News Release

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S&P Global UK Business Outlook

UK manufacturing optimism rebounds to highest for over two years

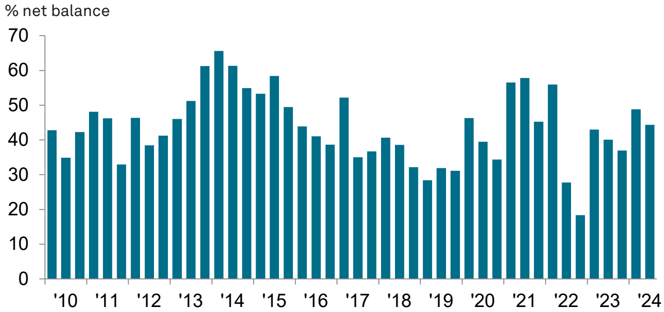
Key findings

UK producers at their most confident since February 2022

Service sector optimism eases in June

Output price and staff cost expectations drop to lowest in over three years

UK Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-26 June 2024

UK companies showed a robust level of confidence towards future business activity in June, according to the latest S&P Global Business Outlook survey. Lower optimism among services firms saw overall UK private sector expectations ease slightly from February's two-year high, despite manufacturers posting their strongest production forecasts since early-2022.

Expectations towards profits and employment were also dampened by lower optimism in the service economy, whereas manufacturers predicted that greater revenues would support increases in hiring and investment spending. Meanwhile, inflation expectations across the UK continued to cool.

A net balance of +44% of surveyed UK private sector firms predicted an expansion in business activity over the next 12 months, according to survey data collected between 12-26 June. Despite slipping from +49% in February, the degree of confidence was the second-highest for more than two years.

Of the two sectors surveyed, manufacturing and services, output expectations were much higher in the former category. Indeed, the net balance (+56%) was the strongest recorded since February 2022. Forecasts in the service economy (+42%) were also strong, but softened from earlier in the year.

Firms typically highlighted new product innovation, greater investment, expansion into new markets and increased customer demand as drivers of higher activity over the forthcoming year. Looser monetary policy developments were also noted, with companies hoping for interest rate cuts to support demand conditions.

Sustained price pressures and uncertainty surrounding public policy ahead of the general election were meanwhile reported by firms as the main threats to growth. That said, the proportion of survey respondents suggesting that higher

Comment

Commenting on the findings, David Owen, Senior Economist at S&P Global Market Intelligence, said:

"UK businesses held onto hopes of a strong upturn in private sector activity over the next 12 months in June, with forecasts for output and profits remaining higher than the levels recorded throughout 2023. Lower inflation and expectations of looser monetary policy underlined confidence, although the fact that interest rates have not yet fallen made some firms hesitant about meeting revenue and investment targets.

"A jump in confidence across UK manufacturing suggests the sector should provide greater strength to the domestic economy in the near term, mirroring recent PMI data showing an increase in production levels. Firms often centred optimism on increased demand from export markets as well as investment opportunities into new products and technology, leading to higher projections for profits, staff hiring, capex and R&D.

"Although lower business inflation expectations were also welcome in the June survey, these metrics were all still above their long-run averages. This suggests that despite CPI dropping to 2% in May, firms have not yet quite cleared the inflation hurdle and may enact further sizeable price hikes over the coming year to compensate for rising costs."

prices will dampen activity (32%) was at its lowest in over three years.

Divergent sector trends for profits and hiring

Manufacturing and services companies in the UK saw opposing shifts in their outlook on profits in June. In total, a net balance of +35% of manufacturers expected earnings to rise over the next 12 months, marking the highest projections for three years. By contrast, service sector expectations slid from February, though remained strongly positive at +21%.

A similar verdict was also found regarding hiring intentions. Staff growth predictions among goods producers rose sharply from +15% in February to +25% in June, whereas service providers expect the second-lowest increase in jobs for since late-2020 (+18% net balance). Simultaneously, services firms frequently mentioned the adoption of AI technology as an opportunity to boost productivity and, in some cases, reduce costs.

