

**EMBARGOED UNTIL: 00:01 (UK / UTC), March 13<sup>th</sup> 2017**

# Markit UK Business Outlook

## UK business confidence recovers to its strongest since mid-2015

### Key findings:

- UK firms signal sharp rebound in confidence since October 2016
- Stronger optimism helps drive recovery in job hiring plans and capex intentions for 2017
- Inflation expectations revised higher, with cost projections the strongest since 2011

Data collected February 10-24

February data from the Markit UK Business Outlook survey reveals that business confidence has strengthened appreciably from the four-year low seen last autumn. At +52%, up sharply from +39% in October 2016, the balance of UK private sector companies expecting a rise in business activity over the year ahead is the highest since June 2015.

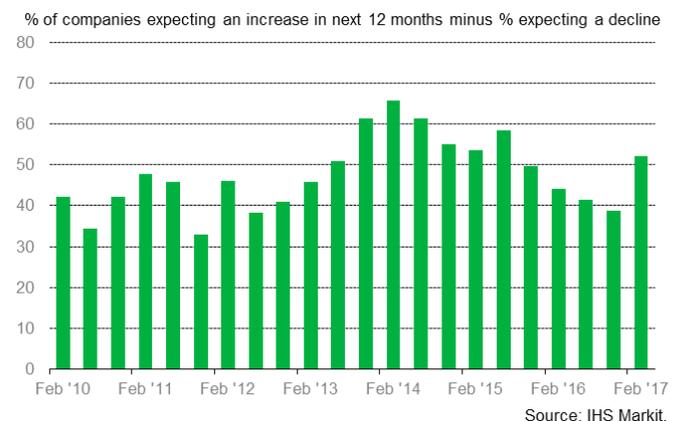
UK business sentiment compared favourably with the levels recorded in each of the big-four euro area economies in February. Moreover, the rise in the headline index since last autumn was larger than in all other countries monitored by the survey except the US.

A more upbeat assessment of future business activity reflected greater optimism at both manufacturing and service sector firms. UK manufacturers were slightly more confident overall (+55% in February), but service providers experienced the greater rebound since the autumn 2016 outlook survey (index rising from +37% to +52% in February).

Reports from UK businesses attributed their positive sentiment to the resilient domestic economic backdrop and improving client demand so far in 2017. Service providers mainly commented on new product launches and increased technology investment as key growth drivers.

While some firms also noted growth opportunities linked to the weaker sterling exchange rate, there were also widespread comments from panel members citing

### UK business activity expectations



concerns about the impact of higher inflation on consumer spending.

Volatile import prices and Brexit-related anxieties were again prominent in the manufacturing sector, alongside general worries about the outlook for trade policy worldwide. However, in the near-term, a number of UK manufacturers commented on a competitive boost from the weaker exchange rate.

There were also reports that entry into new export markets was expected to drive growth. Closer to home, some manufacturers cited a boost to sales from strong demand among construction sector clients.

### Input cost expectations hit six-year peak

The balance of private sector firms expecting greater input prices over the next 12 months reached its highest level for six years. At +54%, the proportion of UK businesses expecting a rise in their cost burdens was up sharply from +47% in October 2016 and just below the survey-record peak seen in early-2011 (+58%).

The latest survey suggested that businesses are confident that the squeeze on their margins will be partly offset by higher prices charged. Anecdotal

evidence suggested that private sector companies are expecting to absorb a proportion of their rising costs, but many foresee increased charges over the course of 2017.

At +42% in February, up from +38% last October, the balance of UK private sector firms planning to increase their output charges was the highest since the index began in late-2009.

### UK businesses look set to boost job hiring

Survey respondents indicated a rebound in profits expectations from the five-year low recorded in October 2016. Greater optimism regarding profits and business activity helped drive a sharp rebound in staff hiring plans among UK private sector companies for the next 12 months.

At +27% in February, up from +19% last October, the index measuring employment expectations was the highest since autumn 2015.

### Rebound in capex plans at start of 2017

Mirroring the more positive trend for job hiring, UK businesses reported a recovery in their capital expenditure plans. At +13% in February, the balance of firms forecasting an increase in capex was comfortably above the average seen in 2016 (+7%). However, this was still down on the post-crisis peak seen in early-2014 (+24%).

