

# United Kingdom Business Outlook

November 2017

# Introduction

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*“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.”*

**Tim Moore, Associate Director at IHS Markit**

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How confident are manufacturing and service sector companies? **2**

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# 1,200



UK private  
sector firms

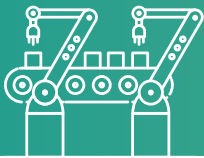


## Welcome to the UK Business Outlook survey

What information is contained in the report?



**Representative data from Purchasing  
Managers Index® (PMI®) survey panels**



**Unique  
perspective**



**Business outlook  
indices compiled in  
17 countries around  
the world**

This survey is designed to reveal how confident UK private sector businesses feel about their prospects for the next 12 months.

The report is part of the IHS Markit Global Business Outlook series.

We take the pulse of 12,000 manufacturing and service sector companies worldwide on a tri-annual basis. The samples are based on respondents to IHS Markit's widely-watched **Purchasing Managers' Index® (PMI®)** surveys.

The key global composite indices include expectations for Business Activity, Employment, Capital Expenditure, Input Prices, Output Prices and Profits.

These results are published as a weighted '**Composite**' Index (all

companies), as well as broken down by sector (Manufacturing and Services).

The survey uses net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0 signalling a positive outlook for the coming 12 months.

The countries with manufacturing and service sector surveys are the US, Japan, Brazil, Russia, India, China, UK, the UK, UK, Italy, UK and the Republic of Ireland.

Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.

# United Kingdom

Business optimism remains among the weakest reported since 2011



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

**+23%**

the net balance of firms expecting **employment to increase** over the next year

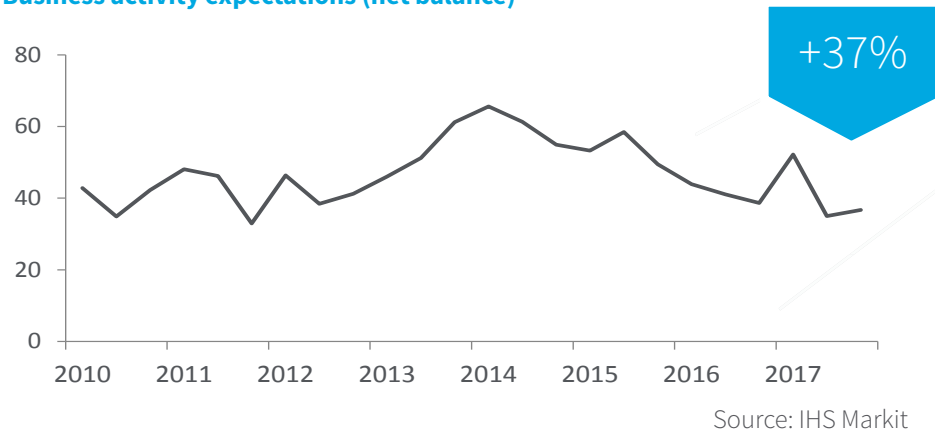
**+37%**

the net balance of firms expecting **activity to increase** over the next year

# United Kingdom

## Key findings, manufacturing and services

### Business activity expectations (net balance)



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 is 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.

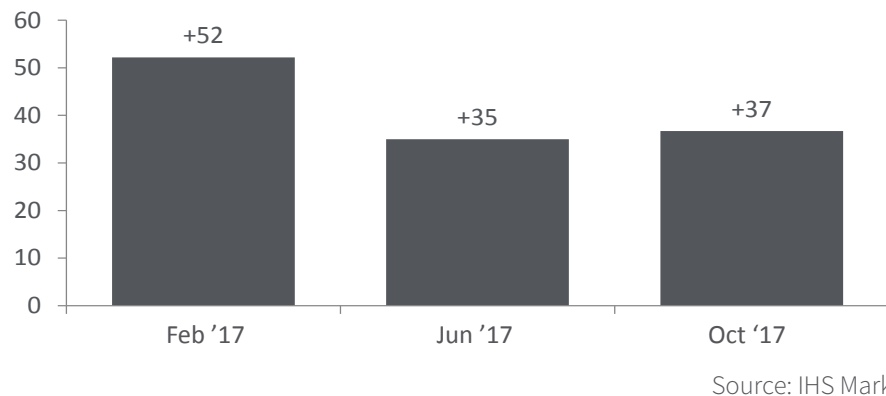
Service providers have commonly cited regulatory uncertainty and a perceived

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 have 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.

