

Accenture / IHS Markit UK Business Outlook Report

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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 October 12-28.

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:

UK business confidence drops to 12-month low in October

Hiring intentions dip from June's record but stay at marked level

Capital expenditure plans also drop but remain strong amid focus on green technology and digitisation

Input costs and output charges expected to rise at unprecedented rates, driving concerns for future growth

Firms expect skills shortages to persist, hitting confidence surrounding recruitment

Overview

UK businesses expectations fall to one-year low but remain robust

October data from the Accenture/IHS Markit UK Business Outlook survey indicated that UK businesses remained confident of a strong recovery in activity over the coming 12 months, despite a sharp loss of momentum from earlier in the year.

More than half of UK private sector firms (56%) expect an increase in business activity during the year ahead, compared to 11% that project a decline. Whilst falling sharply from the level seen in the summer to a 12-month low, the resulting net balance of +45% was higher than seen throughout much of the last six years.

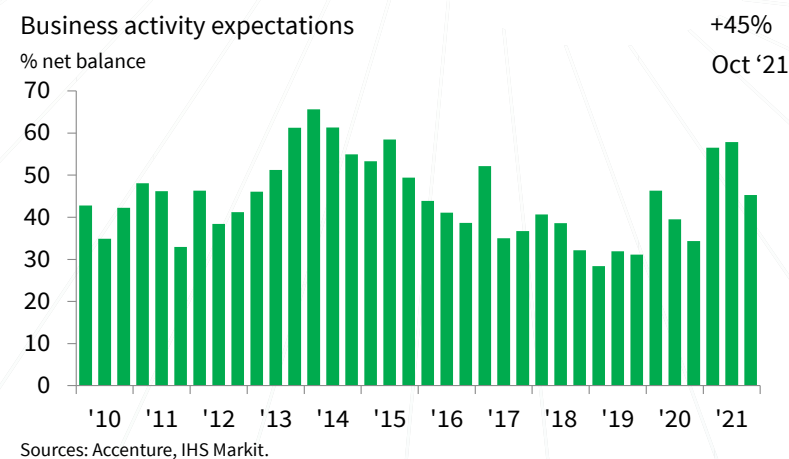
UK businesses remained more confident than most other countries monitored by the Business Outlook survey. The net balance was higher than seen in both the EU (+38%) and worldwide (+33%).

Confidence was underpinned by expectations that demand will continue its recovery to pre-pandemic levels, while a rebound in international travel and growth

in new export markets after lockdown restrictions were also forecast.

That said, there were a wide range of factors that reportedly threaten the overall recovery, including fears that inflation will undermine demand. Higher energy costs, wages, raw material prices and transport charges were all mentioned as likely drivers of inflation over the next 12 months. Supply shortages were also cited as a risk to growth, although some firms noted that efforts to re-shore supply chains could benefit domestic businesses in the long term.

Both the manufacturing and service sectors saw growth forecasts slip to a 12-month low in October. The net balance of manufacturers predicting a rise in production dropped from +61% in June to +57% in the latest survey period, while services firms saw a stronger decline from +57% to +43%.



Comment

Simon Eaves, Market Unit Lead, UK & Ireland at Accenture, said:

“The high levels of business confidence we saw earlier this year have been tempered by some strong economic and unanticipated headwinds. Despite this, business optimism in the UK remains higher than in most other European nations and we must capitalise on this sentiment to inspire further growth across the economy.”

“Supply chain challenges and labour shortages cannot be fixed overnight, but it is critical that business leaders adapt their operations and invest in the right technologies, such as cloud and data, and bring in the right skills to remain competitive.”

“Two areas are dominating every business leaders’ agenda at the moment. There’s the movement to digital as they recover post-Covid and, with it, sustainability which we saw many commitments made at the recent COP26 Summit. Our research shows that businesses that invest in these two important areas will be amongst the winners of the future.”

Employment and investment plans

Firms plan marked, but softer increases in employment and capital expenditure

Projections for employment and investment at UK companies slipped in October but remained strong overall, as firms look to ease labour shortages and invest in new technology.

With firms expecting sustained growth of activity and sales, plans to raise employment levels over the next 12 months were robust in October. Barring the record high seen in the previous survey (+41%), the net balance of companies expecting an increase in staffing (+32%) was the highest since June 2015.

