivalent index at 70.3)

Tech companies that expected output to rise over the next year frequently linked optimism to a recovery from the COVID-19 outbreak amid positive vaccine news and a return to more normal trading conditions. A number of firms also cited that new product releases and opportunities arising from Brexit could support growth.

However, uncertainty over the trajectory of the pandemic and new trading relationships led some firms to be cautious with their projections.



## Business Activity Expectations Index

Above 50 = growth in the next 12 months



## How has the COVID-19 pandemic impacted tech sector prospects?

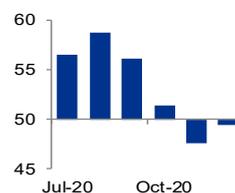
In this section, we assess the impact of the COVID-19 pandemic on the UK economy and tech sector prospects.

Monthly data illustrate a swift turnaround in the performance of the UK economy at the end of 2020, with new national lockdown measures resulting in reduced levels of service sector output. However, the speed of the downturn was much slower than at the start of the pandemic and largely confined to consumer-facing areas of the service economy.

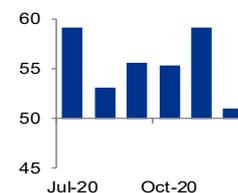
Businesses in the Software & Services sub-category bucked the overall decline in UK service sector output. The rate of expansion accelerated sharply in November (index at 59.2) and exceeded the equivalent global benchmark for Software & Services (50.3) by a wide margin. This outperformance continued into December, driven by higher levels of corporate spending. Survey respondents widely commented on a surge in demand for digital services due to changes driven by the pandemic, especially those related to e-commerce.

UK manufacturing companies achieved a sustained rebound in production volumes during the final three months of 2020, with the recovery speed easing only slightly from that seen in the summer. Technology Equipment underperformed the UK manufacturing sector benchmark in December, but business optimism and job creation continued to improve amid hopes of renewed growth momentum in 2021.

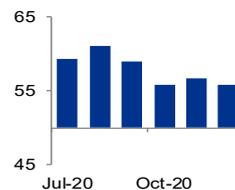
**UK Services**  
Business Activity Index  
Above 50.0 = growth, sa



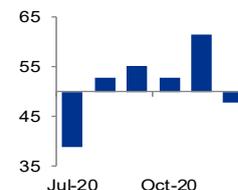
**UK Software & Services**  
Business Activity Index  
Above 50.0 = growth, sa



**UK Manufacturing**  
Business Activity Index  
Above 50.0 = growth, sa



**UK Tech Equipment**  
Business Activity Index  
Above 50.0 = growth, sa



# UK sector rankings

## Strong global tech sector recovery provides positive signal for UK outlook

Global Sector PMI data compiled by IHS Markit indicated resurgent growth among technology businesses at the end of 2020, led by manufacturers of semiconductors, communications equipment and other computing hardware.

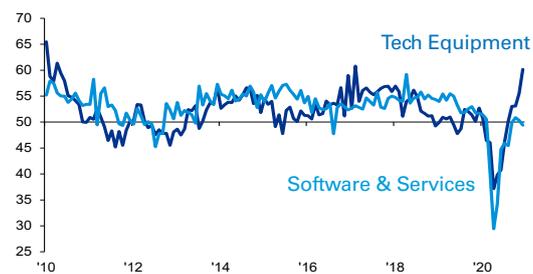
On a worldwide basis, output in the Technology Equipment category expanded at the fastest rate since February 2017. Business activity trends in the Software & Services sub-sector were also much stronger than those seen in the first half of 2020. Latest data meanwhile indicated that business expectations in the Software & Service sector reached a two-and-half year high.

A faster global recovery in tech sector output led to robust rates of job creation across both the Technology Equipment and Software & Services sub-categories in the fourth quarter. Survey respondents often cited efforts to boost business capacity amid hopes of a sustained improvement in global demand for technology products and services.

These figures offer a positive signal for UK tech sector growth over the course of 2021, especially in terms of export sales and opportunities to expand operations in overseas markets.

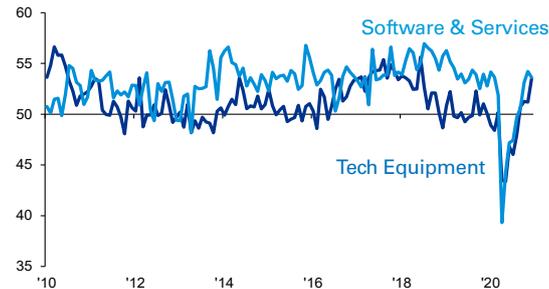
### Global Tech Sector: Output Index

Above 50.0 = growth, sa



### Global Tech Sector: Employment Index

Above 50.0 = growth, sa



Business optimism about prospects for the year ahead improved in Q4 2020, despite the loss of growth momentum seen across the UK economy. The recovery in business expectations gained strength amid the announcement of successful COVID-19 vaccines and hopes of looser pandemic restrictions over the course of 2021.