### Last three survey periods (net balance)



# Employment and investment plans

## Positive expectations for staff hiring and capex

Despite subdued expectations for business activity, companies have 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 are likely to support sales and business investment during

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**+23%** expect to boost employment

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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

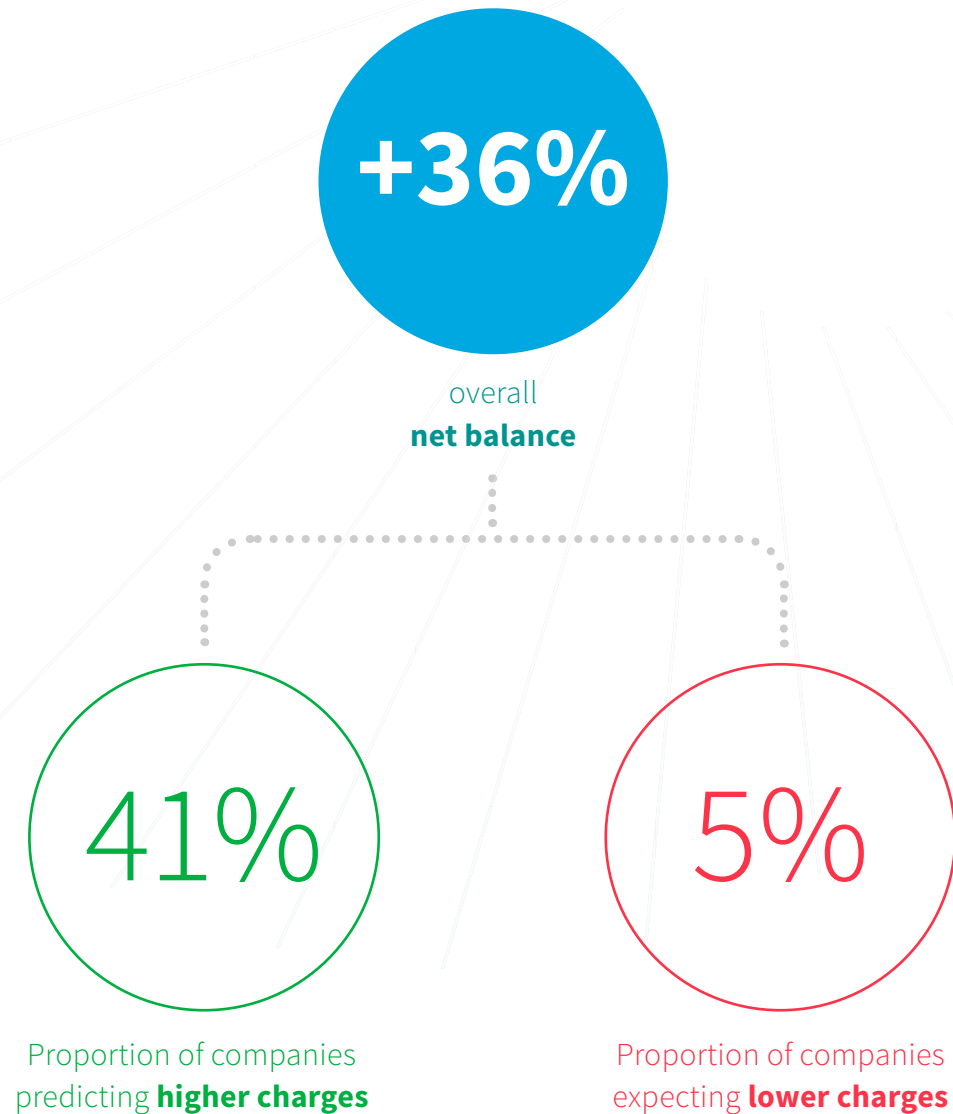
Strong cost pressures are expected to persist

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

Profit expectations positive, but still weaker than post-crisis trend

## A soft patch for profits expectations continued among manufacturers and service providers in October.

The net balance of private sector firms expecting an upturn in profits is +23% in October, up from +18% in June.

However, the figure remains below the 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

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**+23%** net balance expecting greater profits

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companies.

