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UK Business Confidence Falls Amid Record-High Inflation Expectations, Accenture/ IHS Markit UK Business Outlook Finds

- **Business growth forecasts fell to 12-month low in October, though remains robust compared to pre-pandemic trends**
- **Hiring intentions also weaken from June's record high, as firms anticipate challenges recruiting skilled staff**
- **Inflation expectations surged higher, with forecasts for both staff and non-staff costs rising to record highs**

UK business confidence has fallen to its lowest level this year, amid concerns among businesses about supply challenges and inflationary pressures, according to the latest **Accenture/ IHS Markit UK Business Outlook**.

More than half of UK private sector firms (56%) expect an increase in business activity during the year ahead, compared to 11% that project a decline. The resulting net balance of +45% is a sharp fall from the highs recorded in both June (+58%) and February (+57%) earlier this year.

Despite this sharp fall from the spring and summer, confidence remains higher than seen throughout much of the last five years and UK businesses are more confident than those in every other European country apart from Ireland.

Firms' employment expectations also dropped last month, with the net balance of companies confident that they will hire additional staff in the next 12 months, at +32% compared to +41% in June. However, barring the record high seen in the previous survey, hiring intentions are at their peak since June 2015.

The fall reflects ongoing concerns among UK businesses about their ability to hire the skilled staff. **Only one-third (35%) of businesses were confident that they will be able to hire the skills they need** over the next 12 months. This was lowest for 'experienced' workers (29%), when compared with 'entry level' (47%) and 'senior management and executive' (40%) roles.

Inflation expectations among UK firms continued to surge higher, with forecasts for both staff and non-staff costs rising to unprecedented levels. Whilst primarily driven by global supply-side risks, firms increasingly expect to see wages rise as the labour market tightens and living costs increase. The rapid surge in energy costs also served to exacerbate fears that business expenses will spiral upwards.

Commenting on the survey, Simon Eaves, Market Unit Lead, UK & Ireland at Accenture, said: *"The high levels of business confidence we saw earlier this year have been tempered by some strong economic and unanticipated headwinds. Despite this, business optimism in the UK remains higher than in most other European nations and we must capitalise on this sentiment to inspire further growth across the economy.*

"Supply chain challenges and labour shortages cannot be fixed overnight, but it is critical that business leaders adapt their operations and invest in the right technologies, such as cloud and data, and bring in the right skills to remain competitive.

"Two areas are dominating every business leaders' agenda at the moment. There's the movement to digital as they recover post-Covid and, with it, sustainability which we saw many commitments made at the recent COP26 Summit. Our research shows that businesses that invest in these two important areas will be amongst the winners of the future."

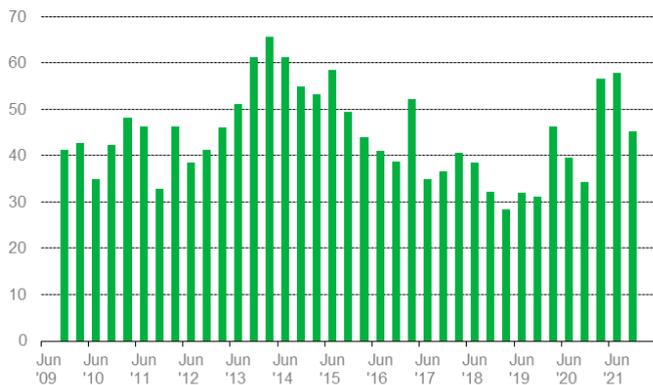
Capital expenditure plans also weakened from June to October (18% down from 20%), while the net balance for R&D expectations fell to +6% from June's 6-year high of +11%. Respondents noted they'd be prioritising investments in automation, technology, and green infrastructure over the coming year.

Almost 60% of companies are planning to raise their prices, leading to forecasts of a further sharp rise in consumer prices over the coming year. The number of firms intending to increase their prices hit record highs in both the manufacturing and service sectors. Despite this, the net balance expecting higher profits (+16%) was less than half that seen in June, suggesting that cost pressures are likely to outstrip price increases.

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

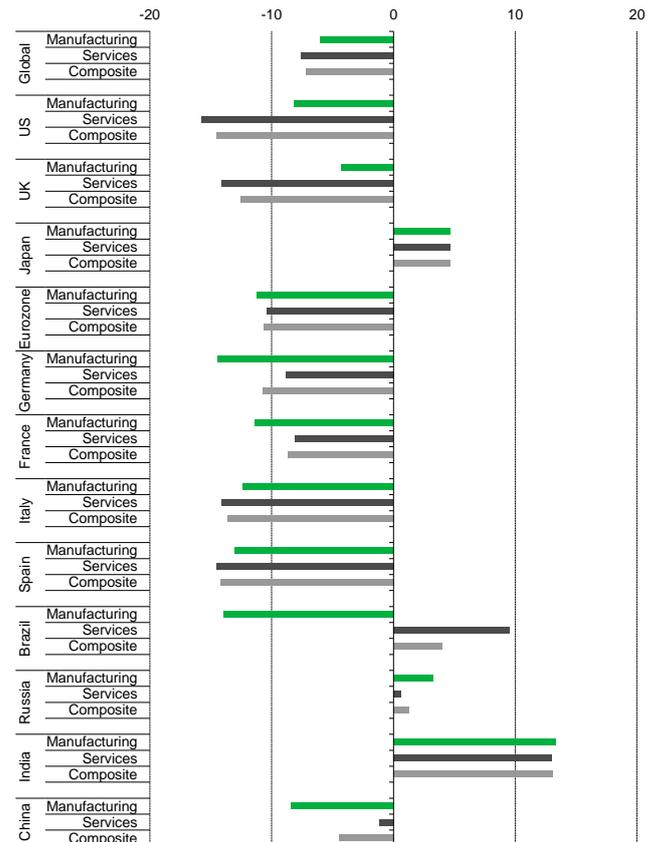
UK business activity expectations

(% net balance of optimists less pessimists)



How business activity expectations have changed between June 2021 and October 2021

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



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

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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 October 12-29.

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 8,000 firms.

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