Accenture / IHS Markit
UK Business Outlook Report

March 2021

Contents

About the report

This report reveals how confident UK private sector businesses feel about their prospects for the next 12 months.

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 Accenture/IHS Markit UK Business Outlook Survey is based on a panel of around 1,400 companies in the manufacturing, services and construction sectors. The latest survey was conducted between February 11-25.

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). Separate results are also included for the construction sector.

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 Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the US.

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

Key findings:

Resurgent UK business optimism driven by services rebound

Service sector expectations widely exceed global benchmark

Brexit worries limit the recovery in manufacturing optimism

Capex plans return to growth amid pivot to tech spending

Profits outlook strongest for over five-and-a-half years, despite rising cost pressures

Overview

Strongest confidence in output growth for nearly six years

February data from the Accenture/IHS Markit UK Business Outlook survey showed that manufacturing and service sector companies widely anticipate an improvement in business activity over the next 12 months, amid expectations of looser lockdown measures and an eventual return to normality.

More than six times as many UK private sector firms (68%) expect an increase in business activity during the year ahead as those that forecast a reduction (11%). At +57% in February, the resulting net balance was up sharply from +34% last October and signalled the strongest degree of business optimism since June 2015.

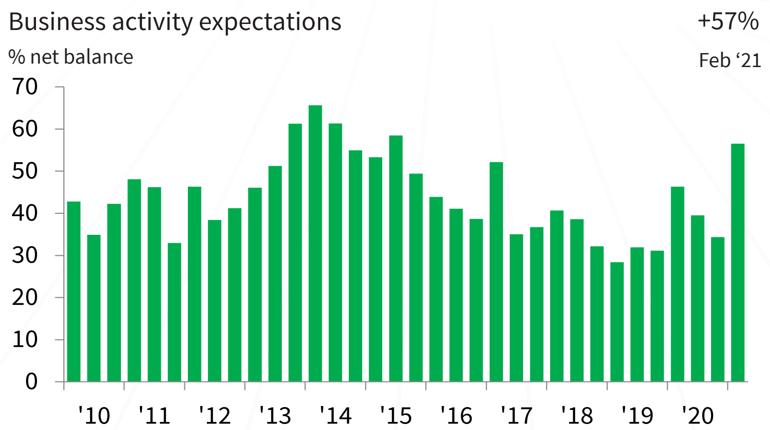
Hopes of a recovery in output were largely based on falling COVID-19 cases and the vaccine roll-out providing a route out of lockdown measures later in the year. Most survey responses were collected before the government's roadmap was published on February 22, but still indicate confidence that the pandemic's impact will slowly ease.

In addition, companies highlighted new opportunities for investment and growth in the coming year, including green energy, technology advances and localised supply chains. Firms commented that Brexit could improve prospects for trade in new markets, albeit at the cost of increased difficulties exporting to the EU.

Manufacturers remained more optimistic about an increase in business activity than their services counterparts in February, with a net balance of +62% against +56% respectively. However, services saw the largest gain since last October of +24% and was well ahead of the global benchmark. Goods producers reported a weaker, but still robust, rise of +12%.

A particular threat noted by manufacturers was the impact of COVID-19 on global supply chains, with many citing that shortages of inputs such as semiconductors could delay production.

Services companies, meanwhile, highlighted the risk of further restrictions on global travel and that permanent business closures could adversely impact sectors such as finance and business services.



Sources: Accenture, IHS Markit.

Comment

Rachel Barton, Strategy & Consulting Lead at Accenture UK & Ireland, said:

"After a tough year it is encouraging to see business confidence bouncing back. Although we are not out of the woods yet, it is important for UK business to take advantage of this confidence in order to build a sustainable recovery. Change is a constant factor at the moment, but a positive mindset can be a self-fulfilling prophecy so hopefully companies will follow through on the investment and growth plans we see in this survey to take us through the economic downturn.

"As some of the uncertainty recedes, we are seeing business leaders across industries planning to hire and invest, taking advantage of this newfound confidence to transform their operations for a new era. This is a good early sign, but we need to see more if the recovery is to be sustainable. There has been a seismic shift in the prevalence and importance of technology over the past year. When combined with human ingenuity, technology will unlock productivity gains and growth opportunities, giving rise to a boom in better and more efficient businesses. The time to invest is now – those that do will capitalise on the new business cycle."

