



Tech Monitor UK

The most up-to-date source of UK tech sector data and analysis each quarter
by KPMG and Markit

UK tech sector records best growth performance for almost a decade



- Almost 44% of UK tech firms plan to hire more staff over year ahead, while 7% expect a fall.
- Around twice as many UK tech firms (27%) intend to increase their capex in next 12 months as those that anticipate a reduction (13%).
- East of England special feature: Cambridge tops the table for regional tech employment.

More importantly the sector showed again solid rates of job creation, well above the rates in other sectors of the economy.

“UK tech companies are also more confident about the business outlook than firms in other industry sectors, with growth expectations at tech companies well above UK private sector average, underlining the impact the sector has on the country’s economic performance and the important role tech companies play in the burgeoning recovery.

Key points from the Q4 2013 data:

- Sharpest rise in UK tech sector business activity since early 2004.
- UK tech companies report fastest improvement in profitability for six years.
- Solid rate of tech sector job creation maintained at the end of 2013.

Commenting on the latest Tech Monitor UK results, Tudor Aw, Head of Technology at KPMG, said:

“These figures prove once more that the UK tech sector is going from strength to strength. The last quarter of 2013 saw the sector’s best growth performance in almost a decade, with a sharp increase in business activity, a rise in new orders and an increase in profitability despite higher costs.

“Our report also shows that contrary to the popular belief that the UK lags behind the US tech sector, UK tech business activity matches the performance of the NASDAQ. These results show that we can be very proud of our tech companies and the strength of the sector in the UK.”

Tech growth: UK tech growth highest in nearly 10 years

Tech Monitor UK uses a specially selected panel of tech sector executives within the Markit UK *Purchasing Managers' Index® (PMI®)* surveys, to provide a unique assessment of the sector's economic performance. Growth and jobs trends are benchmarked against Global PMI® series and other key economic indicators.

Main findings in Q4 2013*

KPMG/Markit Tech Monitor UK data indicates that the sector stepped up another gear during the fourth quarter of 2013, with strong inflows of new work driving the steepest expansion of business activity for almost a decade. As a result, the UK tech sector ended the year on a much firmer growth footing than it started, with a cyclical upswing first emerging in the spring of 2013 and picking up sharply since the autumn.

At 61.0 in December, the headline index measuring UK tech sector business activity posted above the crucial 50.0 no-change threshold for the sixteenth successive month, which highlighted a continued strong rebound in tech growth since the soft patch reported through the summer of 2012. Indeed, tech output growth has now accelerated to its fastest since that reported in February 2004.

Looking at the tech output data for Q4 as a whole, the average index reading was 59.5, up from 57.3 in Q3 2013, to suggest an acceleration of growth compared to those seen in the previous quarter.

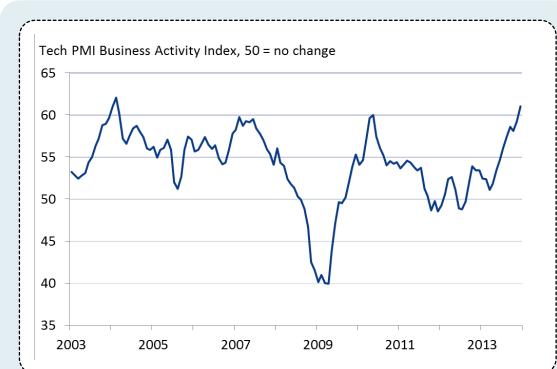
On an annual basis, the business activity index trended at 55.5 in 2013, indicating a strong overall growth performance and the best calendar year for the UK tech sector since 2010 (when the index posted 55.9 on average).

The latest data confirm that the UK tech sector has now expanded in all four calendar years since the downturn recorded during the global financial crisis of 2008/09, which in turn has driven a sustained outperformance in terms of tech sector job creation in recent years (see Section 2 for full details of employment trends).

Tech sector demand patterns

Improving underlying corporate expenditure patterns, a gradual recovery in investment spending and resilient consumer technology demand appear to have boosted tech sector output growth during the final months of 2013.

Strengthening demand was highlighted by a steep and accelerated rise in new business intakes over the latest survey period. At 58.8, the index remained well above the neutral 50.0 threshold and was the second-highest since February 2007 (exceeded only by a post-crisis high of 59.1 recorded at the end of Q3 2013).



Source: Markit/KPMG.

*Index numbers vary between 0 and 100, with levels of 50 signalling no-change from the previous month. Readings above 50 signal an increase since the previous month, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

Methodology notes can be found in section 6.

