

EMBARGOED UNTIL: 00:01 (UTC) November 19th 2018

IHS Markit UK Business Outlook

Business optimism hits lowest point since the survey began in 2009

Key findings:

- Weaker confidence signalled by both manufacturing and service sector firms in October
- Staff hiring intentions most subdued levels since February 2013
- Capex plans at seven-year low and least upbeat of all nations monitored by the global outlook survey
- Survey respondents continue to cite political uncertainty as main factor weighing on optimism

Data collected October 12-29

UK business activity expectations



October data from the IHS Markit Business Outlook survey signal that UK private sector companies have become less confident about the year-ahead growth outlook in comparison to those reported in the summer.

The net balance of firms anticipating a rise in business activity in the coming 12 months is +32%, down from +39% in June. Levels of optimism have gradually eased since the peak seen in February 2014 (+66%).

Moreover, the latest reading indicates that the degree of confidence is the lowest since composite data were first compiled nine years ago, exceeding the previous survey-record low seen during October 2011 (+33%).

A moderation in UK business expectations mirrors the weaker trends seen across the euro area in the latest survey period, but contrasts with the resilience seen in the US. Meanwhile, latest data reveal that business optimism in China is also the lowest since 2009.

UK manufacturers and service providers widely link weaker confidence to Brexit-related concerns and worries about a 'no deal' outcome for EU negotiations. A number of manufacturing firms also cite global trade frictions and softer automotive sector demand as factors likely to hold back growth. Meanwhile, staff shortages and higher operating expenses remain a key concern for service sector companies over the coming 12 months.

Employment & investment plans

At +15% in October, the net balance of UK private sector firms expecting to boost their employment numbers is down markedly from +23% in June and the lowest since February 2013. Weaker job creation plans are most pronounced in the service economy (+13%, down from +23% in June).

Survey respondents note that a combination of rising payroll costs, shortages of skilled candidates and softer business activity growth are likely to hold back recruitment over the year ahead.

The net balance of UK private sector firms expecting to boost their capital expenditure in the next 12 months is +1%, down sharply from +10% in June. Moreover, the latest figure is the lowest since October 2011 and the weakest of all nations monitored by the global business outlook survey.

Inflation expectations

Input cost expectations are unchanged from those seen in June, with a net balance of +44% of UK private sector firms anticipating an increase in their operating

expenses. Stronger input price projections among manufacturers are offset by a slight moderation across the service economy. Meanwhile, manufacturing companies are much more likely to anticipate a rise in their output charges (+53% in October) than firms operating within the service sector (+31%).

Corporate earnings

October data signal that profits expectations have moderated across the UK private sector. At +18%, the net balance of firms predicting growth is down from +24% in June and the lowest for almost one-and-a-half years.

Manufacturing companies remain more upbeat about the profits outlook (net balance at +31%) than businesses operating in the service economy (+16%).

Comment:

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

“Intense headwinds from domestic political uncertainty and a more subdued worldwide economic outlook have resulted in a fall in UK business confidence to its weakest since the IHS Markit Global Business Outlook series began in October 2009.

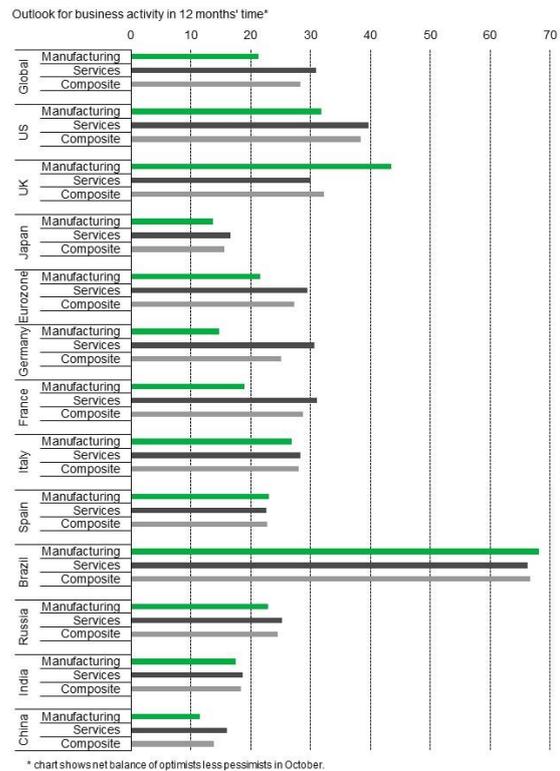
“Reports from survey respondents widely indicate that Brexit-related concerns have weighed heavily on business investment and staff hiring plans. The net balance of UK private sector firms expecting a rise in their capital spending over the next 12 months is the lowest for seven years.

“Some of the slowdown in capex plans can be attributed to softer global demand patterns, but the latest UK figure is notably weaker than seen elsewhere across Europe and in other developed economies.”

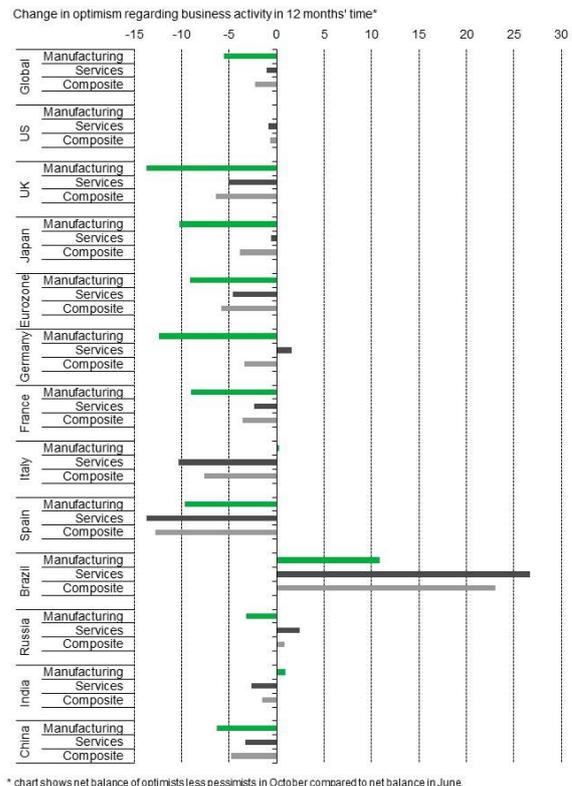
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



Change in sentiment since June



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 October 12 and 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 7,000 firms.

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