Employment and investment plans

Hiring intentions strengthen markedly in February

The outlook for employment in the UK rebounded strongly in February, as private sector firms widely expect to increase their payroll numbers over the next 12 months.

At +30% in February, up from +5% in October 2020, the net balance for UK employment was the highest since June 2015. Hiring plans were slightly stronger at services firms (+30%) than at their manufacturing counterparts (+28%).

The UK performed well against the global trend in this area, as latest data signalled that a net balance of +15% of firms worldwide expect a rise in staffing levels by February 2022.

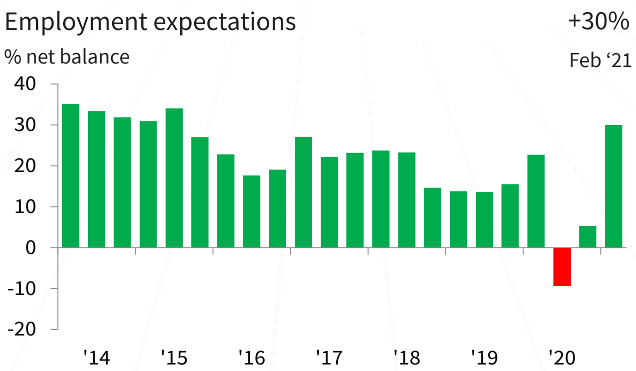
Recruitment plans were mainly linked to hopes of a sustainable economic recovery and growth opportunities as lockdown measures are rolled back over the coming months.

February data also provided encouraging signs that UK businesses are willing to look through the lockdown-related slowdown in demand and are boosting spending plans in anticipation of an economic rebound.

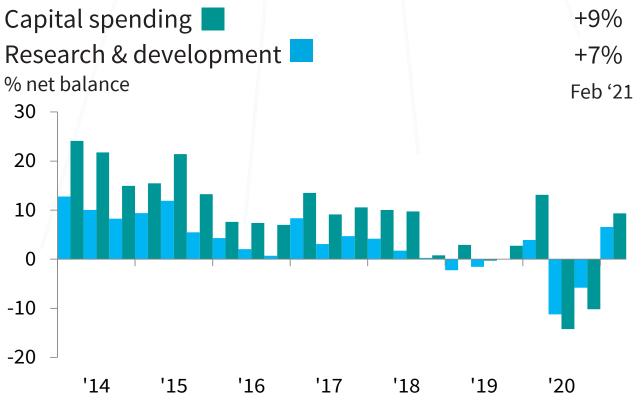
The net balance for capital expenditure moved back into positive territory for the first time in a year, rising from -10% to +9%. A similar trend was reported for research & development intentions (+7%, up from -6% net balance).

Capex and R&D plans remained stronger across manufacturing compared to services, although both categories saw a notable improvement since last October.

These improvements brought UK business investment plans into line with European trends (+9%) and much closer to the global benchmark (+13%) than at an earlier stage of the pandemic.



Sources: Accenture, IHS Markit.



Sources: Accenture, IHS Markit.

Inflation expectations

Manufacturers predict fastest rise in non-staff costs since October 2013

UK businesses expect a headwind from sharply rising input prices over the next year. Projections for both non-staff and staff costs picked up again, after moderating to record lows last June.

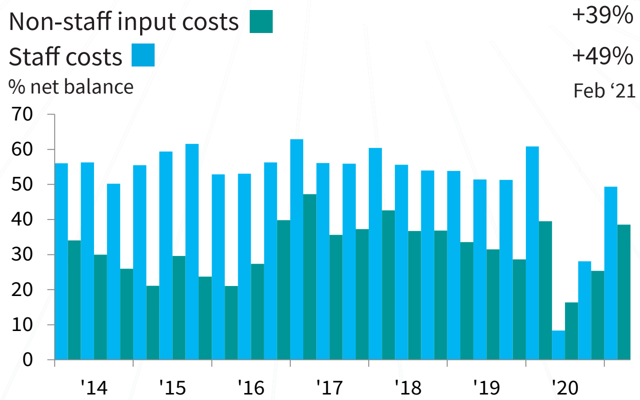
The net balance for non-staff costs was +39% in February, up from +25% in October last year. This marked the second-highest forecast for inflation in three years. Moreover, the UK was well above both the European (+30%) and global (+26%) trends.