Tech growth: Strong demand drives profit growth and rising backlogs

Tech sector demand patterns cont...

An index reading of 53.2 in December, up from 51.8 in November, signaled that backlogs of work across the UK tech sector rose at a faster pace. The current trend contrasts with falling levels of unfinished business over a near three-year period to the autumn of 2013.

Indeed, during December the rate of backlog accumulation within the tech sector was the steepest since the series began 11 years previously. Ongoing increases in incomplete workloads across the survey panel provide an indication that new business levels at some tech companies picked up at a faster-than-expected rate towards the end of 2013. Adjustments to capacity in line with stronger demand could in turn give an additional boost to tech job hiring over the coming months.

Average prices charged fall in tech sector

Despite strong demand and rising costs, there was little sign of renewed upward pressure on prices charged by tech companies in the latest survey period. At 49.5 in December, the index measuring average tariffs in the sector was slightly below the neutral 50.0 value, signalling an overall decline in charges at the end of the year. For the calendar year as a whole, prices charged were broadly unchanged, continuing the subdued

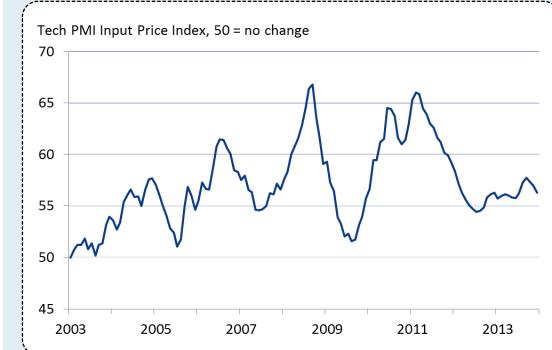
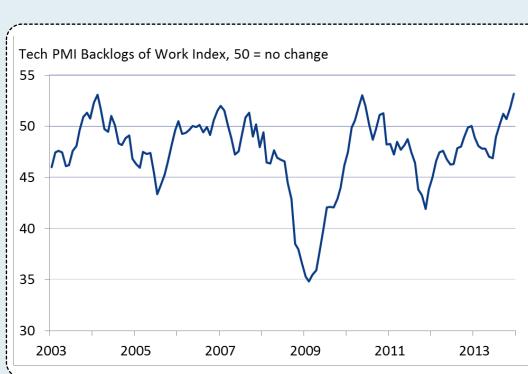
trend seen in each year since 2009.

Profitability rises despite higher costs

Lower prices charged by tech companies likely reflect a combination of productivity enhancements and strong market competition during the latest survey period. Moreover, favorable productivity trends and greater workloads helped offset pressures on profitability from higher costs in December.

At 56.3 in December, the index measuring average cost burdens in the UK tech sector was well above the neutral 50.0 value, despite the index signalling the slowest rate of inflation since July.

The index measuring UK tech sector profitability meanwhile rose to 55.3 in December, indicating the fastest pace of growth for six years (when the index hit 56.2 in December 2007).



Source: Markit/KPMG.

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Employment trends: Tech jobs rebound sustained at end of 2013

In this section of Tech Monitor UK we compare tech sector employment trends against equivalent indices from Markit's UK *Purchasing Managers' Index® (PMI®)* surveys, providing a timely barometer of tech hiring patterns in the context of overall UK private sector labour market developments.

The main findings for Q4 2013* are:

KPMG/Markit Tech Monitor UK data indicates that 2013 ended on a positive note in terms of net job creation within both the tech sector and wider private sector economy. Moreover, looking at job creation patterns over the course of the past few years, our survey data highlights that tech companies have been on a sustained staff hiring spree since the global economy started to emerge from recession in late 2009. This strong rise in employment in tandem with greater business activity somewhat contrasts with trends across the wider UK economy. Areas such as construction have only fairly recently seen companies cast aside their cautious staff recruitment patterns.

