

EMBARGOED UNTIL: 00:01 (London / UTC) November 13th 2017

IHS Markit UK Business Outlook

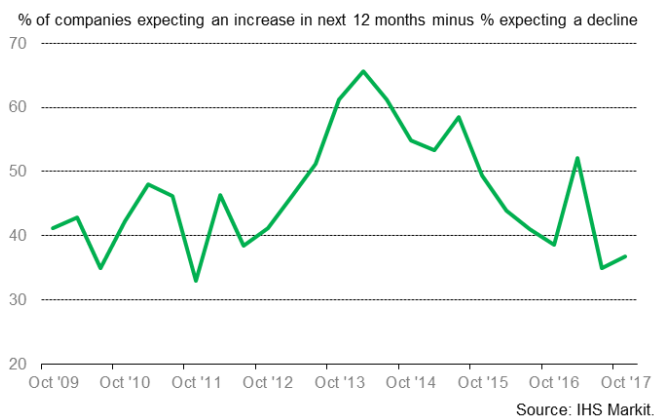
Business optimism remains among the weakest reported since 2011

Key findings:

- UK private sector firms indicate subdued growth expectations for the next 12 months
- Manufacturers are more upbeat than service providers
- Service sector confidence at second-lowest level since June 2010
- Survey respondents frequently report concerns about the speed and clarity of Brexit negotiations

Data collected October 12-30

UK business activity expectations



The latest IHS Markit Business Outlook survey reveals that UK business confidence has picked up slightly since June, but private sector firms still remain more cautious about their growth prospects than at any other time in the past six years.

The net balance of survey respondents expecting business activity growth over the next 12 months is at +37% in October, little-changed from +35% in June and well below the peak seen in February 2014 (+66%).

Fragile business confidence was widely linked to worries about the path to Brexit, in particular the speed

of negotiating progress and the negative impact of political uncertainty on longer term planning.

Service providers commonly cited regulatory uncertainty and a perceived lack of clarity around negotiating aims. Concerns about the ease of staff recruitment were also mentioned, especially by companies in the Hotels & Restaurants sector.

Manufacturers generally reported worries about border issues and logistics, with some firms concerned that clients in mainland Europe would reappraise relationships with UK supply chains. Some goods producers also note that a Brexit-related slowdown in construction work is likely to act as a brake on customer demand.

Employment & Investment Plans

Despite subdued expectations for business activity, survey respondents commented on a range of growth opportunities over the coming 12 months. A number of UK private sector firms note that the resilient domestic economic backdrop and improving export demand were likely to support sales and business investment during the year ahead.

As a result, manufacturers and service providers retain a solid degree of confidence about the outlook for staff hiring. At +23% in October, the net balance of companies expecting to add to their payrolls is little-changed from +22% in June and higher than seen in 2016 (+20% on average).

The net balance for capital expenditure plans has edged up to +11% in October, from +9% in June. A rebound from the post-referendum low (net balance at +7% in October 2016) has largely been driven by the manufacturing sector. The net balance of manufacturers expecting to boost capex in the coming year is +20% in the latest survey period.

Inflation Expectations

Input cost expectations remain elevated in comparison to the low point seen in early 2016, driven by rising commodity prices, higher fuel and energy costs, as well as pressure from exchange rate depreciation.

At +45% in October, the net balance measuring input price expectations at private sector firms is little-changed from +44% in June and still close to February's six-year peak.

Meanwhile, the net balance of companies expecting to increase their average prices charged has reached +36% in October, from +34% in the previous survey period. Manufacturers remain much more likely to anticipate a rise in their prices charged (net balance at +57%) than companies operating in the service sector (+32%).

Corporate Earnings

A soft patch for profits expectations continues, despite the net balance picking up to +23% in October. The figure remains below post-crisis average, reflecting pressure on margins from strong cost inflation and heightened concerns about the outlook for customer demand.

Manufacturers remain more upbeat about the outlook for profits than service sector companies. Resilient export demand and new product innovations are cited as factors helping to support margins among manufacturing companies.

Meanwhile, consumer-oriented service providers noted difficulties passing on higher operating expenses to domestic customers against a backdrop of intense competition and stretched household finances.