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

# United Kingdom data tables

## Composite Net Balances

| Net balance         | Feb'16 | Jun'16 | Oct'16 | Feb'17 | Jun'17 | Oct'17 |
|---------------------|--------|--------|--------|--------|--------|--------|
| Business Activity   | +44    | +41    | +39    | +52    | +35    | +37    |
| Employment          | +23    | +18    | +19    | +27    | +22    | +23    |
| Capital Expenditure | +8     | +7     | +7     | +14    | +9     | +11    |
| Profits             | +32    | +27    | +17    | +29    | +18    | +23    |
| Output Charges      | +28    | +33    | +38    | +42    | +34    | +36    |
| Input Costs         | +34    | +37    | +47    | +54    | +44    | +45    |

## Manufacturing Sector

| Net balance         | Feb'16 | Jun'16 | Oct'16 | Feb'17 | Jun'17 | Oct'17 |
|---------------------|--------|--------|--------|--------|--------|--------|
| Business Activity   | +56    | +56    | +47    | +55    | +49    | +54    |
| Employment          | +17    | +23    | +19    | +28    | +27    | +27    |
| Capital Expenditure | +12    | +11    | +14    | +20    | +20    | +20    |
| Profits             | +43    | +42    | +19    | +33    | +31    | +37    |
| Output Charges      | +22    | +36    | +58    | +66    | +53    | +57    |
| Input Costs         | +11    | +19    | +40    | +49    | +36    | +41    |

## Service Sector

| Net balance         | Feb'16 | Jun'16 | Oct'16 | Feb'17 | Jun'17 | Oct'17 |
|---------------------|--------|--------|--------|--------|--------|--------|
| Business Activity   | +41    | +38    | +37    | +52    | +32    | +33    |
| Employment          | +24    | +17    | +19    | +27    | +21    | +23    |
| Capital Expenditure | +7     | +7     | +6     | +12    | +7     | +9     |
| Profits             | +30    | +24    | +17    | +28    | +15    | +20    |
| Output Charges      | +30    | +32    | +34    | +38    | +30    | +32    |
| Input Costs         | +39    | +41    | +49    | +55    | +46    | +45    |

# Service Sector business opportunities

## Comments from survey respondents

“Continued success with 2017 sales initiatives aided by weakness of Sterling.”

*Hotels & Restaurants*

“Weak pound making more people holiday in the UK.”

*Hotels & Restaurants*

“Import / export trade increase.”

*Transport & Storage*

“We are reliant upon travel continuing to be an attractive proposition for consumers. This will happen if exchange rates improve and oil prices remain at current levels.”

*Transport & Storage*

“If the Brexit situation is clearer and negotiations are successful this will increase business confidence.”

*Transport & Storage*

“Inbound travel related to exchange rates making services cheaper in UK for travelers.”

*Transport & Storage*

“Take up of cloud communications”

*Post and Telecommunications*

“Being able to go into other markets without being constrained by Europe.”

*Post and Telecommunications*

“More confidence as the Brexit process starts to give a clear direction.”

*Financial Intermediation*

“Tail end of the baby boomers approaching retirement.”

*Financial Intermediation*

“Improved technology will lead to a larger market share.”

*Financial Intermediation*

“The government clearly defining what positive effects Brexit is going to have on our economy leading to increased investment.”

*Renting & Business Activities*

“Quick Brexit and stability.”

*Renting & Business Activities*

“We expect the public sector to move forward with its programmes.”

*Renting & Business Activities*

“Seed investment, grants, better currency, innovation.”

*Renting & Business Activities*

“Conclusion of transitional deal with the EU that offers the prospect of minimal disruption and feeds into business confidence.”

*Renting & Business Activities*

“Housebuilding announcement by Government will lead to increased procurement levels in this sector.”

*Renting & Business Activities*

“Business will grow again in the latter part of 2018 as Brexit takes shape.”

*Renting & Business Activities*

“Pick-up in consulting sector as a result of Brexit.”

*Renting & Business Activities*

“International expansion.”

*Renting & Business Activities*

“Digital transformation, investment in growing market opportunities and simplification of business processes.”

*Other Services*

# Service Sector business threats

## Comments from survey respondents

“Pessimistic views of other business sectors.”

*Hotels & Restaurants*

“Higher wages due to minimum wage increase, and higher food costs because of weak pound.”

*Hotels & Restaurants*

“Brexit worries and global downturn, but clients will still need to travel.”

*Transport & Storage*

“Shortage of qualified Drivers.”

*Transport & Storage*

“Inflation and uncertainty.”

*Transport & Storage*

“We are in the freight forwarding and transport and logistics business. Brexit will cause us and virtually every other industry and company much pain unless a hard brexit is avoided.”

*Transport & Storage*

“Brexit remains an issue and it is imperative that a deal is struck to ensure that movement of airlines and people remains relatively easy.”

