

EMBARGOED UNTIL: 00:01 (UTC) November 10<sup>th</sup> 2020

# IHS Markit UK Business Outlook

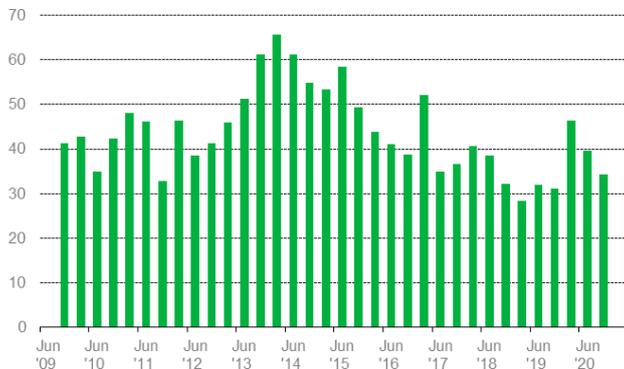
## Optimism softens in October as UK faces second wave of COVID-19 virus

### Key findings:

- October data suggests weakest outlook for activity for a year
- Output expected to rise, but uncertainty around COVID-19 and Brexit remains marked
- Companies plan to raise staffing numbers, albeit only slightly
- Cutbacks to capital and R&D spending still planned

Data collected October 12-28

### UK business activity expectations



Source: IHS Markit

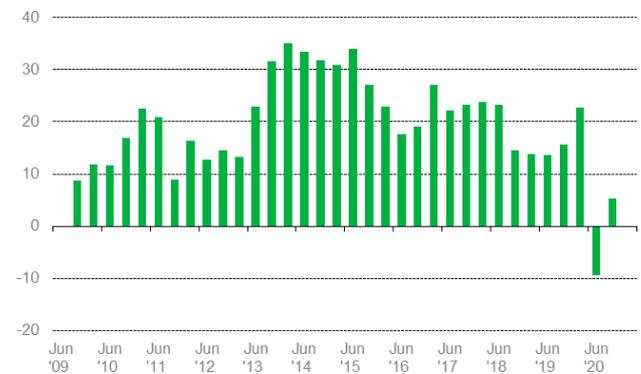
October data from the **IHS Markit UK Business Outlook** survey showed that manufacturing and service sector companies still anticipate an improvement in business activity over the next 12 months, but to a lesser extent than in June as tighter lockdown measures are expected to dampen any economic recovery from the coronavirus disease 2019 (COVID-19) pandemic.

At +34% in October, the net balance of firms anticipating an expansion of business activity was lower than in June (+40%) and the weakest since October 2019. Manufacturers were again more confident about the outlook (+50%) than service providers (+32%).

Businesses often expressed hopes that a COVID-19 vaccine and better treatments will help activity return to normal levels. However, uncertainty about the path to recovery, particularly amid new lockdown measures, meant many firms were fearful that the economy would remain weak.

Brexit was also widely mentioned by UK companies in the survey, with manufacturers often stating that the lack of a trade deal with the EU was likely to add costs. That said, there were hopes that deals with other countries could bolster trade in the future.

### Employment & Investment Plans



Source: IHS Markit

Meanwhile, the latest data showed renewed optimism towards the outlook for employment in the UK. Private sector firms generally expected to increase their payroll numbers over the next 12 months. However, a net balance of +5%, whilst higher than -9% in June, was the second-lowest in the survey's history.

Manufacturers and service sector firms both forecast an increase in hiring, with good producers more confident (+12%) than their services counterparts (+4%). That said, confidence across both sectors was historically

weak, amid reports of further redundancies resulting from the COVID-19 pandemic.

Investment plans remained on the negative side for the second time in a row during October, led by forecasts of lower capital expenditure among services firms. The net balance across both sectors was -10%, slightly higher than June's record low of -14%, but still firmly pointing to cost-cutting efforts.

It was a similar picture for research & development projections, where a net balance of -6% signalled expectations of a fall in spending by October 2021. That said, in contrast to June, manufacturers were hopeful of a rise in R&D expenditure, partially offsetting negativity among service sector firms.

### Inflation Expectations

Projections for non-staff costs picked up in October, following a sharp moderation in June. Overall, a net balance of +25% of firms expected non-staff cost burdens to rise in the coming year, as survey respondents forecast a rise in material costs amid higher commodity prices and possible disruption from a no-deal Brexit. That said, the net balance was the second-weakest since February 2016.