This was also the second-strongest out of the globally monitored countries, with Ireland the only nation to report higher expectations for employment growth in October.

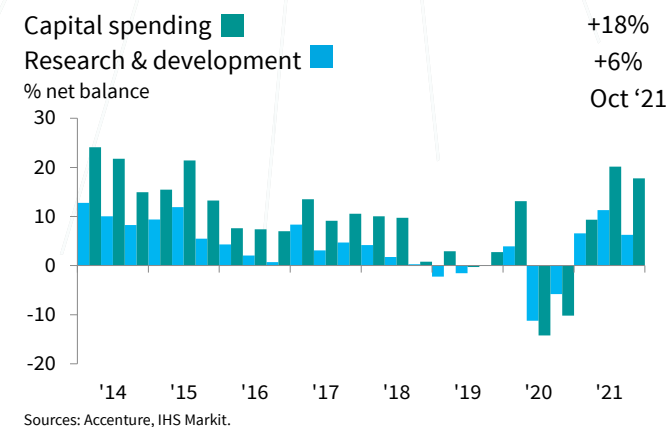
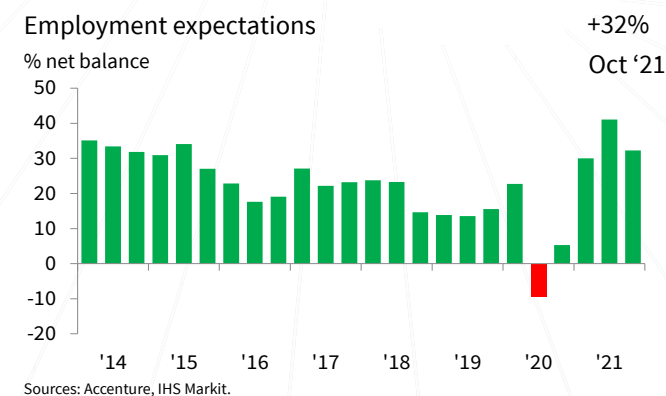
Notably, the drop off in hiring intentions was concentrated on the service sector, with the net balance falling from +41% in June to +30%. Employment plans at manufacturers were unchanged at a joint-record high of +43%.

Businesses often commented on a need to resolve labour shortages since the end of lockdown, and some highlighted recruitment

difficulties as a long-term term risk to the recovery. Reduced staff availability was cited across many sectors, especially manufacturing, hospitality and transport services. Firms often lacked confidence that they would be able to find skilled workers for vital roles within their organisation (see our special feature on Skills Shortages).

Upbeat investment intentions remained a key theme of the latest UK Business Outlook. More than twice as many firms expect to raise capital expenditure (34%) over the next year as those that predict a decline (16%). Compared to the drop off in overall business confidence, the net balance of +18% in October was only a gradual decrease from +20% in the previous survey. The net balance for R&D plans dipped from +11% to +6%.

Firms commented on several major areas of technology investment, particularly in relation to green infrastructure. Manufacturers in the automotive sector commented on strong growth in electric vehicles, while other goods producers also cited plans to invest in sustainable products and production methods. Services firms meanwhile reported plans to digitise their business lines and prioritise investments in new technologies.



Inflation expectations

Concerns of rapid cost inflation intensify

Inflation expectations among UK firms continued to surge higher in October, with forecasts for both staff and non-staff costs rising to unprecedented levels.

Whilst inflation concerns were primarily driven by global supply-side risks, firms increasingly expect to see wages rise as the labour market tightens and living costs increase. The rapid surge in energy costs also served to exacerbate fears that business expenses will spiral upwards.

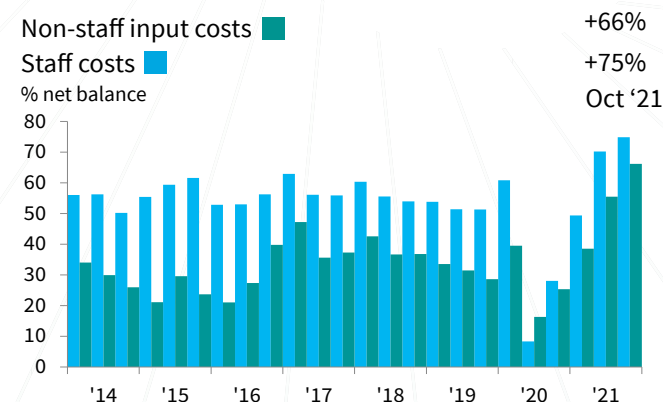
The net balance of firms expecting non-staff costs to increase over the coming year rose to +66% in October, up from a previous record high of +55% during June. Both the manufacturing and service sectors recorded stronger expectations for non-staff costs than in the previous survey, with goods producers predicting the faster increase in expenses.