*Transport & Storage*

“Economic uncertainty may slow the spend by our customers on investment projects.”

*Post and Telecommunications*

“If interest rates rise this will have a negative effect in our industry and will reduce overall business.”

*Post and Telecommunications*

“More onerous regulations.”

*Financial Intermediation*

“Legislation changes restricting UK presence in Europe.”

*Financial Intermediation*

“Interest rate rises.”

*Financial Intermediation*

“Brexit uncertainty, businesses hesitating over future business plans.”

*Renting & Business Activities*

“Economic uncertainty causing lower investment levels.”

*Renting & Business Activities*

“Brexit and no Northern Ireland government.”

*Renting & Business Activities*

“Labour supply pushing up prices.”

*Renting & Business Activities*

“There is no clear idea of how EU support at a regional or industry level - e.g. for agriculture or R&D - will be replaced by the UK Government.”

*Renting & Business Activities*

“Brexit, cuts in public spending.”

*Renting & Business Activities*

“Poor market conditions and the disruption caused by poorly applied IR35.”

*Renting & Business Activities*

“Inability to obtain/retain staff.”

*Renting & Business Activities*

“Brexit damaging but not detrimental hopefully. Education spending likely to be under further pressure.”

*Renting & Business Activities*

“Stamp duty. Interest rate rises.”

*Renting & Business Activities*

“Regulatory pressures that are not supportive to SMEs and instability of exchange and interest rates.”

*Other Services*

“Competition and local authority budget squeeze.”

*Renting & Business Activities*

# Manufacturing Sector business opportunities

## Comments from survey respondents

“Growth will only happen if we are able to recruit competent skilled staff - something we are struggling to do at the moment.”

*Food & Drink*

“Exports assisted by favourable exchange rates. Improved technical position.”

*Food & Drink*

“Business development in new international markets.”

*Textiles & Clothing*

“We are putting ourselves in a position to be able to supply in a very short lead-time where our competitors are unable to do so.”

*Electrical & Optical*

“New product introductions. Increased marketing efforts.”

*Electrical & Optical*

“Increased product range.”

*Electrical & Optical*

“Favourable exchange rates for exporting, input cost stability, confidence in the markets across Europe.”

*Chemicals & Plastics*

“Increased competitiveness in export markets and traction in new domestic markets.”

*Chemicals & Plastics*

“Expected upturn in oil and gas sector.”

*Chemicals & Plastics*

“Organic growth into automotive and electronics sectors.”

*Chemicals & Plastics*

“Business wins in the Far East, South America and the USA.”

*Chemicals & Plastics*

“Exchange rates decreasing making pricing against the euro very competitive.”

*Transport*

“Increased defence spending in Asia-Pacific area.”

*Transport*

“Increase due to growth in Aerospace sector.”

*Transport*

“Middle East defence spending.”

*Transport*

“Winning additional business against import competition but overall market shrinking.”

*Timber & Paper*

“Increased efficiencies due to higher investment.”

*Timber & Paper*

“Export opportunities and development of new products.”

*Metals*

“Exchange Rates.”

*Metals*

“Companies looking to have a location in the UK as well as EU to take advantage of deals that might be created with the rest of the world (USA and China) which will be more advantageous.”

*Metals*

“The price of oil has a significant effect on future exploration and / or maintenance work.”

*Metals*

“The company supplies its output into the global aerospace market which is predicted to grow over the next 12 months.”

*Metals*

“UK economic stability expected to be an important factor so a smooth Brexit is important.”

*Metals*

“Recovery of oil and gas market.”

*Mechanical Engineering*

# Manufacturing Sector business threats

## Comments from survey respondents

“An unstable political environment. A new general election.”

*Food & Drink*

“The impact of Brexit negotiations on consumer spending, at the moment its having a negative effect of consumer confidence and hitting our sales.”

*Food & Drink*

“Competition from cheap imports, impact of Brexit, exchange rates.”

*Textiles & Clothing*

“Brexit negotiations stalling.”

*Electrical & Optical*

“Brexit, which will make exports to the EU more difficult, and possibly negatively impact other export markets.”

*Electrical & Optical*

“Brexit and foreign companies reappraising their UK supply chain because of supply risk.”

*Chemicals & Plastics*

“Still uncertainty around Brexit and whether it will influence our European customers, but initial discussions suggest not.”

*Chemicals & Plastics*

“Brexit, rising input costs, skilled staff shortages.”

