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IHS Markit UK Business Outlook

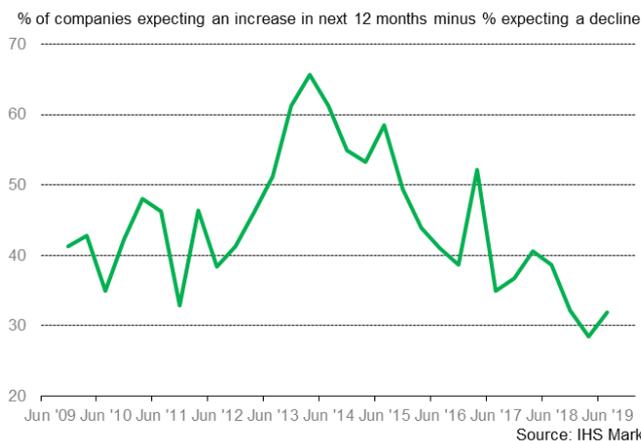
Business optimism edges up in June, but capital spending plans are the weakest since 2011

Key findings:

- Slight rise in business activity expectations from February's survey-record low
- Employment intentions remain softer than at any point since February 2013
- Capex plans are the weakest since October 2011 and the lowest of all nations monitored in June
- R&D spending expected to fall during the next 12 months, in contrast to positive trends globally

Data collected June 12-26

UK business activity expectations



June data from the IHS Markit UK Business Outlook survey indicates a marginal rebound in confidence from the ten-year low seen at the start of 2019. Slight increases in optimism are signalled by both manufacturers and service providers.

The net balance of firms anticipating an increase in business activity during the next 12 months is +32% in June, up from a record low of +28% in February.

The improvement in UK business activity projections stands in contrast with the global picture in June, with

equivalent net balance signalling the weakest degree of optimism since 2009. Lower levels of confidence are reported in the US, Japan and all four BRIC nations since the start of the year.

Employment & investment plans

Despite an improvement in expectations for business activity, the latest survey points to subdued staff hiring and capital spending plans for the year ahead. Service providers remain especially downbeat about the outlook, with capex intentions the lowest since 2009.

At +14% in June, the net balance of UK private sector firms expecting to boost their employment levels is little-changed from February's six-year low. Moreover, manufacturing hiring plans are now the least optimistic since October 2012.

The net balance of UK businesses expecting to boost their capital expenditure in the next 12 months is neutral in June, down from +3% in February and still the weakest of all nations for which comparable data are available.

At -3%, down from +1% in February, the net balance for service providers is the most downbeat since 2009. Survey respondents widely comment on delays to spending decisions in response to domestic political uncertainty and a lack of clarity about future trade relationships.

UK private sector firms also plan to cut their research and development spending in the next 12 months, with the net balance remaining at -2% in June. This reading is the lowest of all nations monitored by the survey.

Inflation expectations

The latest business outlook survey points to another slowdown in input cost expectations, with both staff

wages and non-staff business expenses projected to rise at softer rates in the year ahead. At +32%, down from +34% in February, the net balance of firms forecasting an increase in non-staff costs is the lowest for three years. The net balance for staff costs is +51% in June, down from +54% and the lowest since October 2014.

However, the net balance of firms expecting to increase their output charges is up in June, driven by stronger pricing intentions among service sector companies.

Corporate earnings

Profits expectations are relatively subdued across the UK private sector. At +15%, the net balance of firms predicting an improvement is up only slightly from +12% in February and the second-weakest since 2009. However, business optimism in relation to profits is stronger than the global benchmark (+7%), which dropped to a survey-record low in June.

Comment:

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

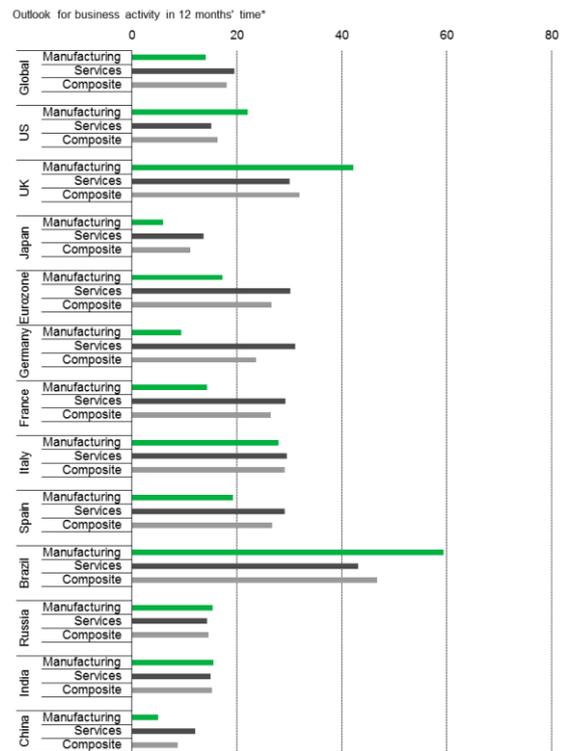
“June survey data reveal that UK business confidence remains worryingly subdued, despite a slight recovery from the levels seen in the first quarter of 2019. Domestic political uncertainty and worries about the global economic outlook are the twin headwinds expected to constrain growth in the coming 12 months. In fact, the latest IHS Markit Global Business Outlook survey points to the weakest business optimism worldwide since 2009, with the US and China leading the slide in sentiment.”

“The most worrying aspect in the UK Business Outlook survey is a drop in capital spending plans to its weakest since late-2011 as Brexit-related uncertainty continues to put business decision-making on hold. In a further downbeat signal for longer-term growth, UK firms project a cut in their research and development spending over the next 12 months, which contrasts with expansion in all other nations covered by the Global Business Outlook survey in June.”

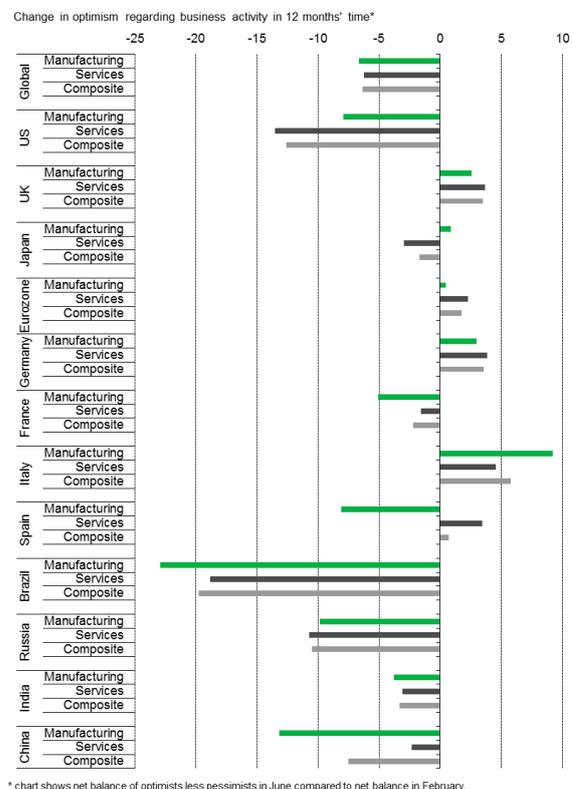
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



Change in sentiment since February



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 June 12 and 26.

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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