The overall net balance for non-staff costs was also far higher than the level seen globally (+33%), with Germany (+67%) the only nation to post above the UK.

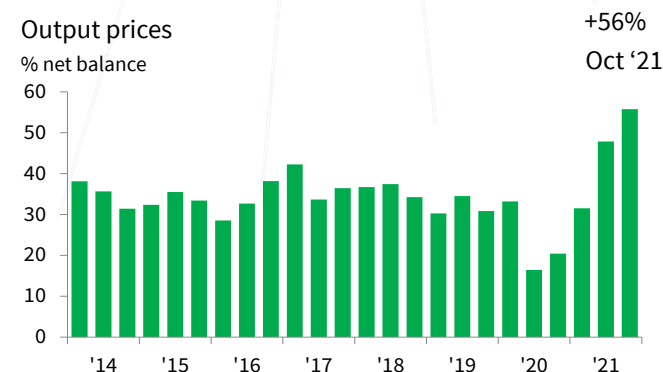
Staff cost expectations were also at a record high at the start of the fourth quarter. Over three-quarters of UK firms projected a rise in salaries, compared to just 2% that expect a decline. The net balance of +75% was up from +70% in June and the highest seen worldwide.

There were widespread concerns that the surge in business costs will limit demand growth over the next year, particularly as inflationary pressures have appeared across the board and already translated into substantial rises in staff wages.

The net balance of companies expecting to raise their output charges ticked higher for the fourth survey period in a row to a record high of +56%. Manufacturers (+76%) were more like to report plans to increase their prices charged than services firms (+52%), although the net balances in both sectors were at unprecedented levels.



Sources: Accenture, IHS Markit.



Sources: Accenture, IHS Markit.

Corporate earnings

Profit forecasts fall sharply as cost pressures bite

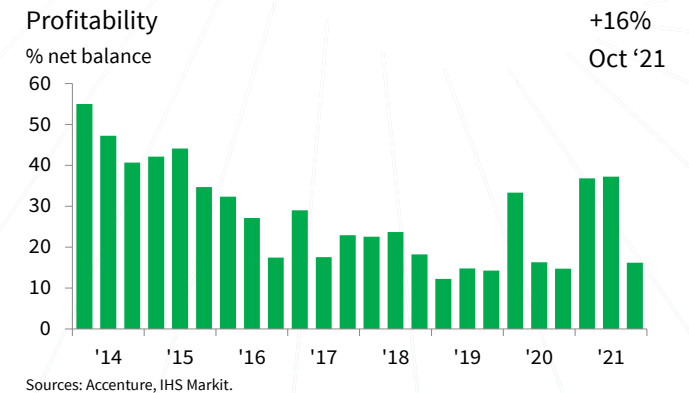
UK businesses were less confident that profits will increase over the next 12 months in October, with many predicting that cost pressures are likely to outstrip price increases.

A net balance of +16% of firms projected earnings to increase over the coming year, less than half that seen in both the June and February survey periods (+37%).

The sharp fall came amid growing concerns that cost inflation will overwhelm margins, despite widespread expectations that output charges will also rise. Lower forecasts for activity growth were also a factor leading to reduced optimism.

After topping the worldwide rankings in the first half of 2021, profits forecasts in the UK private sector were behind those seen in five out of the 11 other countries monitored by the Business Outlook survey. Within Europe, only Germany posted lower profits expectations in October (+2%).

Goods producers (+21%) were again more optimistic than service providers (+14%) that they could boost profits over the next 12 months. That said, projections in the former fell to the lowest recorded in two years.



Sector breakdown

Staff shortages drive much weaker outlook at Transport and Hospitality firms

Business expectations fell across the majority of UK sectors in October, with Transport Services and Hospitality seeing the greatest loss of momentum since June.

After being buoyed by hopes of a swift rebound in demand over the summer, Hospitality firms were far less confident about future activity in the latest Business Outlook survey. The net balance (+26%) remained in positive territory, but was nevertheless the joint-weakest of the monitored categories.