A faster rise in average staff expenses was also forecast, with the net balance rising to +28% but remaining well below the historical average. Firms reported that new hires could lead to greater cost pressures.

Meanwhile, the net balance for future profitability was +15% in October, a shade lower than +16% in June and the weakest seen for a year. Again, manufacturers were more confident than service providers that higher sales would help to restore profit margins.

### Comment:

Commenting on the survey, **David Owen**, Economist at IHS Markit, said:

*"The threat of renewed COVID-19 restrictions under the English tier system and lockdowns in Wales, Scotland and Northern Ireland was at the forefront of UK businesses' minds in October. Firms were less optimistic of a rise in activity than in June, highlighting how the path of economic recovery has become less clear since the summer. Projections for capex and R&D spending also remained down, although employment is now expected to rise.*

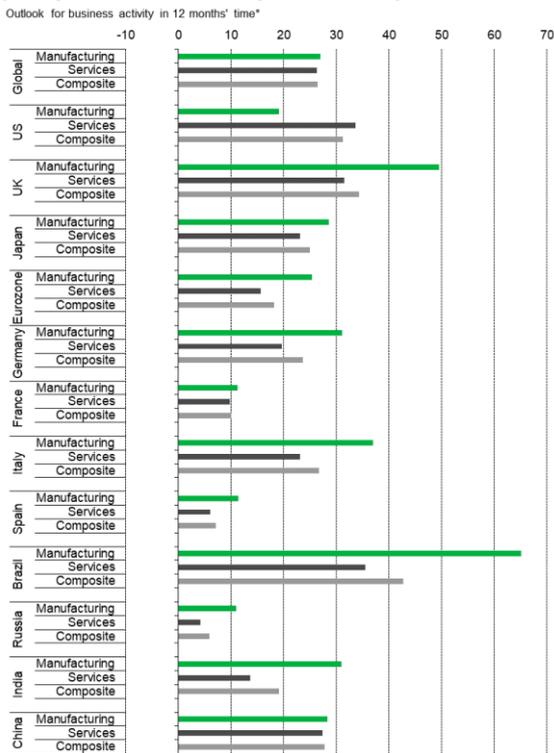
*"The fast-approaching EU trade deal deadline was another key issue highlighted by the survey. Manufacturers were particularly concerned that a no-deal outcome could lead to rising costs and a drop in export orders, despite some optimism for deals with other countries.*

*"Importantly, the survey was conducted before the announcement of the four-week lockdown in England, so sentiment may have worsened already among UK businesses. Hopes are now pinned to the distribution of a vaccine in early-2021 to stop recurring waves of COVID-19 and subsequent lockdowns in the future."*

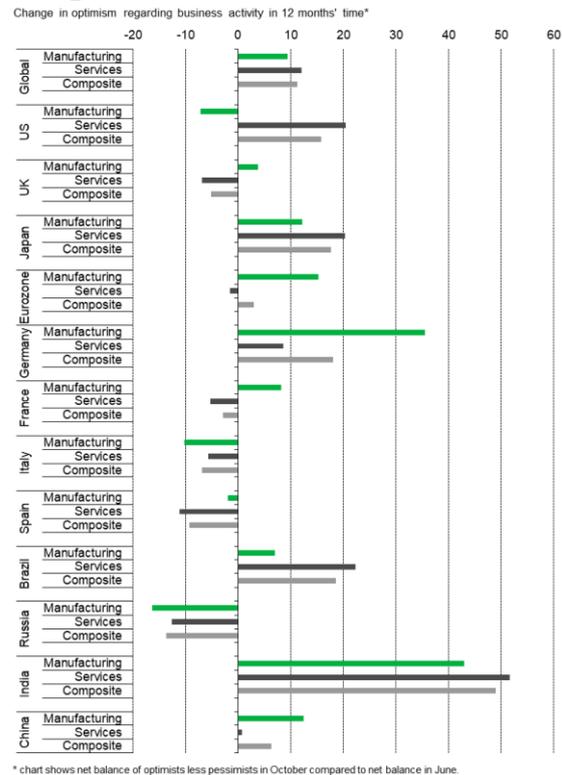
Full data are available on request from

[economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October (% optimists less % pessimists)



## How business activity expectations have changed since June



**For further information, please contact:**

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### Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 9 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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