### Comment:

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

*“Markit’s latest business outlook survey reveals that UK private sector firms have become much more positive about their growth prospects for the next 12 months.*

*“After reaching a four-year low in the wake of the EU referendum, business optimism is now the strongest since June 2015 and compares favourably with the levels reported in other developed markets.*

*“The resilient domestic economic backdrop has been a key factor driving the rebound of business confidence among UK private sector companies. While a number of firms cited heightened uncertainty about the path to Brexit, it seems clear that these concerns have*

*receded in comparison to the projections reported last autumn.*

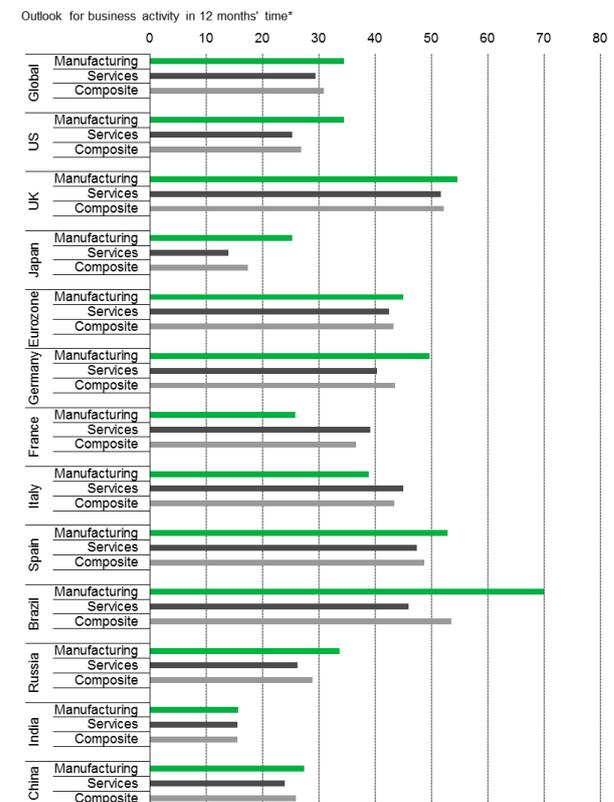
*“With businesses less fearful about the near-term impact on sales from political uncertainty, this appears to have helped boost job hiring and capex plans for the year ahead. In fact, the balance of UK firms expecting to raise their staffing numbers is higher than at any time in 2016.*

*“Some companies commented on a competitive boost from the weaker exchange rate. However, the fly in the ointment is sharply rising prices for imported materials, which contributed to an increase in overall cost projections to their strongest for six years. As a result, UK firms are expecting to increase their prices charged at the fastest pace since the survey began in late-2009.”*

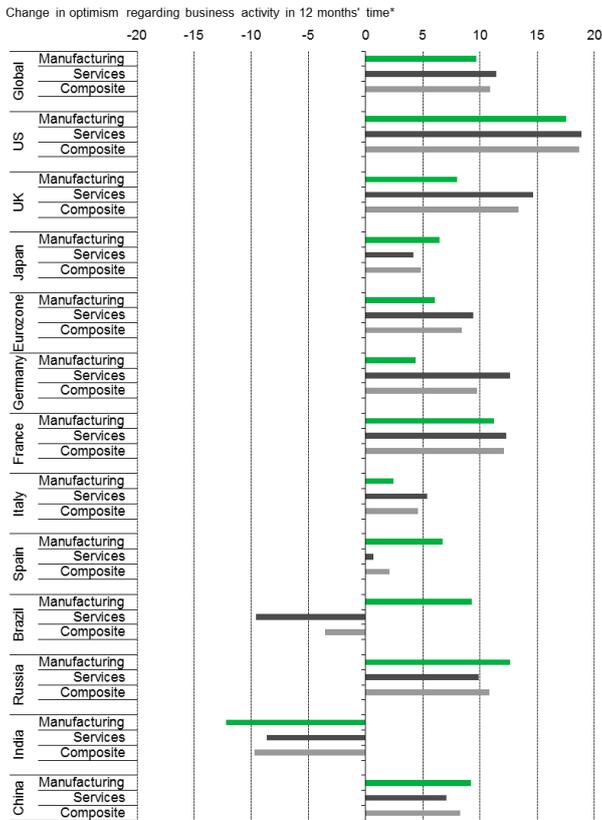
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in February



## How business activity expectations have changed since October 2016



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

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#### Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by 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 February 10 and 24.

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 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 6,600 firms.

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