Transport Services joined Hospitality at the bottom of the pack, posting a much weaker sentiment level for the year ahead than in June. While greater international travel and a recovery in consumer demand supported business optimism, firms in both sectors commented that staff shortages were likely to limit growth. This was particularly evident at logistics companies amid widespread reports citing the dearth of haulage drivers.

All five of the service sector categories registered weaker business outlooks than in June. The drop-off in Finance was only

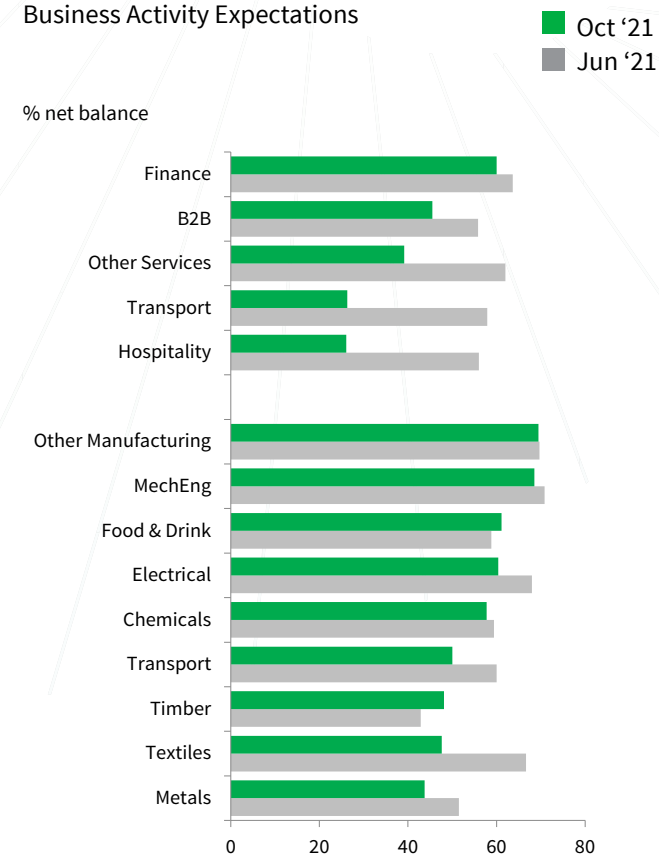
marginal, however, with firms in this sector remaining the most confident of a rise in output.

Other Manufacturing and Mechanical Engineering posted the highest output expectations of the production sectors in October. Firms in the latter group often based their optimism on increased government incentives to invest in new capital projects. Food & Drink manufacturers were in third place, citing opportunities to improve product lines and increase automation.

Metals, Textiles, and Timber were at the bottom of the manufacturing sector rankings. Firms in these three categories were concerned that supply chain issues would persist and lead to further input shortages as well as rapid cost inflation. Staff shortages and difficulties exporting to EU clients were also mentioned.

Only two of the nine production sectors recorded higher growth expectations compared to June, namely Food & Drink and Timber. That said, improvements in the respective net balances were only marginal.

Business Activity Expectations



Sources: Accenture, IHS Markit.

Construction outlook

Construction firms expect strong growth in activity and employment

October data signalled that UK construction firms were very confident that output will expand over the coming 12 months, fuelling efforts to raise employment levels and capital spending.

Approximately 57% of surveyed construction firms reported a positive outlook for business activity over the coming year during October, whereas just 13% forecast a decline. The net balance of +44% was down from +52% in June, though it remained higher than any recording between 2016 and 2020.

Opportunities for growth came from strong demand for house building and rising infrastructure spending, according to survey panellists. There were also reports that green energy projects were set to boost construction workloads in the year ahead.

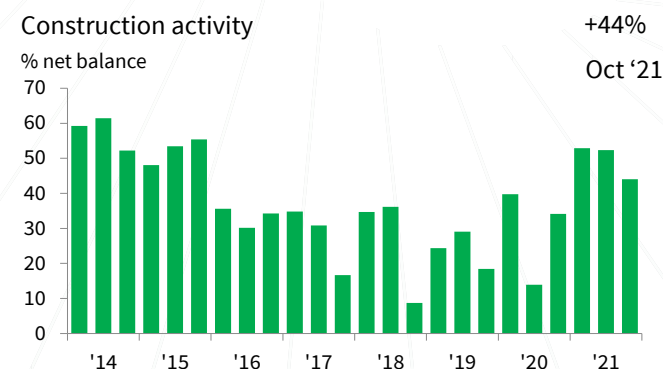
On the other hand, construction firms were wary of the negative impact of labour and raw material shortages, as well as higher energy costs. Some reported concerns that demand conditions remained volatile due to the pandemic and that renewed

lockdown measures could harm output.

