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IHS Markit UK Business Outlook

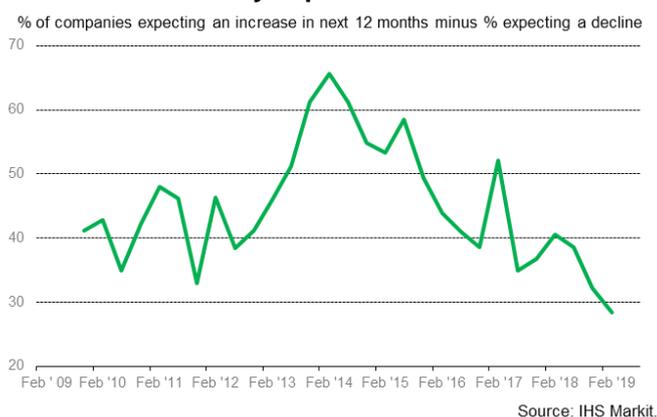
UK business confidence at lowest ebb since 2009

Key findings:

- Private sector firms signal further decline in optimism about the year-ahead outlook
- Domestic political uncertainty is by far the most commonly factor reported as hampering sentiment
- Staff hiring intentions hit six-year low in February
- R&D and capex plans are the weakest of all nations monitored by the global outlook survey
- Vast majority of UK manufacturers (91%) and two-thirds of service providers (67%) have investigated the impact of Brexit on their business operations
- Lack of clarity about Brexit outcome is a widespread concern, but firms report a range of views about likely scale of 'no-deal' disruption to their business

Data collected February 12-27

UK business activity expectations



The latest IHS Markit UK Business Outlook survey reveals that private sector firms are the least upbeat about their prospects for growth since the composite index was first compiled in October 2009.

At +28%, the net balance of firms anticipating an increase in business activity during the next 12 months

is down from +32% in October 2018 and the lowest seen for over nine years. Prior to the recent slide in optimism, the lowest degree of confidence was seen during October 2011 (+33%) in the wake of the euro area sovereign debt crisis.

The latest survey indicates that UK growth projections are much weaker than at the same time in 2018 (+41%). A similar pattern of lower confidence has been recorded across the euro area, Japan and the US.

The aggregate reading for business activity expectations across developed markets stands at +25% in February, which is the weakest since October 2016. Business optimism in the euro area has fallen particularly sharply over the past year, with the latest reading (+25%) the lowest since June 2013.

UK manufacturers and service providers again cite uncertainty in relation to Brexit as the main factor weighing on their growth projections and business investment plans. A number of manufacturers also note that concerns about the global economic outlook and softer demand in key export markets are holding back business confidence.

Meanwhile, service providers suggest that tight labour market conditions and higher business expenses are likely to weigh on growth in the coming 12 months.

Employment & investment plans

The net balance of UK private sector firms expecting to boost their staffing levels is +14% in February, down from +15% in October 2018 and the lowest reading for six years.

At +3% in February, the net balance of UK private sector firms expecting to boost their capital expenditure in the next 12 months is little-changed from the seven-year low seen last October (+1%). The

latest figure remains the weakest of all nations for which comparable data are available.

UK businesses also indicate plans to cut their research and development spending in the next 12 months, with the net balance falling to -2% in February. This reading is the lowest of all nations monitored by the survey.

Inflation expectations

The main positive aspect of February's business outlook survey is a slowdown in input price expectations. At +34%, down from +37% in October 2018, the net balance of firms anticipating a rise in non-staff costs is the lowest since June 2016. Meanwhile, the net balance for staff costs is unchanged at +54% in February and the joint-lowest reading since the summer of 2016.

Manufacturers remain much more likely to plan higher output charges (net balance at +50%) than service providers in the coming 12 months (+27%). The net balance of service sector companies intending to increase their average prices charged is the lowest since June 2013.

Corporate earnings

February data signal that profits expectations have eased again across the UK private sector. At +12%, the net balance of firms predicting an improvement is down from +18% last October and the weakest since late-2009. Service providers remain particularly downbeat about their profits expectations (net balance at +10%).

Brexit preparedness - manufacturing

The latest IHS Markit Business Outlook survey asked manufacturers and services providers across Europe about their preparations or plans to address the impact of Brexit.

Just over one-third of UK manufacturers (35%) indicate that they had made a formal written plan for Brexit and a further 55% have made some investigation but no written plan. As a result, the survey reveals that the vast majority of UK manufacturers (91%) have investigated the impact of Brexit on their business operations.

Manufacturers in Ireland (77%) and Germany (68%) also score highly on this measure of Brexit preparedness. In contrast, Italian goods producers are

the least likely to have started investigating the impact of Brexit (14%), followed by those in Greece (16%) and Poland (18%).

Manufacturers in Poland are the most likely to consider Brexit preparations as not applicable to their business operations (66%). The lowest figures for 'not applicable' are in the UK manufacturing sector (4%), Ireland (5%) and Germany (28%).

Anecdotal evidence from UK manufacturers nonetheless reveals frustration at the difficulty of forming plans given the uncertain outcome of Brexit negotiations.

A broad range of views are cited in relation to the likelihood of 'no-deal' disruption to business operations, with some noting that price volatility is the main concern and a sizeable minority express hope that any supply chain issues would only prove temporary. However, a number of firms cite plans to mitigate against transport delays by building safety stocks and bringing forward purchases where possible.