Manufacturing companies led the pick-up in non-staff cost expectations, with a net balance of +50% of firms predicting an increase over the next 12 months, the highest since October 2013. Firms indicated that the slowdown in global supply chains due to the impacts of COVID-19 and Brexit could lead to further pressure on material and freight costs.

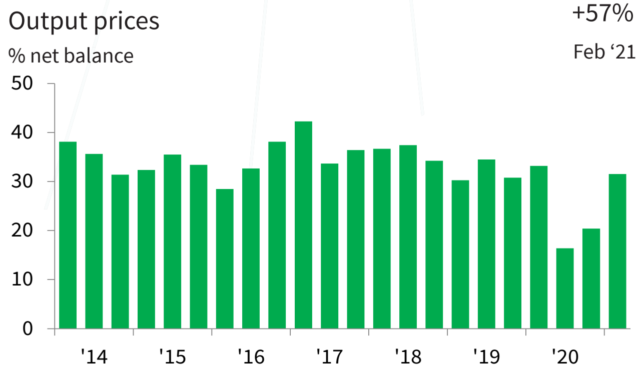
Services companies also predicted an increase in non-staff costs, with the net balance rising to +36% of respondents. This was often linked to the expected impact of rising manufacturing prices on services costs.

Meanwhile, UK businesses predicted a widespread rise in staff costs by February 2022. The net balance was up to +49% and the highest for a year, albeit still below the series trend.

With cost inflationary pressures expected to climb, firms gave a stronger prediction for output charges in the latest survey. The respective net balance rose from +20% to +32%, driven by stronger expectations among manufacturers (+58%). As a result, the forecast for UK output charges was the highest among all monitored countries.



Sources: Accenture, IHS Markit.



Sources: Accenture, IHS Markit.

Corporate earnings

Profit forecasts improve sharply

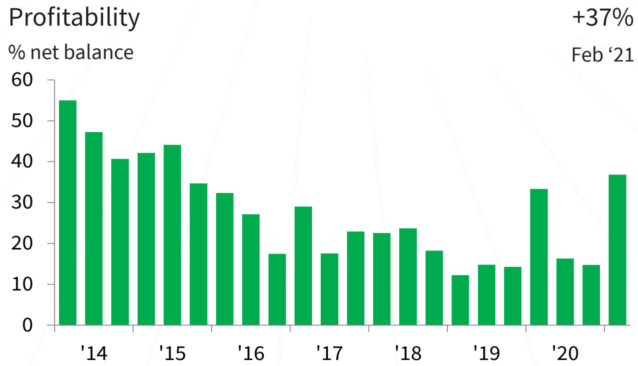
The prospect of a sharp rebound in UK economic conditions as lockdown measures begin to ease helped to drive up profit expectations in February. Greater optimism relative to last autumn was recorded in both the manufacturing and service sectors.

At +37%, up from +15% in October 2020, the net balance of UK firms anticipating an improvement in profits reached its strongest for just over five-and-a-half years.

Scope to protect margins from rising costs, alongside better expectations for customer demand, contributed to an upturn in profits expectations.

Notably, expectations of higher margins were broad-based across manufacturing and services, with goods producers (+38%) reporting slightly stronger forecasts than service providers (37%).

Moreover, UK businesses projected higher profits forecasts than any of the monitored countries worldwide, with the next strongest, Ireland, posting a net balance of +28% of firms.



Sources: Accenture, IHS Markit.

Sector breakdown

Hotels & Restaurants lead resurgence in service sector outlook

The strong rise in business activity expectations across the UK service sector was driven by higher projections in most of the detailed categories in February. Hotels & Restaurants saw the largest uplift, while only Transport & Storage reported a setback in confidence.

Hotels & Restaurants moved from the least confident service category in October 2020 to by far the most optimistic in the latest survey period, with a net balance of +79% of companies expecting activity to rise in the coming year.