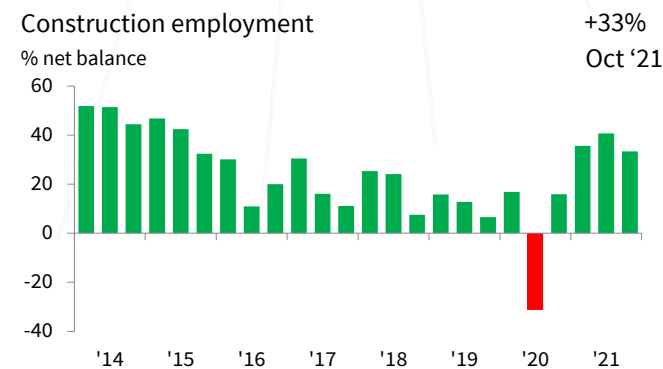
Nevertheless, construction firms predict strong investment growth over the coming year. The net balance of firms expecting to raise employment was +33%, and a similarly positive figure was seen for capital expenditure (+31%), although optimism towards both areas of investment was lower than in June. Some businesses cited plans to invest in more sustainable products and retrain staff in this area.

Cost inflation expectations were meanwhile at a record high in October, with three-quarters of construction firms predicting a rise in non-staff costs, against 1% that forecast a decline. Panellists often commented that input shortages were likely to drive prices higher. Increased wages were also widely predicted, with the net balance for staff cost expectations rising to an unprecedented level of +81%.

Companies largely plan to pass on higher costs to clients, as the net balance of firms predicting an increase in output charges was unchanged at a record high of +79%.



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.

“Automation will increase capacity and improve labour productivity”

Food & Drink

“Reverted business back from Asia to the UK”

Textiles & Clothing

“More effective sustainability strategy”

Textiles & Clothing

“Need for more data storage”

Electrical

“EV supply chain”

Electrical

“Reshoring of supply chains”

Chemicals & Plastics

“European economies reopening”

Chemicals & Plastics

“Travel industry recovery”

Transport

“Holding on to price increases when energy prices stabilise”

Timber & Paper

“New products for EV charging”

Metals

“Heat pumps and hydrogen boiler technology”

Metals

“Reduction in steel prices”

Metals

“Growth of export sales”

Mechanical Engineering

“UK ‘Super Investment Fund’ giving tax advantage on capital investment”

Mechanical Engineering

“Sourcing and stocking the correct raw materials to meet future demands”

Other Manufacturing

“International travel resuming”

Hotels & Restaurants

“Strong restaurant demand if we can stabilise our workforce”

Hotels & Restaurants

“Fuel prices may make commuters use the train”

Transport & Storage

“Increasing warehouse portfolio”

Transport & Storage

“Remote working and smaller offices”

Post & Telecommunications

“Moves toward clean air zones”

Post & Telecommunications

“Return to normality”

Financial Intermediation

“Digitisation allowing greater reach”

Financial Intermediation

“Increased infrastructure builds in the UK”

Financial Intermediation

“Supply chains returning to normal”

Renting & Business Services

“Explore new geographical areas”

Renting & Business Services

“Export opportunities”

Other Services

“Investment in new technology for carbon reduction”

Construction

“EV charger installations”

Construction

“Demand for new houses”

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.

