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IHS Markit UK Business Outlook

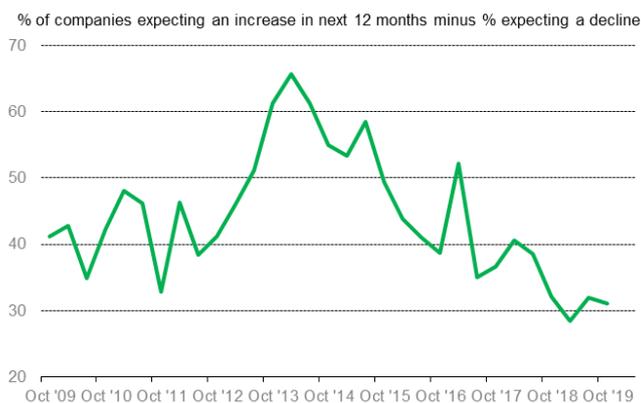
Business activity expectations remain close to a ten-year low

Key findings:

- Weaker manufacturing sector outlook weighs on business activity expectations in October
- Capex plans hit eight-year low in the manufacturing sector, mirroring worldwide slowdown
- Service sector activity expectations are unchanged since June
- Staff hiring plans pick up among service providers

Data collected October 11-29

UK business activity expectations



October data from the IHS Markit UK Business Outlook survey indicate a slight drop in optimism since June, with the degree of positive sentiment remaining close to the ten-year low recorded at the beginning of 2019.

The net balance of UK private sector firms anticipating an increase in business activity during the next 12 months is +31% in October, down from +32% in June and well below the average since the start of the series in 2009 (+44%).

Growth expectations in the manufacturing sector slipped to the lowest since October 2011. Business activity projections among service providers are unchanged from those reported in June.

The downturn in manufacturing sector optimism mirrors the weaker trends recorded by the latest IHS Markit Business Global Outlook surveys in other major developed markets, especially the euro area and the United States.

Goods producers around the world cite concerns that the US-China trade war would continue to hold back export sales and business investment. UK manufacturers also cite Brexit-related uncertainty as a headwind to output growth, capex plans and staff hiring.

A stabilisation in UK service sector optimism since June stands in contrast to the worldwide picture. The equivalent global index of service sector business confidence is now the lowest since the start of the survey in October 2009.

Employment & investment plans

At +16% in October, the net balance of UK private sector firms expecting to increase their staffing levels in the next 12 months is up from +14% in June and the highest since mid-2018.

There are contrasting trends for employment intentions between service providers and manufacturers. The net balance of service sector companies expecting to boost their staffing numbers is +17%, up from +14% in June. Meanwhile, the equivalent employment net balance for goods producers is +8% in October, down from +13% in June and the lowest for eight years.

Business investment is expected to remain subdued over the next 12 months. The net balance of UK private sector firms anticipating a rise in capex is +3% in October, which remains below the equivalent indices for the euro area, the United States (both at +6%) as well as Japan (+11%).

Research and development spending across the UK private sector is set to flatline in the year ahead,

according to the latest survey data. The neutral net balance for R&D expenditure contrasts with positive readings in other developed markets, including Japan (+6%), the euro area (+4%) and United States (+4%).

Inflation expectations

The main positive finding from the latest UK business outlook survey is a moderation in inflation expectations for the coming 12 months.

At +29% in October, the net balance of firms anticipating a rise in their non-staff costs is down from +32% in June and the lowest since mid-2016. However, projections for payroll expenses are unchanged since June, with a net balance of +51% of companies forecasting an increase in their staff costs over the year ahead.

A slight rise in wage expectations across the service sector during October more than offset a marked drop in the balance of manufacturers predicting an increase in staff costs.

Meanwhile, the net balance of firms expecting to increase their output charges is +31% in October, which is down from +34% in June. This reflects a slowdown in pricing intentions among both manufacturing and service sector companies.

Corporate earnings

Profits expectations remain relatively subdued across the UK private sector, with the net balance of firms predicting an improvement slipping to +14% in October (down from +15% in June). The overall drop in profits expectations is centred on manufacturing, where optimism is down to the lowest for three years.

The latest downbeat figures for UK corporate earnings are mirrored across the IHS Markit Global Business Outlook survey in October. Profits expectations in the euro area are now negative for the next 12 months (net balance at -2%), while those in the United States are the weakest since February 2016 (+8%).