Growth opportunities were largely attributed to the expected lifting of restrictions on consumer-facing sectors over the coming months and an associating surge in demand for holiday bookings and other hospitality business.

Financial companies were similarly buoyed by the prospect of looser stringency measures as the summer approaches, as the net balance for business activity rose to +60% in February and signalled a much stronger outlook than last October.

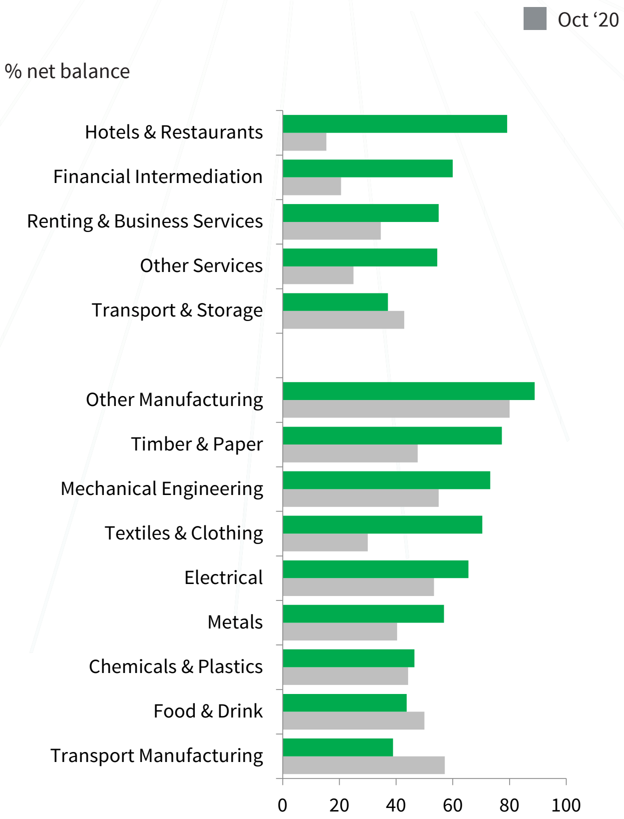
By contrast, Transport & Storage recorded the lowest degree of confidence (+37%) and was the only part of the service sector to signal a drop in expectations since last autumn, which was mainly attributed to concerns about the duration of international travel restrictions and persistently subdued domestic demand amid the pandemic.

Confidence of an upturn in manufacturing output was broad-based across the detailed sectors in February, and was led by Other Manufacturing, Timber & Paper and Mechanical Engineering.

Textiles & Clothing recorded the strongest boost to business expectations since last October, which was in part linked to hopes of expanding into new markets and a rise in retail spending once lockdown measures are eased.

Food & Drink and Transport Manufacturing were the only categories to report weaker growth forecasts in February, with the latter projecting concerns that global supply chain problems and Brexit-related disruption could lead to parts shortages and rising cost inflation.

Business Activity Expectations



Sources: Accenture, IHS Markit.

Construction outlook

Construction firms widely optimistic for growth

Construction sector optimism towards future activity and jobs continued to strengthen in the first survey of 2021, with firms predicting a marked rebound from the COVID-19 downturn in the coming year.

February data signalled that UK construction firms were much more upbeat about the outlook for business activity, with the net balance of +53% the highest since October 2015.

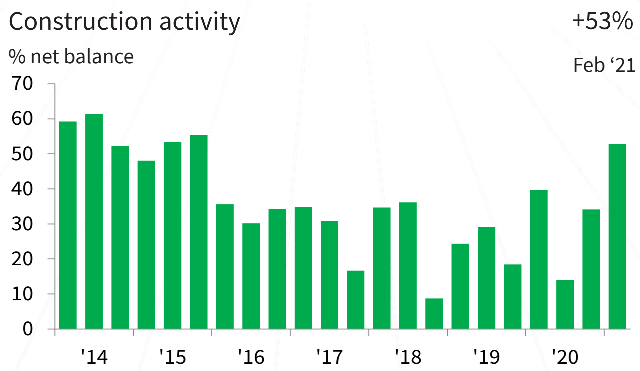
Over 63% of the survey panel anticipated an expansion in construction output, while just 10% predicted a fall.