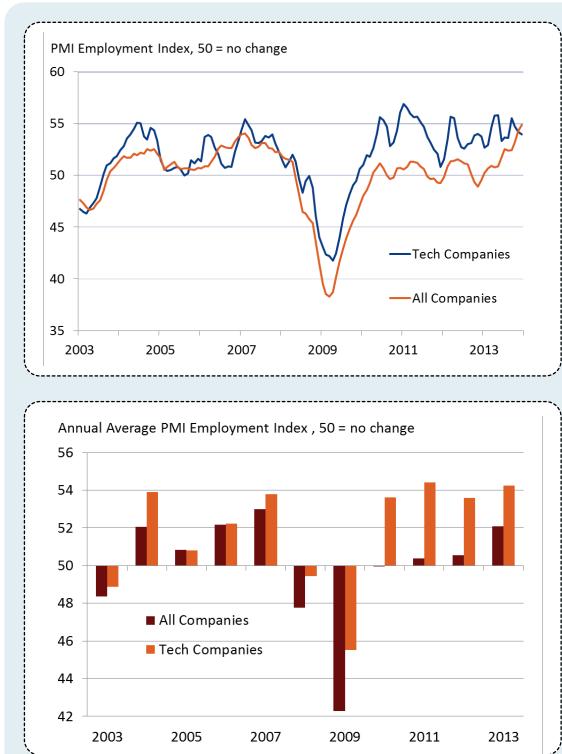
At 53.9 in December, the index measuring UK tech sector employment was comfortably above the neutral 50.0 value, despite slipping to its lowest reading since August. The latest figure extends the current period of continuous jobs growth in the tech sector to just over four years.

A further solid increase in staffing levels within the tech sector reflects buoyant optimism about future workloads (see Section 4 for full details of business outlook data), alongside efforts by companies to meet higher levels of incoming new business in recent months. For the calendar year as a whole, the average employment index reading came in at 54.2, which is the second-highest in the 11-year series history (exceeded only by 54.4 on average during 2011).

Comparison with UK-wide trend, and company size breakdown

KPMG/Markit Tech Monitor UK data highlight a continuous and strong outperformance of tech sector job creation since the global financial crisis in 2008/09. However, recent months have seen a solid rebound in wider UK private sector employment, meaning that growth momentum has finally caught up with that for overall tech jobs. The UK-wide index is now ahead to the greatest degree since late 2006, but the gap is still relatively small.

Finally, while the survey figures are geared towards job creation at established companies (as opposed to tech start-ups), we can examine patterns of staff hiring by company size. These data imply that larger tech firms were at the forefront of the hiring spree for much of 2013, contrasting with the broadly similar employment growth trends seen during the previous year.



Source: Markit/KPMG.

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Economic context: Broad improvement in global economic conditions

This section draws upon several data sources to examine the latest domestic and global economic developments, which in turn provides a backdrop to the UK tech sector's recent performance.

The main findings for Q4 2013 are:

The strongly-performing tech sector has been at the vanguard of a wider recovery in the UK economy. Official data signaled that gross domestic product (GDP) rose 0.8% during the third quarter of 2013. That matched the quarterly growth rate seen in the preceding period and built on a 0.5% increase in the first quarter.

With business survey data for the fourth quarter tracking a further rise, the economy looks set to post four consecutive quarters of expansion for the first time since 2009/10.

Equity markets boost

The NASDAQ composite index, the benchmark for US technology stocks, posted a hefty 38.3% rise over the course of 2013. Meanwhile the FTSE 100 index of leading UK shares climbed 14.4% over the year.

Healthy stock market conditions bode well for the UK tech sector's continued strong performance, as more favorable sentiment and funding opportunities look set to help fuel company expansion.

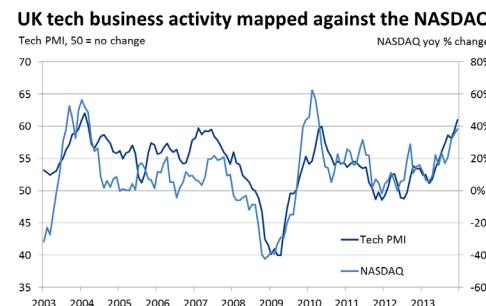
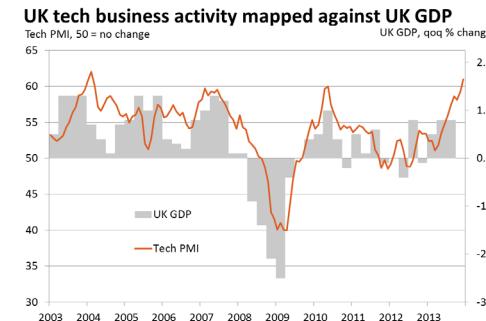
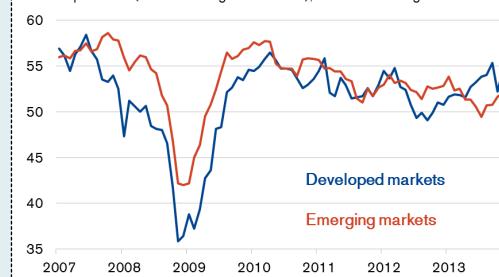
Global economy grows at solid clip

Tech firms will also be encouraged by a sustained improvement in the state of the global economy. Further growth at the end of 2013 was indicated by the JPMorgan Global Composite PMI, produced by Markit, registering 54.0 in December. Although slightly lower than November's reading of 54.2, the index was broadly in line with its trend level since data were first available in 1998.