“Shortage of labour”

Food & Drink

“Input price increases from everywhere”

Food & Drink

“Rising costs, longer lead times, lack of stock, inability to export”

Textiles & Clothing

“Lack of electronic components”

Electrical

“Political and economic uncertainty”

Electrical

“Higher gas prices will impact on recruitment and capital spending”

Electrical

“Global freight issues”

Chemicals & Plastics

“Increased labour costs and difficulty obtaining labour”

Chemicals & Plastics

“Fluctuations in steel and rubber prices”

Transport

“Other employers offering better rates of pay”

Transport

“Lower level of footfall shoppers”

Timber & Paper

“Recession in first half of 2022”

Metals

“Late deliveries due to congestion at ports”

Mechanical Engineering

“Profit margins being squeezed”

Mechanical Engineering

“Shortage of HGV drivers”

Other Manufacturing

“Food and wage inflation”

Hotels & Restaurants

“Reinstatement of 20% VAT”

Hotels & Restaurants

“Reluctance of general public to socialise as they did pre-pandemic”

Hotels & Restaurants

“Recruitment and retention of staff at all levels”

Transport & Storage

“Aviation routes closing down”

Transport & Storage

“Uncontrolled inflation”

Transport & Storage

“Semiconductor lead times of 16+ weeks hitting network construction”

Post & Telecommunication

“Repeat of lockdowns”

Financial Intermediation

“Pandemic, legislation and regulation”

Financial Intermediation

“Lower cash flow”

Renting & Business Activities

“Government NI increases”

Renting & Business Activities#

“Lack of skilled staff”

Renting & Business Activities

“Bad debts as clients repay bounce back loans”

Renting & Business Activities

“A lack of staff as HS2 kicks off in our area”

Construction

“Shortage in supply of materials and labour”

Construction

“Uncertain pipeline”

Construction

“Faltering consumer confidence”

Construction

Special question: Workplace skills

Only one-in-three UK companies report confidence about hiring skilled staff

October data from the Accenture/IHS Markit UK Business Outlook showed that firms were greatly concerned that they would be unable to hire the skills they needed over the next 12 months.

Only 35% of survey respondents were confident that they could recruit skilled staff during the year ahead, with most of these firms replying as 'Slightly Confident' (28%) instead of 'Very Confident' (7%).

By contrast, 40% of UK companies reported that they were 'Not Confident' that could find the staff they required, signalling that staff shortages and a changing business

landscape since the pandemic has led to a mismatch of skills across a wide proportion of the economy.

Businesses suggested that skills shortages accounted for a lack of staff in sectors such as consumer goods, hospitality and logistics. This was often linked to difficulties with training new employees under lockdown restrictions and tighter visa rules for EU workers.

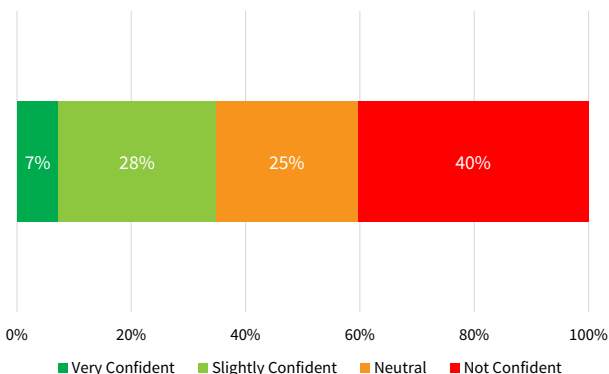
Firms were particularly downbeat about their ability to hire experienced staff over the next 12 months in October, with only 29% reporting confidence. By comparison, 47% of firms were confident that they could hire entry-level staff. Optimism towards hiring senior management was also in short supply, with only 40% of companies indicating

confidence.

Surveyed companies were also asked to pinpoint workplace skills that they would prioritise hiring over the coming year. Top of the list was Operations (27%), reflecting efforts among firms to redesign their supply chains and build resilience to global supply disruption.

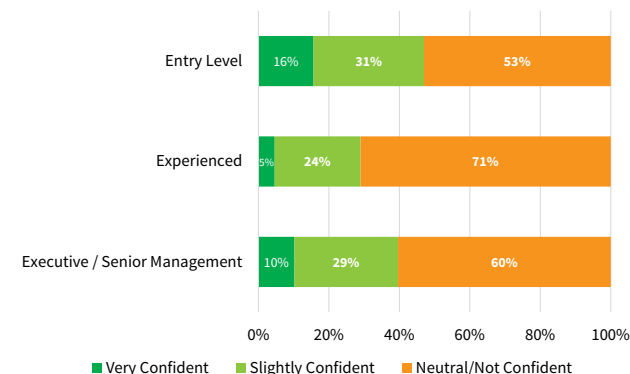
Sales & Marketing (17%) and Digital (16%) were also prominent areas of hiring, as firms hope to recover demand and adapt to the rapid pace of technological change ushered in by the pandemic.