Construction firms noted that the easing of lockdown restrictions should lead to a rise in new work in the coming months. Government infrastructure projects, commercial building activity and home improvements were all mentioned as key opportunities for growth.

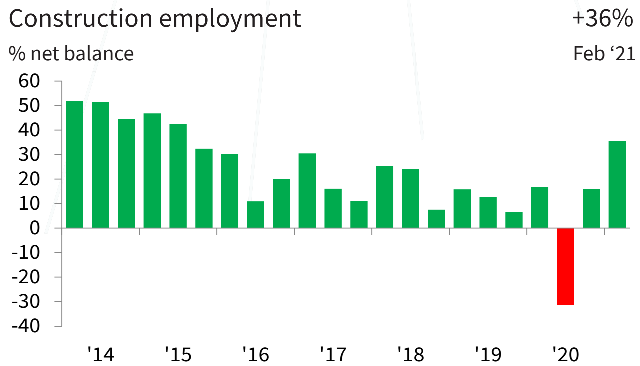
That said, respondents also highlighted risks to the sector, including a possible cut to government spending and a further economic decline. Concerns surrounding global supply chains and material shortages were also noted.

With output expectations improving, employment forecasts were also up sharply in February. A net balance of +36% of respondents expect to add to their workforces in the coming year. Capital expenditure plans also greatly improved, while R&D forecasts moved into positive territory.

However, construction firms highlighted a major risk from sharply rising input prices, with more than half of all respondents predicting an uptick in non-staff costs. The respective net balance rose to its highest level on record at +49%. Consequently, most respondents expect to raise output charges to protect their margins, with the net balance rising to +59% of firms.



Sources: Accenture, IHS Markit.



Sources: Accenture, IHS Markit.

Anecdotal evidence: opportunities

This page includes a selection of comments provided by survey respondents on expected business opportunities over the next 12 months.

"Some UK companies may be looking for local manufacturers instead of EU ones due to Brexit"

Food & Drink

"Home refurbishments as a result of higher savings levels"

Textiles & Clothing

"Reshoring of critical supply chains"

Electrical

"General boost to capital spending"

Electrical

"Release from lockdown and people driving and flying again"

Chemicals & Plastics

"New business opportunities including electric and autonomous vehicles"

Transport

"Transfer of car production from Europe to UK"

Transport

"Increased demand for boxes due to internet shopping"

Timber & Paper

"Higher demand for eco friendly packaging"

Timber & Paper

"Growth and development of low carbon technologies such as air source heat pumps supported by government initiatives"

Metals

"Increased manufacturing in the UK"

Metals

"Growth in green energy projects"

Mechanical Engineering

"More reliance on domestic supply is expected to result in greater investment"

Mechanical Engineering

"Covid leading to more staycations"

Hotels & Restaurants

"When restrictions are lifted we anticipate a surge in activity as clients rebook events that they have cancelled over the last 12 months"

Hotels & Restaurants

"Pent-up demand for travel"

Transport & Storage

"Growth in supply chain spending by companies due to Brexit and shift to online"

Transport & Storage

"Need for good broadband especially working from home"

Post & Telecommunications

"Higher level of international borrowing"

Financial Intermediation

"Modernisation of our working practises through innovation and technology"

Financial Intermediation

"Post-pandemic shift out of London"

Renting & Business Services

"Helping companies to grow again"

Renting & Business Services

"Improving demand for offices"

Renting & Business Services

"Recovery of economy"

Other Services

"Fewer leisure businesses to compete with"

Other Services

"Government infrastructure projects"

Construction

Anecdotal evidence: threats

This page includes a selection of comments provided by survey respondents on the expected threats to the business outlook over the next 12 months.

"Supply delays arising from Brexit"

Food & Drink

"Lockdowns mean we are separated from our main geographical customer base"

Textiles & Clothing

"Any depreciation of Pound v Euro"

Textiles & Clothing

"Increased raw material costs means that UK manufactured products will increase in price, this may drive more businesses to source through the far east"

Electrical

"COVID and component shortages, high shipping costs for imported goods"

Electrical

"Decline in aviation industry, lack of growth in automotive"

Chemicals & Plastics

"Exporting to Europe is proving to be difficult, I expect that we will lose some European customers"

Chemicals & Plastics

"No recovery from COVID-19 delaying new car launches and delaying UK model transfers from Europe. Semi conductor shortages restricting the ability of car companies to increase production."