Comment:

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

“This autumn’s survey reveals that business optimism has barely improved on the six-year low seen after the unexpected general election result in June. The last time UK business confidence dipped to current levels was in the wake of the euro area sovereign debt crisis during 2011, although now the source of concern is political uncertainty at home.

“Private sector firms overwhelmingly commented that uncertainty over the path to Brexit is holding back growth projections and their ability to plan confidently for the future. Survey respondents cited a diverse range of views about the likely impact of Brexit on their businesses, but a unifying theme was concern about the speed of progress and a desire for clarity around negotiating aims.

“Manufacturers commented on an immediate need to reduce risks around logistics and alleviate European supply-chain disruption. Service providers suggested that regulatory uncertainty and the prospect of reduced staff availability were key factors acting as a brake on business confidence.

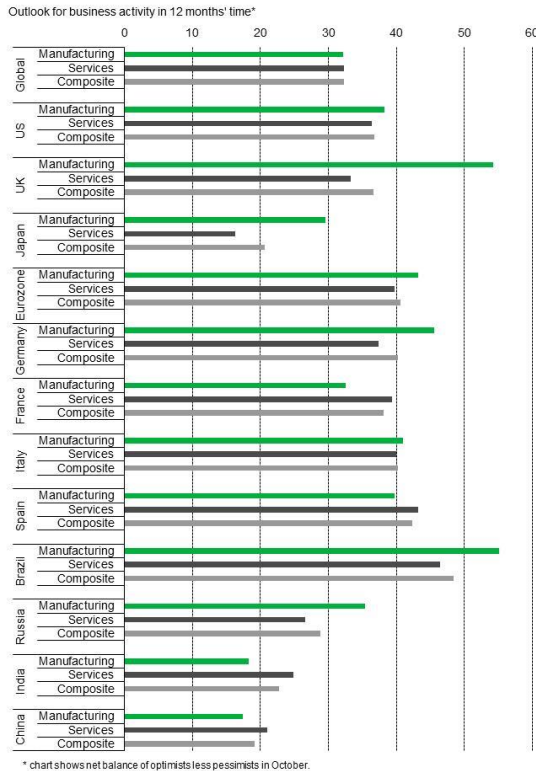
“While heightened political uncertainty continues to cloud the business outlook, private sector firms expect to remain growth oriented in terms of their staff hiring and business investment plans. Manufacturers are particularly upbeat about the outlook for job creation and capital spending, supported by hopes of greater export demand and improving profitability.

“Service providers are less sanguine about profitability than manufacturing companies, reflecting a relatively subdued growth outlook and worries about their ability to pass through higher operating expenses to domestic consumers.”

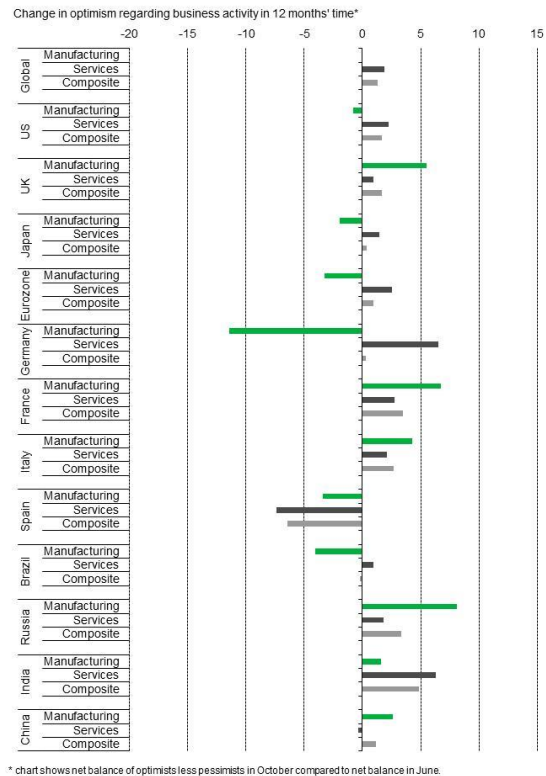
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



For further information, please contact:

IHS Markit

Tim Moore, Associate Director
 Telephone +44-1491-461-067
 Email tim.moore@ihsmarkit.com

Joanna Vickers, Corporate Communications
 Telephone +44-207-260-2234
 Email joanna.vickers@ihsmarkit.com

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 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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