*Chemicals & Plastics*

“Brexit causing exchange rate problems; we are importing and selling domestically.”

*Chemicals & Plastics*

“Rise in energy costs. Increasing staff costs due to pay increases and pension obligations.”

*Chemicals & Plastics*

“Access to the single market.”

*Chemicals & Plastics*

“Too high a cost base to match lower cost competitors.”

*Transport*

“Lack of control of supplier driven input costs. Currency fluctuations through Brexit uncertainty.”

*Transport*

“Reduced spending by utilities companies.”

*Transport*

“Political uncertainty with regard to Brexit affecting investment decisions within the construction sector.”

*Timber & Paper*

“Our competitors are slashing prices to get market share.”

*Timber & Paper*

“Construction slowdown if economic uncertainty remains.”

*Metals*

“Brexit deals that are detrimental to exports - speed to market is very important to us.”

*Metals*

“Leaving single market and customs union.”

*Metals*

“Global slowdown in vehicle sales.”

*Metals*

“Brexit uncertainty, no deal, decline in construction sector.”

*Metals*

“Brexit, the lack of decisions and government infighting is adversely affecting orders.”

*Mechanical Engineering*

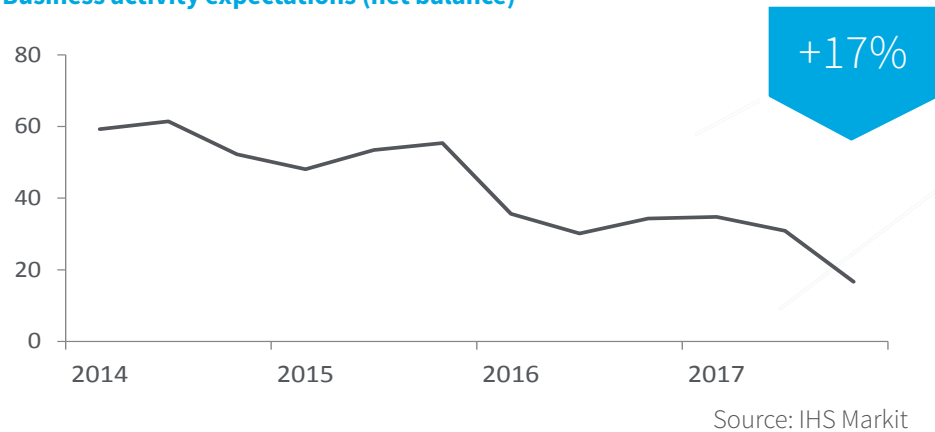
“Uncertainty over Brexit is leading to reluctance in the purchase of products.”

*Mechanical Engineering*

# United Kingdom

## Key findings, construction sector:

### Business activity expectations (net balance)



### Construction firms indicate a marked easing in business confidence since June.

At +17% in October, down from +31% in the previous survey period, the latest net balance is the lowest since outlook data collection for the construction sector began in February 2014. A number of firms note that heightened economic uncertainty remains a key factor holding back client spending, especially on commercial building projects.

Anecdotal evidence also suggests that some construction companies are worried about near-term prospects for residential building growth, especially those based in London.

Survey respondents nonetheless note a range of business opportunities ahead, with a number citing hopes of a rebound in infrastructure-related contracts. Construction companies report optimism

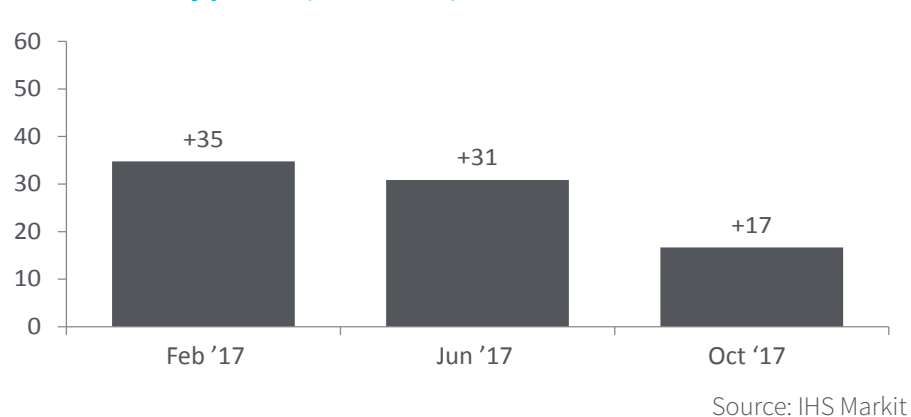
that forthcoming rail infrastructure and energy sector tender opportunities will help to replace recently completed work on big ticket projects.