Transport

"Shortage of raw materials such as timber"

Timber & Paper

"Lack of investment in UK infrastructure"

Metals

"Continued slowdown in oil & gas projects. Reduced confidence in capital spending in industrial plants"

Mechanical Engineering

"Lockdown measures keeping us closed and then the restrictions we will face when we are allowed to reopen"

Hotels & Restaurants

"Cash flow will be the main obstacle with repayment of government loans a significant subsidiary risk"

Hotels & Restaurants

"Covid mutating and vaccines not being effective"

Transport & Storage

"Economic collapse after COVID"

Transport & Storage

"Defaults in the loan book as unemployment rises"

Financial Intermediation

"Retail and hospitality lockdown leading to companies going bust"

Financial Intermediation

"UK shipping backlogs since October/November last year causing huge difficulties"

Renting & Business Activities

"IR35 rollout to private sector"

Renting & Business Activities

"Large reduction in public sector expenditure"

Renting & Business Activities

"Tourism restricted by COVID due to vaccine passports"

Other Services

"Freezing up of the global real estate market"

Other Services

"High-rise cladding issues"

Construction

Special question: COVID-19

Impact of COVID-19 on UK companies eases in February

Our special question related to the COVID-19 pandemic indicated that fewer businesses had seen a drop in output since prior to the outbreak in February.

Roughly 63% of manufacturing and services respondents stated that output was lower than that seen before the pandemic began about a year ago. This compared with 67% in the previous survey over October 2020.

At the same time, approximately 17% of businesses found that output had increased during the pandemic, with slightly more firms (18%) stating that it was roughly the same. Service providers were the least likely to have regained pre-pandemic levels of activity (35%), followed closely by manufacturers (36%).

By contrast, more than half of all surveyed construction firms found that output had either risen (17%) or been unaffected (39%) over this timeframe, suggesting the sector had seen a faster economic rebound.

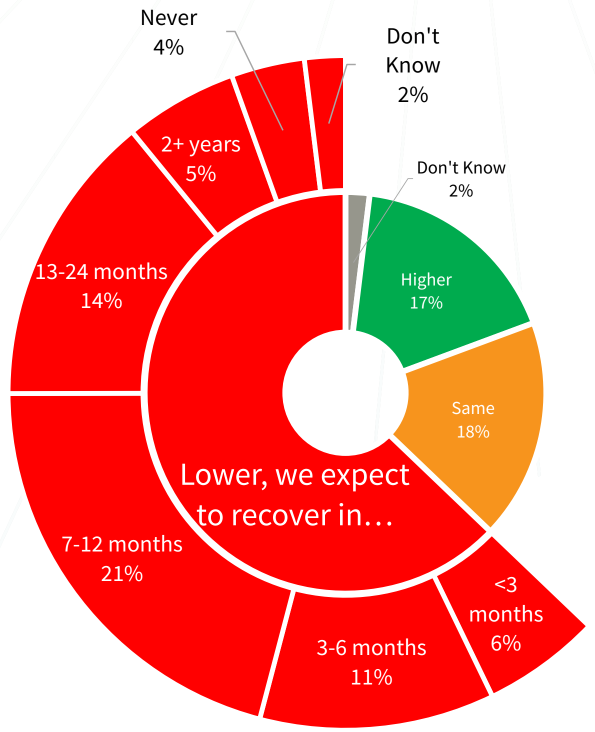
Firms negatively impacted by the pandemic were also asked how long they expect it will take to recover output. Of these respondents, the majority continued to predict a full recovery within the next 12 months.

The most common prediction was 7-12 months, which 21% of all manufacturing and services firms stated was the most likely scenario. Roughly 17% of panellists expect a return to normality within six months, up from 14% last October.

Almost one-in-five companies stated that it would likely take more than a year to recover output in February, with 14% of the survey panel opting for a 13-24-month timeframe. Around 5% of businesses believe that it will take even longer.