Developed economies have led the way as growth in the major emerging markets has slowed. PMI data indicate outperformance in the former since the spring of 2013, as robust growth in the US and UK has been complemented by improvements in the Eurozone and Japan. Meanwhile, emerging markets and China in particular have begun to slow from previously rapid growth rates.

Developed and emerging markets growth

PMI Output Index (manufacturing and services), 50.0 = no change



Sources:

Global PMI® data sourced from JPMorgan/Markit.

UK GDP data sourced from the Office for National Statistics. At the time of writing, figures were available up to Q3 2013.

Stock market data sourced from Reuters EcoWin.

Tech outlook: Confidence about future business activity at six-year high

This section contains analysis of our survey data on UK tech firms' business expectations for 2014. Figures for future business activity are drawn from monthly PMI® surveys; those on employment and capex are based on Markit's tri-annual Global Business Outlook survey.

The main findings for Q4 2013* are:

UK tech companies are more optimistic about their business activity prospects than at any time in the past six years. Moreover, the tech industry's growth outlook remains much brighter than that signalled by firms across all UK industry sectors.

December's survey data shows that 62.2% of UK tech companies expect business activity to be higher in one year's time than the present situation, while only 5.3% forecast a decline. The resulting net balance of +56.9% is the strongest reading since that recorded in November 2007.

Tech firms cite improvements in general market conditions, new product launches, rising client confidence and greater consumer willingness to spend as key factors set to support growth of business activity in 2014.

The comparable net balance for firms across all sectors is +48.1%. Although this is the highest since early 2007, it remains below that for the UK tech sector, a pattern which has been evident since monthly data were first available in 2003.

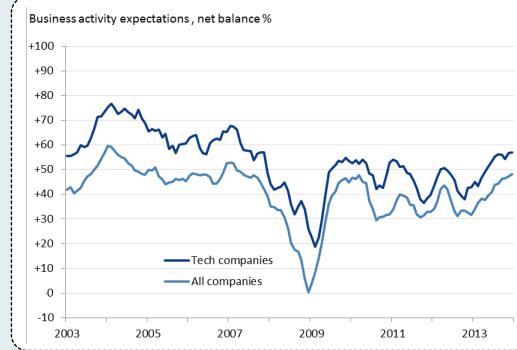
Strong employment and capex prospects

Tech companies are also more optimistic regarding prospects for employment than UK firms across all sectors.

The latest Markit Global Business Outlook Survey, which was conducted in October 2013, showed that 43.9% of UK tech companies plan to raise their staffing levels over the next 12 months, while only 7.0% forecast a drop. The resulting net balance of +36.8% is a reading unsurpassed in the four-year series history.

Looking at the situation across all sectors, employment growth is predicted by 40.5% of UK companies against 7.6% expecting to shed jobs, resulting in a net balance of +32.9%.

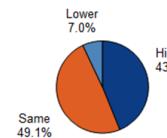
Strong hiring intentions for tech are accompanied by plans for increased investment spending. Around twice as many firms (27%) forecast a rise in capex as those that anticipate a decline (13%).



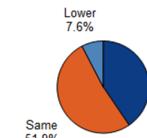
Markit Business Outlook Survey October 2013

"Do you expect employment at your business to be higher, the same or lower in 12 months' time than current levels?"

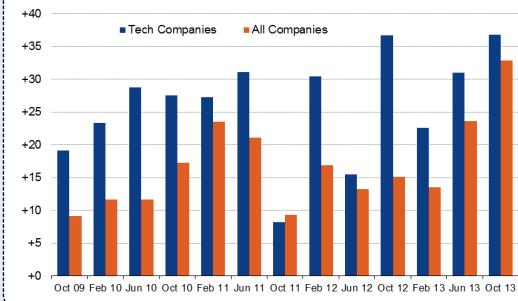
Tech companies employment expectations: net balance +36.8%



All companies employment expectations: net balance +32.9%



Expectations for employment: net balance %



Source: Markit/KPMG.

* Methodology notes can be found in section 6.

Special feature: Tech employment clusters in the East of England

In this section we take a closer look at sub-regional UK tech sector job clusters, using data first compiled for the Autumn 2013 Tech Monitor UK report*. This edition examines tech hotspots across the **East of England** in more detail. Tech job clusters are measured by comparing the percentage of tech employment in each local/unitary authority against the national proportion of tech workers.

