

News Release

Embargoed until 0001 UTC 12 March 2024

S&P Global UK Business Outlook

UK business confidence soars to two-year high as economic concerns ease

Key findings

Output expectations in the UK rise to the highest level since February 2022

Profit, staff hiring and capex forecasts strengthen

Projections for selling prices tick higher for the first time in two years

UK businesses were much more confident about the year ahead outlook in February. The first Business Outlook survey of 2024 saw expectations towards future output climb to their highest level in exactly two years. Concerns regarding economic conditions, inflation and interest rates eased notably, leading to a stronger profits outlook and improvements in hiring and capital expenditure plans. At the same time, expectations of cost increases remained steep, leading to an intensification of output price projections for the first time in two years.

A net balance of +49% of UK private sector companies anticipated a rise in business activity over the next 12 months, according to survey data collected between 12-27 February. This was the highest recorded since February 2022, having increased sharply from +37% last October.

Furthermore, the UK posted the strongest sentiment out of the 12 economies monitored by the survey. Ireland was the next-highest with a net balance of +43%, while Germany resided at the bottom of the rankings (+10%).

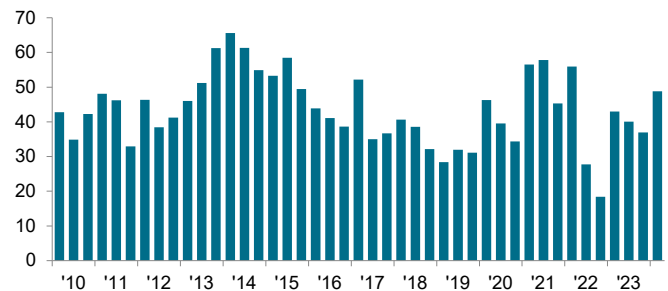
Growing confidence among private sector firms came alongside an easing of concerns about the impact of high inflation and rising interest rates on domestic economic conditions. Although elevated, worries about output being suppressed by these factors were lower than the levels seen in 2023, according to survey comments. New products, export opportunities, and the impact of technological advances such as artificial intelligence were among the reasons driving optimism.

That said, there were still many factors cited as threats to activity, such as an increase in domestic and global political uncertainty. Labour costs and skills shortages were also commonly mentioned.

Output expectations across manufacturing and services were equal in February (+49%). Services firms registered

UK Business Activity expectations

% net balance



Source: S&P Global PMI.

Data were collected 12-27 February 2024

Comment

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

"The Business Outlook findings pointed to a much-improved atmosphere among UK firms in early 2024, as companies begin to look past the recent cycle of tightening financial conditions and plan for an uplift in fortunes over the coming year. Sentiment towards future activity was accordingly up sharply from 2023 levels, as were profits forecasts and capital expenditure plans, which bodes well for UK business investment. Hiring plans also grew, albeit mainly in the services sector, whereas R&D spending is likely to remain subdued."

"While growth projections improved, firms were slightly more cautious about the inflation outlook. Wage pressures are forecast to remain incredibly sticky, and transport costs could pick up amid global supply chain challenges. With this in mind, output price inflation expectations sharpened for the first time in two years, showing that firms are still wary of price pressures and therefore not ready to relax their own charges."

a larger improvement from the previous survey (+36% in October 2023) than goods producers (+44%).

Firms more upbeat about profits than any time since mid-2021, supporting capital expenditure boost

UK companies also signalled a jump in their profits forecasts in February, with a net balance of +26% expecting profits to increase over the year ahead, up from +17% in October. This marked the highest sentiment towards earnings since June 2021, with similar results seen across manufacturing (+27%) and services (+25%).

With firms expecting to find greater opportunities for growth, plans to raise capital expenditure advanced in February. The composite net balance (+8%) was the greatest seen in two years and in line with the long-run trend. Survey comments signalled that looser financial conditions had provided firms with greater budgets for capital spending. On the other hand, research and development plans were subdued, with companies expecting no change over the next 12 months (net balance of 0%).

Hiring in services expected to rise strongly

The near-term outlook for UK employment picked up to the highest for a year in February, with a net balance of +24% of firms expecting to increase their workforces by early-2025. Net positivity was more than double the average seen worldwide (+11%).