Lastly, about 4% of respondents forecast that they will never recover from the COVID-19 pandemic, roughly double that seen in the previous survey period (2%). This signals that more companies are now expecting to permanently lose output or go insolvent due to the recent downturn.

As of mid-February, please tell us how the OUTPUT (or business activity) of your company has changed since prior to the COVID-19 outbreak, and (if lower) how quickly you expect to recover to pre-COVID levels?



Sources: Accenture, IHS Markit.

Special question: Investment in technology

Cloud technology leads UK investment plans

An additional question added to the latest business survey asked UK firms about their intentions around investment in new technologies.

Of the nine monitored categories, private sector companies were most likely to have already invested in cloud technology, with roughly 72% of firms giving a positive response.

Cybersecurity technology and data analytics were two other common areas of investment, with 60% and 47% of respondents indicating past spending into these types of assets respectively.

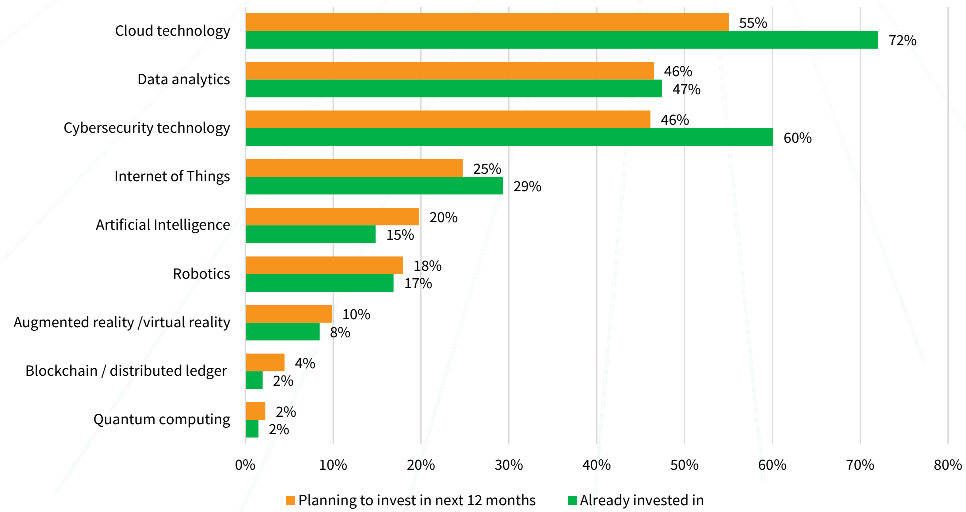
Plans for future capital spending were also concentrated on these top three areas in February, with approximately 55% of companies noting intentions to invest in cloud technology over the next 12 months, followed by 46% for both data analytics and cybersecurity technology.

Manufacturers were particularly likely to note plans to invest in robotics (29%), while artificial intelligence ranked relatively highly among tech spending intentions for service providers (23%).

Technologies such as quantum computing and blockchain were a low priority for UK companies, with just a small proportion of respondents expecting to invest in them over the coming year. That said, more firms reported future spending plans than a past investment, suggesting that these technologies are slowly gaining interest.

Businesses were also asked to give a reason for investing in new technologies in the coming year. Competitive pressures often ranked highly, as well as efforts to increase productivity and profits. Services firms particularly mentioned the need to improve customer experience through new technology, while manufacturers and construction firms were more likely to note a benefit to costs.

Which of the following technologies:
a) has your business already invested in?
b) do you plan to invest in over the next 12 months?



Sources: Accenture, IHS Markit.

European business outlook

Business outlook data are also available for ten other European nations in addition to the UK. Manufacturing data are available for Germany, France, Italy, Spain, the Netherlands, Austria, Greece, Ireland, Poland and the Czech Republic. Services and composite data are also available for Germany, France, Italy, Spain and Ireland.