UK companies expect slowest rise in selling prices since February 2021

June's Business Outlook survey signalled a further slowdown in UK inflation expectations. Predictions for staff costs, non-staff costs and output prices were all lower compared to those seen in February, with output price expectations dropping to the weakest level in over three years (+39%).

That said, all three metrics remained above their long-run trends, particularly for non-staff costs (+47%) where the net balance was ten points higher than the average since October 2009 when the survey began. Some firms commented on the impact of rising shipping prices, linked to a distortion of global supply chains amid geopolitical conflict. Wage expectations were also marked, with a net balance of +66% of firms projecting salaries to increase by June 2025.

While predictions of output price increases in the UK service sector dropped to the lowest since February 2021, manufacturers reported the highest expectations for factory gate price inflation for more than one year.

Capex forecasts improve and R&D plans turn positive

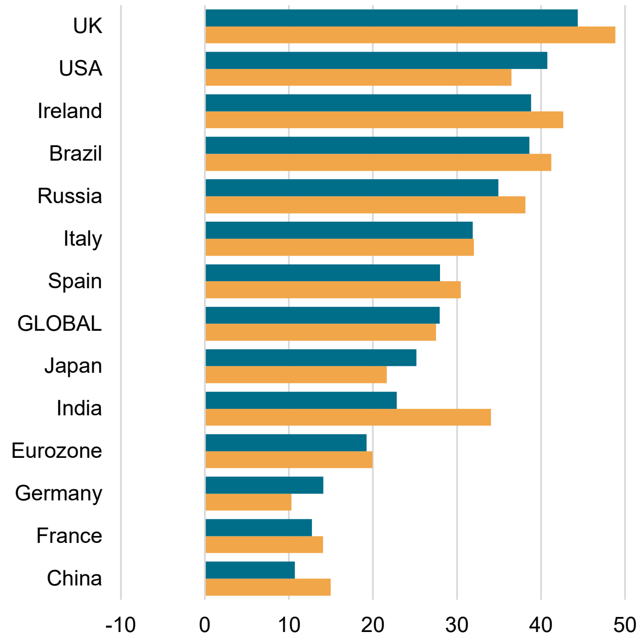
The net balance of UK firms expecting higher capital expenditure over the coming year ticked up to the highest level since February 2022 (+9%) in June, as stronger revenue forecasts in the manufacturing industry spurred an increase in planned spending. The uptick came amid hopes that a cut in borrowing rates will support investment.

Similarly, projections towards research & development budgets were positive in June (+4%) for the first time in a year. Expectations rose across manufacturing and services, with the former recording a much sharper uplift.

Global Business Activity expectations

% net balance

Jun '24 Feb '24

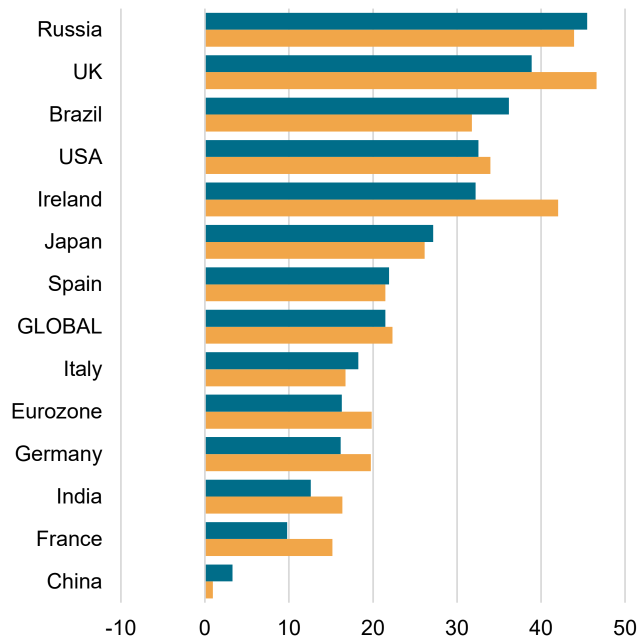


Source: S&P Global PMI.

Global Output Prices expectations

% net balance

Jun '24 Feb '24



Source: 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 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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