Brexit preparedness - services

Around 18% of service sector firms report that they have made a formal written plan for Brexit and a further 49% have started some investigation. As a result, the survey indicates that two-thirds of UK service providers (67%) have investigated the impact of Brexit on their business operations. This is a similar proportion to Ireland (65%) and well in excess of the figures reported elsewhere in Europe, with Germany in third place at 37% of survey respondents.

A majority of service sector firms in each of the big-four euro area nations report that preparing for Brexit is not applicable to their business operations. The highest 'not applicable' figures are recorded in France (77%) and Spain (74%).

Comment:

Commenting on the UK Business Outlook survey data, **Tim Moore**, Associate Director at IHS Markit, said:

"With uncertainty in relation to Brexit outcomes a persistent feature of the political landscape so far in 2019, it's of little surprise that February's UK business outlook survey makes for grim reading. Growth projections hit a new survey-record low amid a slide in optimism among both manufacturers and service providers since last autumn. Survey respondents also

cited domestic political uncertainty as the key factor holding back profits expectations, staff hiring and business investment. Job creation plans are the lowest for six years, while private sector firms are the least upbeat about their profits expectations since the index began in October 2009.

“Capital expenditure plans among UK private sector firms are again the weakest of all nations monitored by the IHS Markit Global Business Outlook survey. UK firms also plan to cut their research and development spending in the coming 12 months, which contrasts with the positivity seen elsewhere in the global outlook survey.

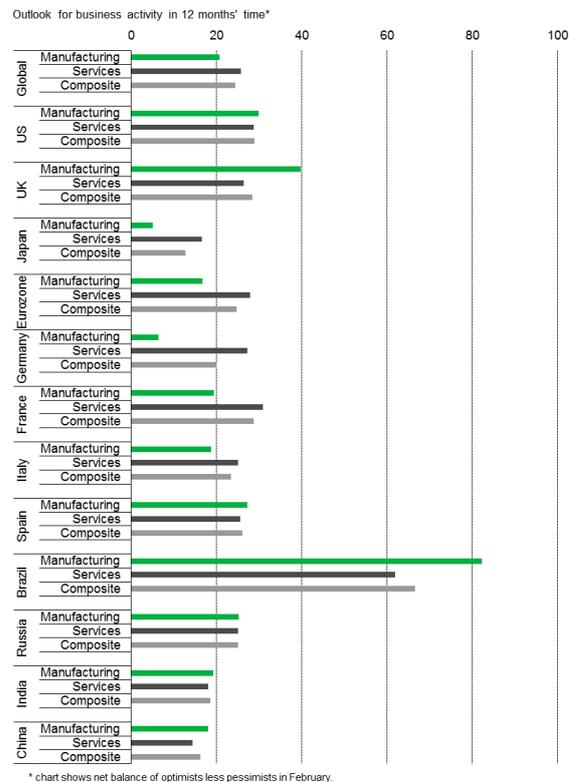
“The latest survey provides an indication that UK businesses have shifted management resources towards mitigating the impact of Brexit on their business operations. Around 91% of UK manufacturers report that they have investigated the impact of Brexit on their business operations, compared with 67% of service providers.

“There were widespread reports of frustration about the difficulty of planning for Brexit outcomes and concerns about potential regulatory hazards. However, a sizeable minority of survey respondents note that they are sanguine about the likelihood and scale of ‘no deal’ disruption to their immediate business operations. These comments mainly reflect a belief that transport issues will prove temporary and international trade would continue to flow.”

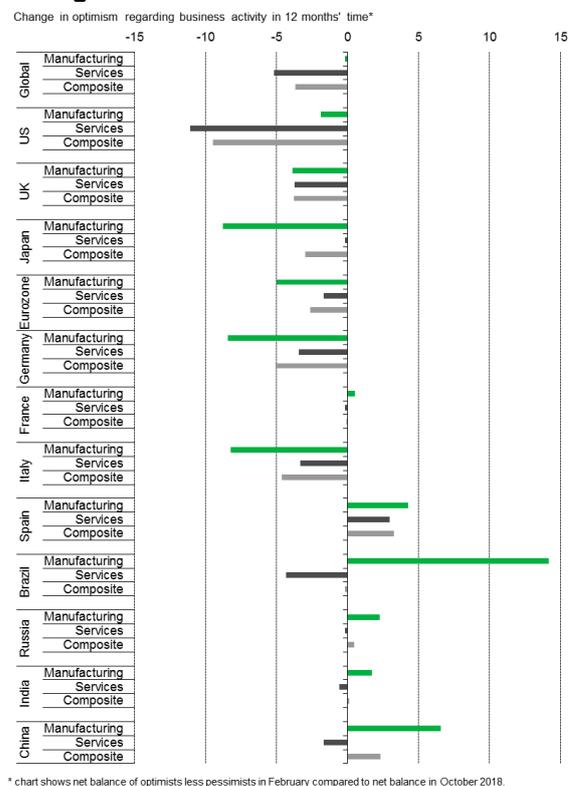
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Full data available on request from economics@ihsmarkit.com

Business optimism in February 2019



Change in sentiment since October 2018



For further information, please contact:**IHS Markit**

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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 February 12 and 28.

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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