

**EMBARGOED UNTIL: 00:01 (UTC) July 13<sup>th</sup> 2020**

# IHS Markit UK Business Outlook

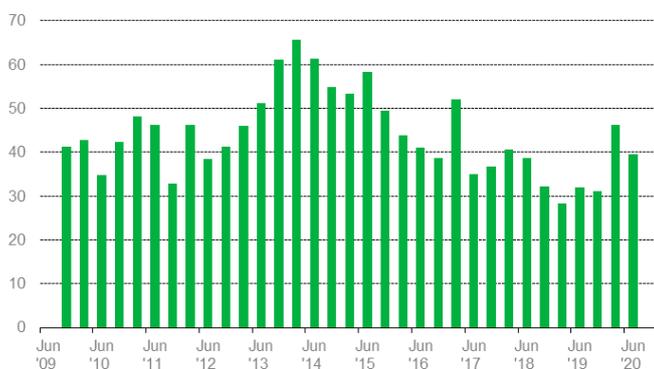
## Jobs outlook slumps to the worst since the survey began in 2009

### Key findings:

- June data suggests widespread cuts to staffing numbers are on the horizon
- Negative outlook for jobs contrasts with expectations of rising output in the next 12 months
- Capital spending and R&D budgets also in line for cutbacks
- Slump in expectations for staff costs indicates pay freezes to come in the year ahead

Data collected June 12-29

### UK business activity expectations



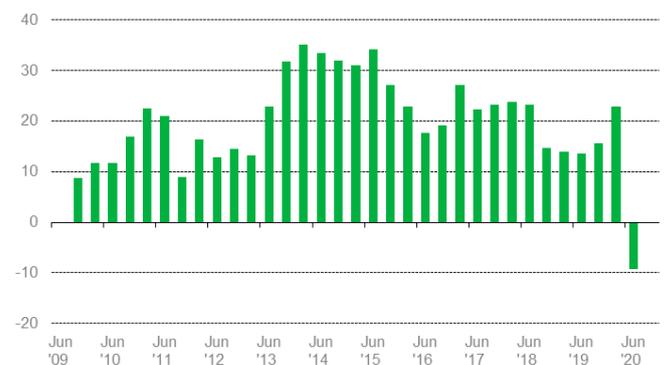
Source: IHS Markit

June data from the **IHS Markit UK Business Outlook** survey showed that manufacturing and service sector companies overwhelmingly expect a recovery in business activity over the next 12 months as more parts of the economy reopen following lockdown measures earlier in the second quarter of 2020.

At +40% in June, the net balance of firms anticipating an expansion of business activity is lower than in February (+46%) but still among the strongest seen over the past four years. Manufacturers are more confident about the outlook (+46%) than service sector companies (+38%).

Despite an expected rebound in business activity over the year ahead, the latest survey reveals worrying signs about the outlook for employment and corporate spending.

### Employment & Investment Plans



Source: IHS Markit

Survey respondents widely noted that the government's jobs retention scheme had allowed them to keep on staff during the coronavirus disease 2019 (COVID-19) pandemic. However, the latest data shows that private sector firms on balance expect to reduce their payroll numbers over the next 12 months. At -9% in June, the net balance slumped from +23% in February and was in negative territory for the first time since the start of the series in October 2009.

Manufacturers and service providers often suggested that the prospect of a slow global economic recovery and deep cutbacks to client spending had meant that redundancies are likely to follow in the year ahead. The net balance for the manufacturing sector (-19%) was lower than the equivalent figure for the service economy (-8%).

The need to cut costs in response to weak demand and an uncertain business outlook also led to more cautious corporate spending plans in June. At -14%, the net balance for capital expenditure dropped into contraction

territory for the first time since the euro area crisis in 2011.

Similarly, projections for research and development spending fell sharply since February. Manufacturers recorded the greatest reversal in R&D expectations in comparison to those seen at the start of the year, with the net balance easing to -7%, from +13% in February.

