

News Release

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Accenture / S&P Global UK Business Outlook Report

UK business confidence remains strong as firms boost AI investment to offset inflation concerns

Key findings

The UK headline index stood at +40% in June, marginally down from February but well above the European average

Inflation expectations fall slightly but remain high as firms forecast stubborn wage pressures

Capex and R&D spending are expected to grow as businesses seek to improve productivity

Notable rise in proportion of firms planning to invest in artificial intelligence (AI)

UK businesses remain confident that activity will continue to grow over the coming year, according to the latest Accenture / S&P Global UK Business Outlook. Plans to increase investment, including in AI, helped to offset concerns surrounding high inflation and rising interest rates.

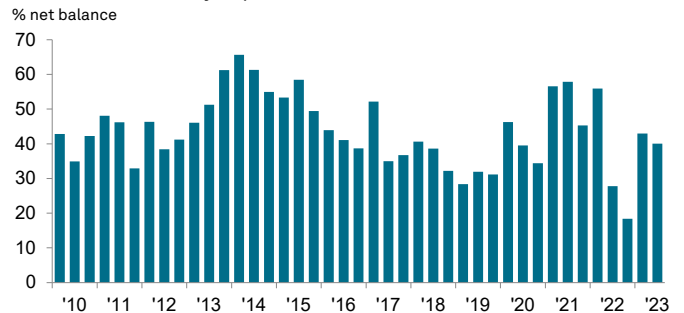
The net balance of firms expecting activity to increase over the next 12 months stood at +40% in June, marginally down from +43% in February, but well above the record low registered in October 2022.

UK firms remain more confident about the future than their European counterparts, where optimism is +19%, while the global average is +28%. Ireland is the only country to register a higher degree of positivity than the UK.

The latest results show that inflation expectations remain stubbornly high (+51%), but have eased from earlier in the year (+59%). This is especially true for staffing costs, where a net balance of +72% of businesses predict wages to rise over the next 12 months, again down from 77% in February.

The research suggests that most companies are raising their prices to offset the impact of higher costs. In total, +45% of firms forecast an increase in their prices. This figure has fallen steadily over the last 12 months but remains three times higher than

UK Business Activity expectations



Sources: Accenture, S&P Global PMI.
Data were collected 12-28 June 2023

Comment

Commenting on the findings, Matt Prebble, Strategy & Consulting & Lead for Accenture in the UK & Ireland, said:

"British businesses continue to be resilient and optimistic, despite the current economic challenges. Although still a concern, businesses expectations on inflation and staffing costs are falling, a trend that is required to ease margin and pricing pressures."

"In an era of high inflation when many firms' margins are under pressure, the question for executives is how to transform and reinvent themselves despite these immediate challenges. It is encouraging to see that British firms are already taking action on this front by investing now to improve productivity, including new investments in advanced technologies like AI and automation."

the proportion of firms (+15%) expecting a net gain in profits.

Strong expectations for business activity in the UK were reported alongside positive predictions for employment (+21%), capital expenditure (+5%), and research and development spending (+3%). Manufacturers plan to increase capex spending by the greatest amount in over a year, as they look to boost automation and raise productivity.

That said, with interest rates set to remain high and dampening demand, overall manufacturing output expectations dropped to +43%, down -10% on February. The fall was particularly stark among producers of basic materials such as chemicals, metals, and timber. In comparison, expectations in the services sector dipped only slightly, driven by positivity around financial services demand and international tourism.

Plans to invest in artificial intelligence rise solidly in 2023

UK companies were more likely to be planning to invest in artificial intelligence in June, jumping to 29% of respondents from 18% in early 2022. Services firms were particularly keen to add AI capabilities over the coming year, linking this to a need to streamline costs amid sticky wage inflation.

AI was the fourth most popular area of technological investment in June, rising from seventh place last year. A greater percentage of companies hope to improve their capabilities around cloud technology (53%), cybersecurity (50%), and data analytics (46%).

The full report and accompanying data are available on request from economics@ihsmarkit.com.



Sources: Accenture, S&P Global PMI.



Sources: Accenture, S&P Global PMI.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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/S&P Global UK Business Outlook Survey is based on a panel of around 1,400 companies in the manufacturing, services and construction sectors.

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 S&P Global 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*. 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 8,000 firms.

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

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