Services firms were more likely to plan an expansion in staffing (+25%) than manufacturing firms (+15%). Forecasts in the former category jumped to a 12-month high, while those in the latter were little-changed from October's recent low.

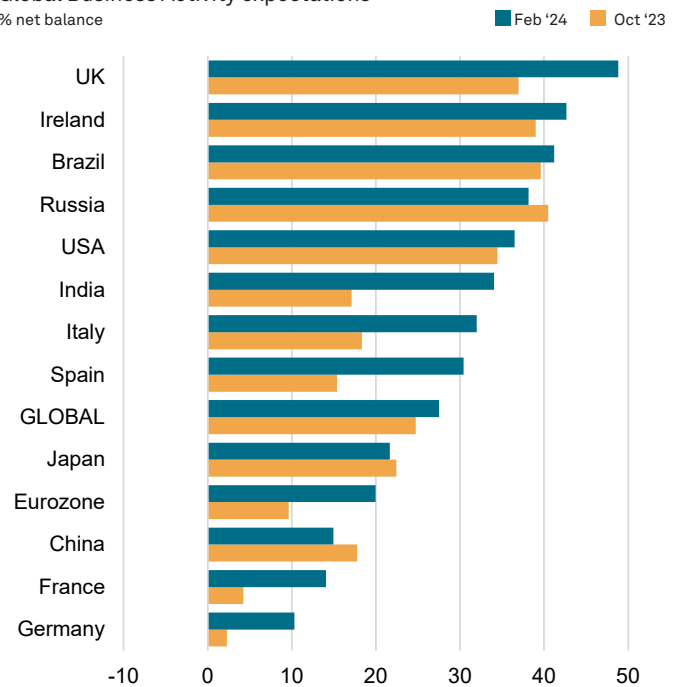
Input cost and output price inflation expectations tick higher after softening phase

For the first time in more than a year, UK businesses predicted a sharper increase in their non-staff input costs over the next 12 months. The net balance rose from +47% to +50% in February, which was marked but the second-lowest in three years. The rise was driven by the service sector, with anecdotal evidence suggesting greater concern around transport costs following the Red Sea shipping crisis. However, manufacturers' predictions for non-staff costs dipped to the lowest level since October 2020, partly reflecting lower energy costs.

There were again widespread expectations that staff costs will rise, continuing the trend seen over the past couple of years. The net balance of +72% was down only fractionally from +73% in October and the highest seen globally.

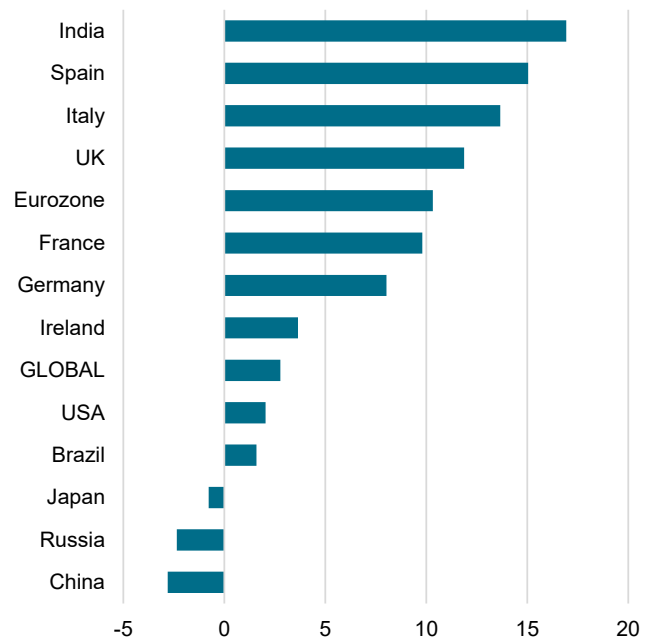
Meanwhile, UK companies are set to increase their selling prices to a greater degree compared to October's forecasts. This marked the first uptick in output price expectations for two years, as the net balance of firms planning a rise climbed from +43% to +47% in the latest survey. Services firms (+48%) were more likely to predict price hikes than manufacturers (+37%).

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

Global Business Activity expectations
Change in % net balance, Feb '24 vs. Oct '23



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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