Key findings:

Strongest outlook for activity in over two years

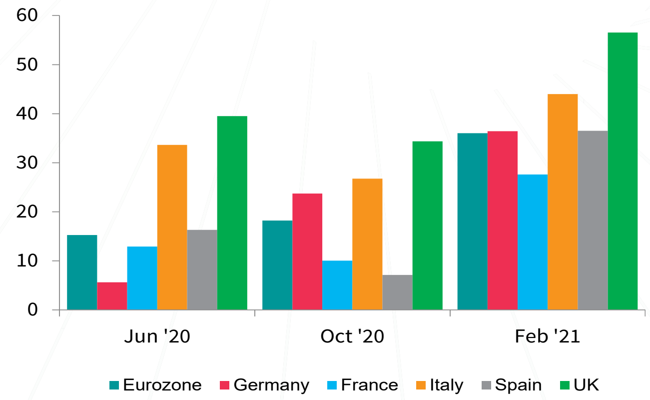
Hiring intentions improve markedly since last October

Companies plan to increase capital expenditure for first time in a year

Non-staff costs forecast rises to decade-high

Business activity(composite)

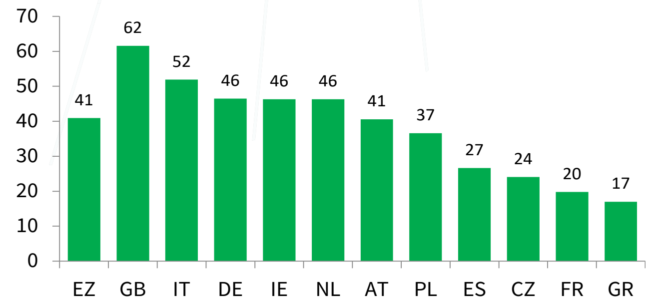
% net balance



Sources: Accenture, IHS Markit.

Manufacturing activity

% net balance, Feb ‘21



Sources: Accenture, IHS Markit.

Data

The survey uses percentage 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 0.0 signalling a positive outlook for the coming 12 months.

Composite net balances are weighted averages of the manufacturing and services net balances. The weights reflect the relative size of the manufacturing and service sectors according to official data.

Composite net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun-19	+32	+15	+14	-0	-2	+34	+51	+32
Oct-19	+31	+14	+16	+3	-0	+31	+51	+29
Feb-20	+46	+33	+23	+13	+4	+33	+61	+40
Jun-20	+40	+16	-9	-14	-11	+16	+8	+16
Oct-20	+34	+15	+5	-10	-6	+20	+28	+25
Feb-21	+57	+37	+30	+9	+7	+32	+49	+39

Manufacturing net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun-19	+42	+26	+13	+13	+11	+48	+53	+26
Oct-19	+38	+19	+8	+3	+8	+39	+46	+27
Feb-20	+54	+35	+20	+12	+13	+39	+59	+40
Jun-20	+46	+28	-19	-16	-7	+30	+6	+19
Oct-20	+50	+30	+12	+1	+3	+39	+34	+30
Feb-21	+62	+38	+28	+18	+14	+58	+60	+50

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun-19	+30	+13	+14	-3	-4	+32	+51	+33
Oct-19	+30	+13	+17	+3	-2	+29	+52	+29
Feb-20	+45	+33	+23	+13	+2	+32	+61	+39
Jun-20	+38	+14	-8	-14	-12	+14	+9	+16
Oct-20	+32	+12	+4	-12	-7	+17	+27	+25
Feb-21	+56	+37	+30	+8	+5	+26	+47	+36

Construction net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
Jun-19	+29	+21	+13	+0	-9	+41	+51	+14
Oct-19	+18	+11	+7	+1	-1	+42	+47	+28
Feb-20	+40	+25	+17	+19	+4	+52	+51	+31
Jun-20	+14	-8	-31	-33	-19	+21	-5	+14
Oct-20	+34	+21	+16	+5	+0	+39	+22	+30
Feb-21	+53	+38	+36	+13	+9	+59	+59	+49

Global Outlook

Vaccine progress lifts global business confidence

- Sentiment towards business activity hits three-year high
- Largest improvements seen in Europe, particularly Spain, Ireland and the UK
- Staff hiring and investment plans improve globally, led by upward revisions in Europe
- Inflationary pressures set to intensify due to difficulties in international shipping

Net balance of manufacturing and services firms expecting a rise in activity over the next 12 months

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The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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