Cambridge–Stansted–London corridor continues to attract top tech firms

Our tech sector definition and related analysis of ONS location quotient data indicates that the East of England ranks third out of eleven GB regions for concentrations of tech jobs at local authority level, after the South East and London. We estimate that there are at least ten local authority tech hotspots in the East of England.

The Cambridge–Stansted–London corridor and the grouping of local authorities to the north west of London are key centres of gravity for tech sector employment in the East of England region.

With a world-class university, world-class research infrastructure and numerous business parks, it is little surprise that Cambridge and South Cambridgeshire have the highest concentrations of tech employment in the East of England region. In Cambridge, the proportion of tech employees is nearly two-and-a-half times the national average.

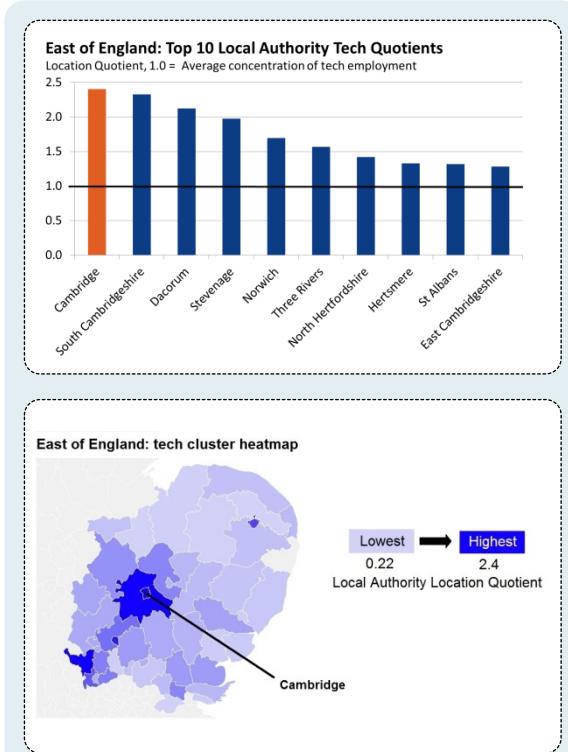
Cambridge also scores very highly for jobs concentration in industry areas that are closely linked but outside of our core tech definition – notably ‘higher education’ (almost eleven times the national average) and ‘R&D on natural sciences and engineering’ (almost eight times the GB-wide average).

Within our tech definition, Cambridge scores very highly for software publishing (around four times the GB average) and computer programming & consultancy (at least twice the GB-wide average).

In terms of infrastructure, the ‘Silicon Fen’ area of Cambridge and South Cambridgeshire is a major hub within the region, with its business parks attracting numerous tech firms. Additionally, the strong tech start-up scene, which is not fully captured by measures of employee numbers at VAT-registered companies (upon which ONS location quotients are based), provides a further boost to the draw of the local area.

Major infrastructure advantages for local authorities that lie in the Cambridge–Stansted–London corridor are good road transport links to central London and Stansted Airport via the M11, as well as direct train routes to key parts of the capital’s tech scene.

In addition to the areas directly north of the Lea Valley, our location quotient analysis highlights that Stevenage and the Dacorum–Three Rivers area is also home to prominent tech clusters in the East of England. These areas benefit from close proximity to outer and inner London, and each has a tech job concentration of at least one-and-a-half times the national average.



Sources: Markit estimates, based on ONS data.

Any location quotient above one signals a greater than average concentration of tech jobs in a local area. A location quotient of less than one indicates that industry jobs are less concentrated in the local authority than the UK-wide trend.

More detailed methodology notes can be found in section 6.

UK Tech Sector Purchasing Managers' Index® (PMI®) survey data

UK tech sector PMI data is derived from a representative sub-category of approximately 150 tech companies within 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.

UK Tech Sector Business Outlook Survey 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 expectations data are based on responses from UK services and manufacturing firms participating in Markit's tri-annual Global Business Outlook survey, which is based on the same panel of companies as the PMI® surveys.

ONS Location Quotients

Location quotients for industry jobs within UK local authorities are published by the Office for National Statistics (ONS), based on their Business Register and Employment Survey (BRES). The latest available figures were compiled in 2011. While the 'technology sector' can be said to span a number of Standard Industrial Code (SIC) groupings, we use a weighted combination of the following five categories to provide an accurate bellwether of tech job footprints within UK local authorities.

'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)

For more methodology details, see the October 2013 [Tech Monitor UK report](#).

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