All six categories of activity recorded a rise in growth projections since the third quarter of the year, with by far the largest improvement seen in the Hotels & Restaurants sector. Survey respondents widely noted that pent up demand for consumer-services would help to deliver a return to growth in the next 12 months, albeit from exceptionally low levels seen during the current phase of the pandemic.

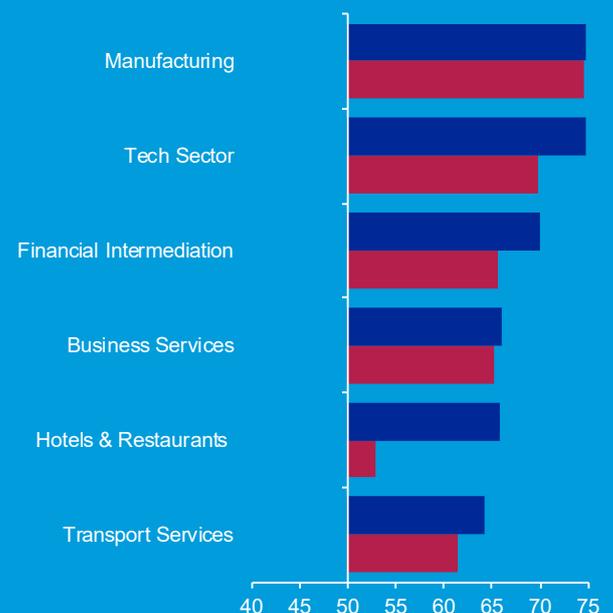
Confidence towards the outlook in the UK tech sector also increased sharply at the end of 2020, with business sentiment the most optimistic for four-and-a-half years and stronger than all other parts of the service economy. Manufacturers were also relatively upbeat during the latest survey period, reflecting rising order books and a rebound in global economic conditions from the low point seen last spring.

Transport service providers were the least positive segment monitored by the survey in the fourth quarter of 2020.

### Business Expectations Index by sector

■ Q4 2020  
■ Q3 2020

Above 50 = growth in next 12 months



# Contacts

## KPMG

**Bernard Brown**  
**Vice Chair, KPMG in the UK**  
**T** +44 (0)207 311 6605  
**E** Bernard.Brown@kpmg.co.uk

## IHS Markit

**Tim Moore**  
**Economics Director**  
**T** +44 (0)149 146 1067  
**E** Tim.Moore@ihsmarkit.com

**Annabel Fiddes**  
**Economics Associate Director**  
**T** +44 (0)149 146 1010  
**E** Annabel.Fiddes@ihsmarkit.com

[www.kpmg.com/uk](http://www.kpmg.com/uk)



© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

For full details of our professional regulation please refer to 'Regulatory Information' at [www.kpmg.com/uk](http://www.kpmg.com/uk)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.



### About KPMG

KPMG LLP, a UK limited liability partnership, operates from 22 offices across the UK with approximately 17,600 partners and staff. The UK firm recorded a revenue of £2.40 billion in the year ended 30 September 2019. KPMG is a global organization of independent professional services firms providing Audit, Tax and Advisory services. We operate in 147 countries and territories and have more than 219,000 people working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.

### UKTech Sector Purchasing Managers' Index® (PMI®) survey data

UK Tech Monitor Index data is derived from a representative sub-category of approximately 150 tech companies within IHS Markit's regular PMI® surveys of UK manufacturers and service providers. Tech is defined in this report as technology software, technology services and manufacturing of technology equipment. All figures are seasonally adjusted and smoothed using a three-month moving average, to better highlight underlying trends in the data.

### UKTech Sector Business Outlook data

Business activity expectations data are drawn from the monthly PMI® surveys question on companies' expectations for their activity/output over the next 12 months. Prior to July 2012, only service sector companies were asked this question. Employment, capex, profits and input cost expectations data are based on responses from UK services and manufacturing firms participating in IHS Markit's tri-annual Global Business Outlook survey, which is based on the same panel of companies as the PMI® surveys.

### Technology Sector industry groups:

Software publishing (SIC 582), Computer programming, consultancy and related activities (SIC 620), Data processing, hosting and related activities; web portals (SIC 631), manufacture of computer, electronic and optical products (SIC 26), manufacture of electrical equipment (SIC 27).

### Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.