How confident are you at being able to hire the skills you need over the next 12 months?



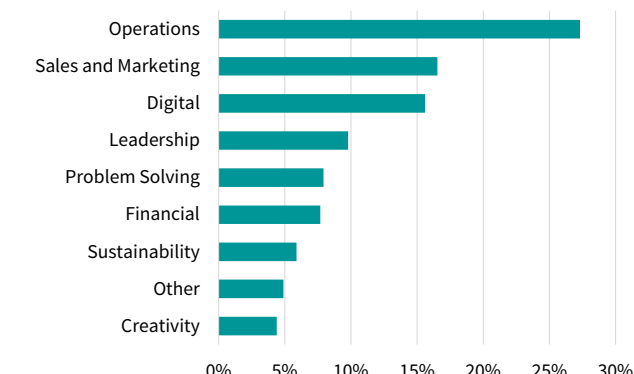
Sources: Accenture, IHS Markit.

How confident are you at being able to hire the employees or contractors you need over the next 12 months?



Sources: Accenture, IHS Markit.

Which workplace skills will your business prioritise hiring over the next 12 months? (Select all that apply)



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:

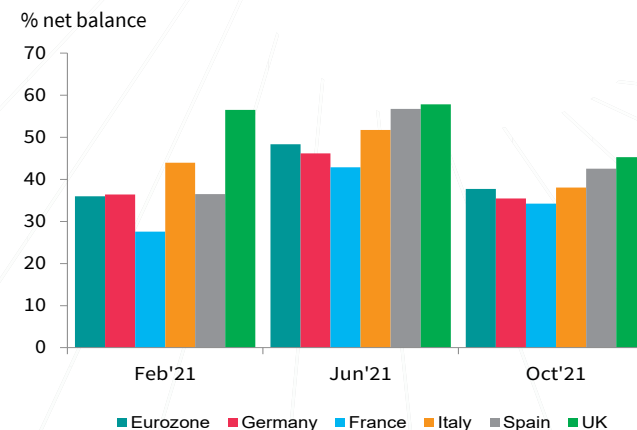
Business confidence weakens across Europe in October

Profits forecasts fall as cost inflation expected to surge

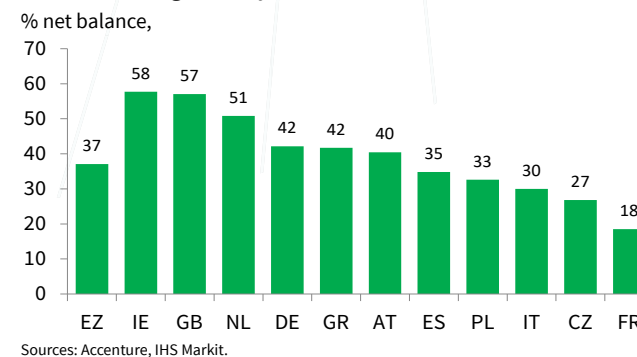
Hiring intentions down, but capex plans remain near June's peak

Ireland tops outlook rankings, followed by UK

Business activity(composite)



Manufacturing activity



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
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
Jun-21	+58	+37	+41	+20	+11	+48	+70	+55
Oct-21	+45	+16	+32	+18	+6	+56	+75	+66

Manufacturing net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
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
Jun-21	+61	+39	+43	+34	+23	+67	+72	+64
Oct-21	+57	+21	+43	+25	+16	+76	+83	+75

Services net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
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
Jun-21	+57	+37	+41	+17	+9	+44	+70	+54
Oct-21	+43	+15	+30	+16	+4	+52	+73	+65

Construction net balances

	Business Activity	Profits	Employment	Capital Expenditure	Research & Development	Prices Charged	Staff Costs	Non-staff Costs
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
Jun-21	+52	+22	+41	+36	+14	+79	+74	+67
Oct-21	+44	+14	+33	+31	+8	+79	+81	+74

Global Outlook

Inflationary pressures cast cloud over business outlook



Planned selling price inflation highest in at least 12 years



Developed markets set to see stronger inflationary pressures than emerging economies



Continued economic growth expected, albeit with expectations lower than in June



Hiring outlook second-highest in over three years, but expectations of future wage growth have also risen

USA
+31

UK
+45

Russia
+17

EZ
+38

China
+22

Japan
+31

India
+14

Brazil
+48

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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