With the equivalent index in Japan also at a relatively low level (net balance at +2%), the overall index for developed markets profits expectations in October is the weakest since the series began in 2009.

Comment:

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

“UK private sector firms remain very cautious about their growth projections over the next 12 months, with business optimism still showing little improvement from the ten-year low seen at the start of 2019.

“International trade frictions, domestic political upheaval and heightened recession risks are the dominant threats to the business outlook cited by UK firms in October. Meanwhile, survey respondents note that potential tailwinds to growth include expansion into new overseas markets, alongside an expected boost to business and consumer spending from the resolution of uncertainty in relation to Brexit.

“The slide in UK manufacturing sector optimism to its weakest for eight years is a reflection of less favourable conditions in key export markets. In fact, the latest IHS Markit Global Business Outlook data reveal that worldwide economic growth projections have weakened sharply this year and are now the lowest since the start of the series in October 2009.

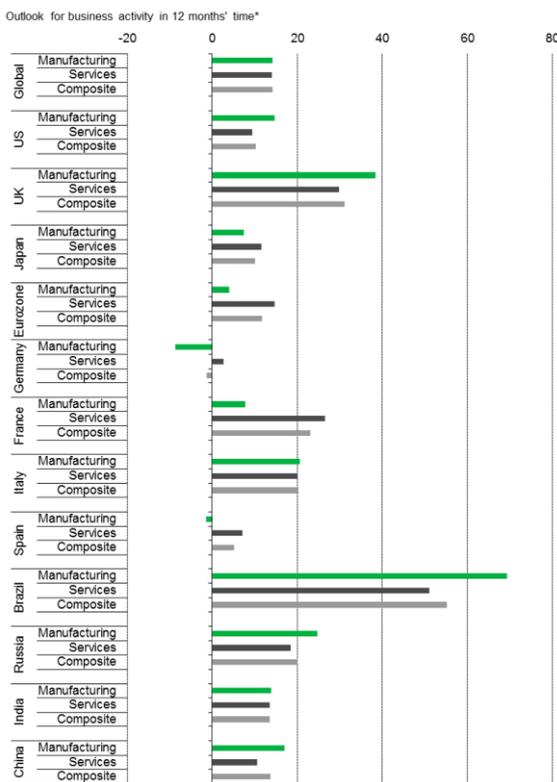
“While the soft patch for UK business expectations broadly mirrors the weaker international trends seen this autumn, it remains worrying for the long-term that capital expenditure and R&D intentions are much lower than those in other major developed markets.

“Faced with a slowdown in economic growth expectations, private sector firms in the euro area, Japan and the United States still forecast modest rises in research and development spending, but UK businesses expect to keep these budgets static over the coming 12 months.”

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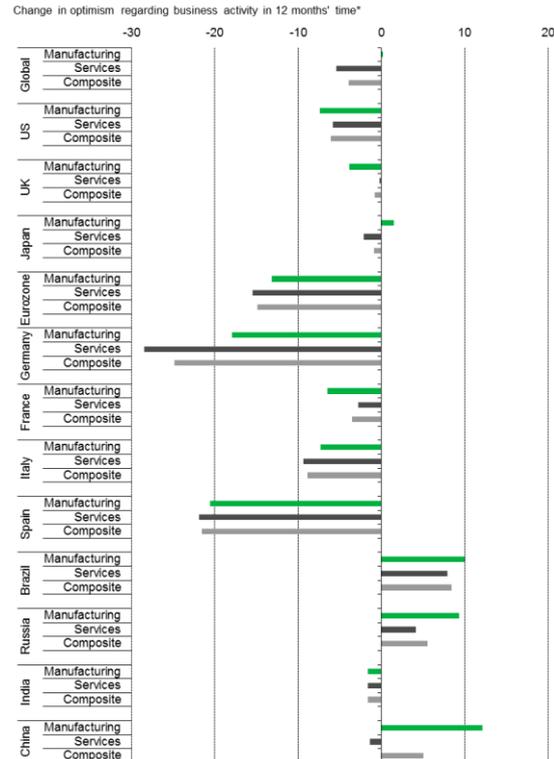
Full data available on request from economics@ihsmarkit.com

Business optimism in October



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

Change in sentiment since June



* 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 latest survey was conducted between October 9 and 30.

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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