Mirroring the moderation in business optimism, latest survey data indicate that UK construction firms are also less upbeat about their job hiring plans for the year ahead. At +11% in October, the employment net balance has dropped from +16% in the previous survey period and is the lowest since June 2016.

Meanwhile, construction companies expect to trim their capital spending in the next 12 months. At -3% in October, the net balance is in negative territory for the first time since the survey began at the start of 2014.

Inflation pressures look set to moderate from recent peaks, with net balances for input costs and prices charged both easing since June.

### Last three survey periods (net balance)



# Construction Sector business opportunities

Comments from survey respondents

*“Government investment in schools, hospitals, infrastructure spend.”*

*“Stabilisation of client confidence in economy currently too much political uncertainty (Brexit etc).”*

*“Increase in green priorities for Government and businesses.”*

*“Brexit talks going forward, pound stable.”*

*“The nation needs real leadership in these uncertain times as key decision makers will not commit finance in an increasingly uncertain environment.”*

*“Stability of the British currency and economy. Clarity around implications of Brexit and protection for EU employees.”*

*“Securing railway enhancements projects and funding in a devolved structure.”*

*“Brexit clarity.”*

*“Challenge to retain output at current levels.”*

*“Increased geographical area.”*

*“Demand continuing in the housing market. Government incentives.”*

*“Clarity regarding Brexit.”*

*“Growth in the residential housing market will generate increased business.”*

*“Increased house building and refurbishment work.”*

*“Mortgage/interest rates stable, employment, Brexit talks going forward, pound stable.”*

*“Ongoing investment in marketing.”*

*“New large infrastructure projects.”*

*“Greater advertising spend.”*

*“Nothing obvious unless new projects commence.”*



# Construction Sector business threats

## Comments from survey respondents

*“Reduced Government investment.”*

*“Loss of confidence due to Brexit.”*

*“Poor Brexit deal.”*

*“Customer confidence remains low, citing Brexit, rising Inflation and potential Interest rate increases.”*

*“Hard Brexit.”*

*“Withdrawal of government spending in our key areas of health and education.”*

*“A hard and unexpected Brexit.”*

*“Political uncertainty, difficulty in finding good quality staff.”*

*“Brexit, slump in housing market.”*

*“Lack of business confidence or uncertainty.”*

*“Brexit, lack of vision by central government.”*

*“The cost of materials and labour seem to be steadily increasing driven either possibly by demand on what have become fairly limited resources.”*

*“Uncertainty surrounding how Brexit will work out.”*

*“The media constantly trying to talk down any successful Brexit opportunities resulting in lost confidence in the markets and investment.”*

*“Rise in interest rates.”*

*“Slowing consumer demand, competition.”*

*“Pricing pressures on components, hard Brexit affecting EU sales.”*

*“Greater levels of competition.”*

*“Pressure on costs from suppliers, not being able to pass on to clients.”*

*“Possible bad deal on Brexit making the public hesitating to spend.”*

*“Brexit affecting business confidence.”*

*“Competition, cheap prices.”*

*“Current economic uncertainty as a result of the Brexit situation and impending interest rate rises.”*

*“Some risk if consumer confidence falls due to Brexit.”*

*“Uncertainty, lack of leadership is beginning to cause lack of confidence for the year ahead.”*

*“Adverse uncertainty associated with Brexit.”*

*“Brexit and uncertainty in the market.”*

*“Lack of goverment at Stormont.”*

*“Squeeze on consumer & Brexit concerns.”*

*“Lack of clarity around Brexit is leading to diversification of business away from UK.”*

*“An increase in mortgage interest rates/availability of mortgages.”*

*“Lack of investment due to uncertainty over Brexit and shortages of skilled labour.”*

# Global Outlook

Worldwide business optimism highest for over three years



Optimism improves in majority of countries



Job creation foreseen in all countries



Spain sees a dip in confidence as political instability weighs



Inflationary pressures expected to intensify

**+41%**

Net balance of euro area firms expecting a rise in activity over the next 12 months

**+19%**

Net balance of Chinese firms expecting a rise in activity over the next 12 months

**+23%**

Net balance of Indian firms expecting a rise in activity over the next 12 months

# About IHS Markit

[www.ihsmarkit.com](http://www.ihsmarkit.com)

**IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide.**

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