### Inflation Expectations

Projections for non-staff costs moderated sharply in June, especially in the service sector. A number of survey respondents cited efforts to reduce office overheads as well as business expenditure on areas such as travel and non-essential entertainment following the COVID-19 pandemic. At +16% in June, the net balance for average non-staff cost burdens in the year ahead fell from +40% in February and was the lowest since the start of the survey in October 2009.

A much slower rise in average staff costs is also expected in the next 12 months, with this net balance slumping from +61% in February to +8% in June.

Meanwhile, the net balance for profits was +16% in June, down from +33% in February and at a historically low level. Where rising profits were reported, this often reflected hopes of a turnaround in sales after near-zero revenues during the lockdown period.

### Comment:

Commenting on the survey, **Tim Moore**, Economics Director at IHS Markit, said:

*“June’s business outlook data lays bare the deep scarring expected across the UK economy following the public health emergency. In common with the rest of the world, plans for widespread job cuts and reduced investment spending are major concerns without easy solutions.”*

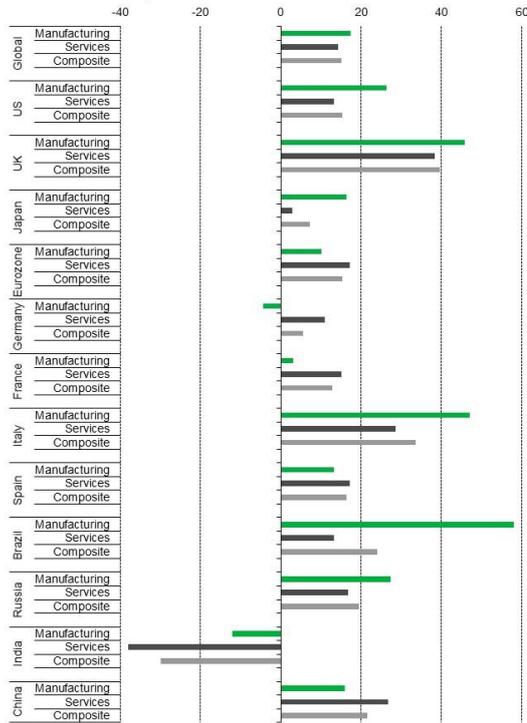
*“The survey was conducted before additional incentives for retaining furloughed staff were revealed in the Chancellor’s summer statement, but the extent of the downturn in staffing projections shows the uphill battle faced by policymakers on the jobs front and the rationale for extended support.”*

Full data are available on request from

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

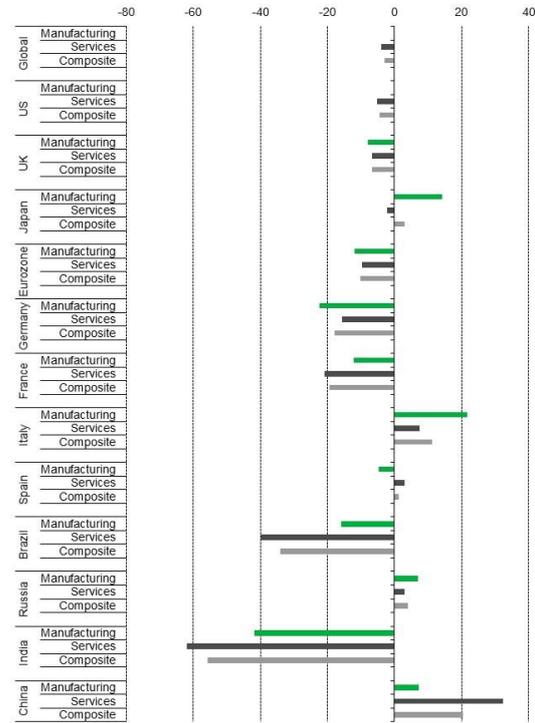
## Business optimism in June (% optimists less % pessimists)

Outlook for business activity in 12 months' time\*



## How business activity expectations have changed since February

Change in optimism regarding business activity in 12 months' time\*



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 June 12 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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