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UK business confidence jumps to highest level since 2015, Accenture/ IHS Markit UK Business Outlook finds

- **UK service sector growth expectations highest in the world by a wide margin, with hotels and restaurants the most optimistic sector**
- **Spending plans are at their highest since the pandemic began, with companies intending to increase investments in technology and hire more staff**
- **A majority of businesses found that activity remains below pre-COVID levels, meaning that cashing-in on this newfound confidence is key to creating a sustainable recovery**

UK business optimism rose to its the highest since 2015, fuelled by the rollout of the COVID-19 vaccination programme, according to the **Accenture/ IHS Markit UK Business Outlook**.

More than six times as many UK private sector firms (68%) expect an increase in business activity during the year ahead as those that forecast a reduction (11%). At +57% in February, the resulting net balance was up sharply from +34% last October, signalling the highest levels of business optimism since June 2015. At +37% (up from +15% in October 2020), the net balance of UK firms anticipating an improvement in profits also reached its strongest in over five years.

The improvement in UK business confidence in recent months has **largely been driven by a rebound in the service sector**, with its net balance rising from +32% to +56% in February. Service providers widely commented on a boost to business expectations from vaccine progress and the forthcoming reopening of domestic hospitality after lockdown restrictions, alongside positive signals for both business and consumer spending.

The net balance of manufacturing sector companies expecting a rise in production reached +62%, up from +50%. Growth projections were boosted by hopes of a continued recovery in global manufacturing conditions and signs of rising demand from clients in the US and Asia.

Commenting on the survey, Rachel Barton, Strategy & Consulting lead at Accenture UK & Ireland, said: “After a tough year it is encouraging to see business confidence bouncing back. Although we are not out of the woods yet, it is important for UK business to take advantage of this confidence in order to build a sustainable recovery.

“Change is a constant factor at the moment, but a positive mindset can be a self-fulfilling prophecy so hopefully companies will follow through on the investment and growth plans we see in this survey to take us through the economic downturn.”

Hotels & restaurants moved from the least confident service category in October 2020 to by far the most optimistic in February (+79%). Transport recorded the lowest degree of confidence (+37%) and was the only part of the service sector to signal a drop in expectations since last autumn, which was mainly attributed to concerns about the duration of international travel restrictions and persistently subdued domestic demand amid the pandemic.

The survey also showed signs of some economic headwinds, with rising expectations of inflationary pressures over the next 12 months. For example, the net balance for **non-staff costs** registered +39% in February, up from +25% last October and the highest reading since the start of the pandemic.

Despite the overall confidence, current volumes of business activity also remained below COVID-19 levels at more than half of the surveyed companies, reflecting depressed activity during the lockdown period.

Service providers were the least likely to have regained pre-pandemic levels of business activity (only 35% of all survey respondents), followed closely by manufacturing companies (36%). Conversely, the majority of those in the construction sector (56%) reported either the same or higher levels of output in February 2021 as those seen at around the same time last year.

Corporate spending expectations hit new highs

UK businesses are willing to look through the lockdown-related slowdown and are boosting spending plans in anticipation of an economic rebound during the latter half of 2021. **The net balance for capital expenditure moved back into positive territory**, rising from -10% to +9% in February, and **a similar trend was reported for research & development** (+7%, up from -6% net balance). These improvements brought UK business investment plans back in line with European trends and much closer to global benchmarks than during earlier stages of the pandemic.

However, **capital expenditure still lags behind the levels last seen in 2015, suggesting it will need to grow further in future months if a fledgling recovery is to gather momentum.**

Hiring intentions also rose significantly, with approximately four-in-ten businesses now looking to bring onboard more staff over the next year. At +30% in February, up from +5%, the net balance for UK employment was the highest since June 2015 and well above the worldwide figure (+15% in February, up from +9%).

To fuel the recovery, **companies are rapidly pivoting towards investment in technology assets.** **Cloud technology** was commonly cited as a priority area for tech spending in the next 12 months (55% of all survey respondents), followed by **data analytics** (46%) and **cybersecurity technology** (46%). Additionally, nearly a third (29%) of manufacturers plan to invest in **robotics**, while **artificial intelligence** ranked highly among tech spending intentions for service providers (23%).

Rachel Barton added: *“As some of the uncertainty recedes, we are seeing business leaders across industries planning to hire and invest, taking advantage of this newfound confidence to transform their operations for a new era. This is a good early sign, but we need to see more if the recovery is to be sustainable.*

“There has been a seismic shift in the prevalence and importance of technology over the past year. When combined with human ingenuity, technology will unlock productivity gains and growth opportunities, giving rise to a boom in better and more efficient businesses. The time to invest is now – those that do will capitalise on the new business cycle.”

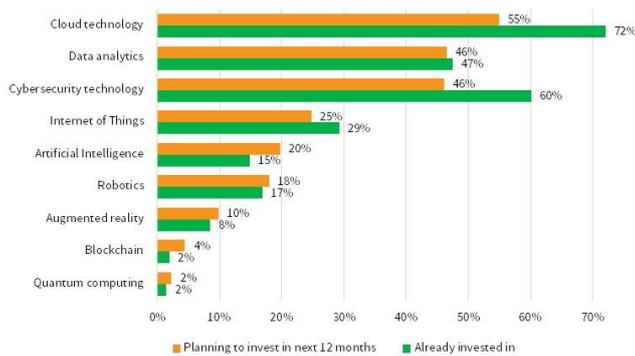
The full report and accompanying data are available on request from economics@ihsmarkit.com.

UK business activity expectations

(% net balance of optimists less pessimists)

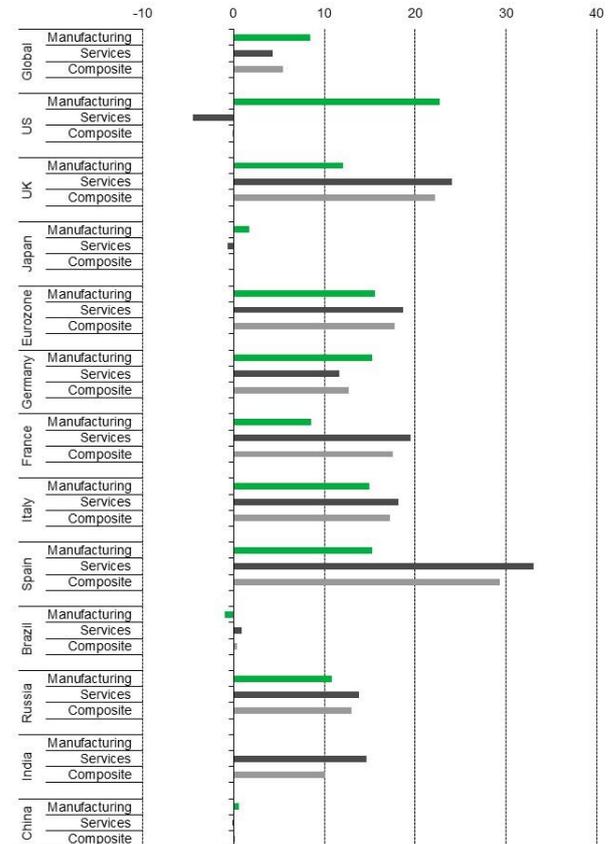


Plans for investment in technology



How business activity expectations have changed between October 2020 and February 2021

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



* chart shows net balance of optimists less pessimists in February compared to net balance in October.

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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 Accenture/IHS Markit UK Business Outlook Survey is based on a panel of around 1,400 companies in the manufacturing, services and construction sectors. The latest survey was conducted between February 11-25.

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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