PMI™

by S&P Global

United Kingdom

UK businesses express optimism for 2026 as growth opportunities help to overcome economic headwinds

The October UK Business Outlook survey signalled a slight improvement in business confidence across the private sector compared to that seen in the summer, but the mood among firms remained distinctly cautious.

The latest survey reveals that optimism is still below the long-term average, and shadowed by a web of business risks that include global economic headwinds and policy uncertainty.

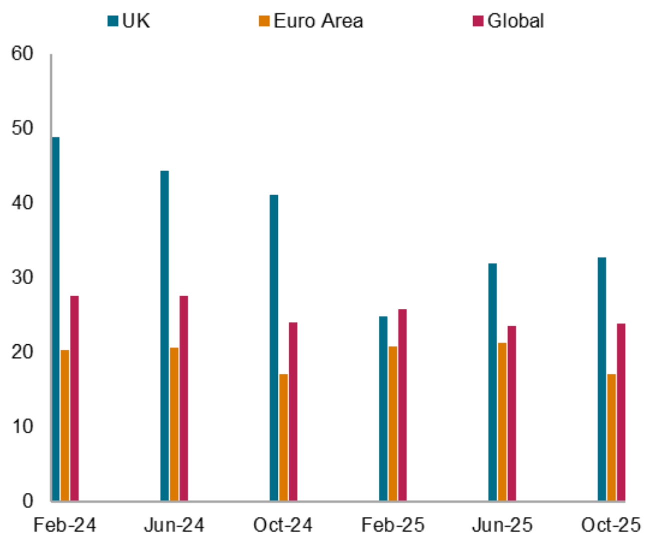
However, qualitative evidence from our survey panellists shows that many businesses have detailed strategies and widespread opportunities to overcome risks. This note delves into the deep anecdotal evidence we receive from respondents to the Business Outlook survey, to highlight where they see key opportunities and risks to the UK economy in the forthcoming year.

A modest uplift in confidence

The UK Business Outlook is a tri-annual survey that assesses the expectations of firms for a variety of metrics over the next 12 months, including activity, employment, input costs, output prices, profits, capital expenditure and research & development.

The headline measure of UK business activity sentiment ticked up to a net balance of +33% in October, just above +32% in June. This headline figure rose further following a sharp fall in the February survey, but the overall degree of confidence is still weaker than the long-term average observed over the past 16 years (+43%). UK businesses nonetheless remain more upbeat than their European and global peers, with euro area sentiment slumping to a 12-month low (+17%) and the global average staying at +24%.

Business activity expectations, % net balance



As of November. 11, 2025
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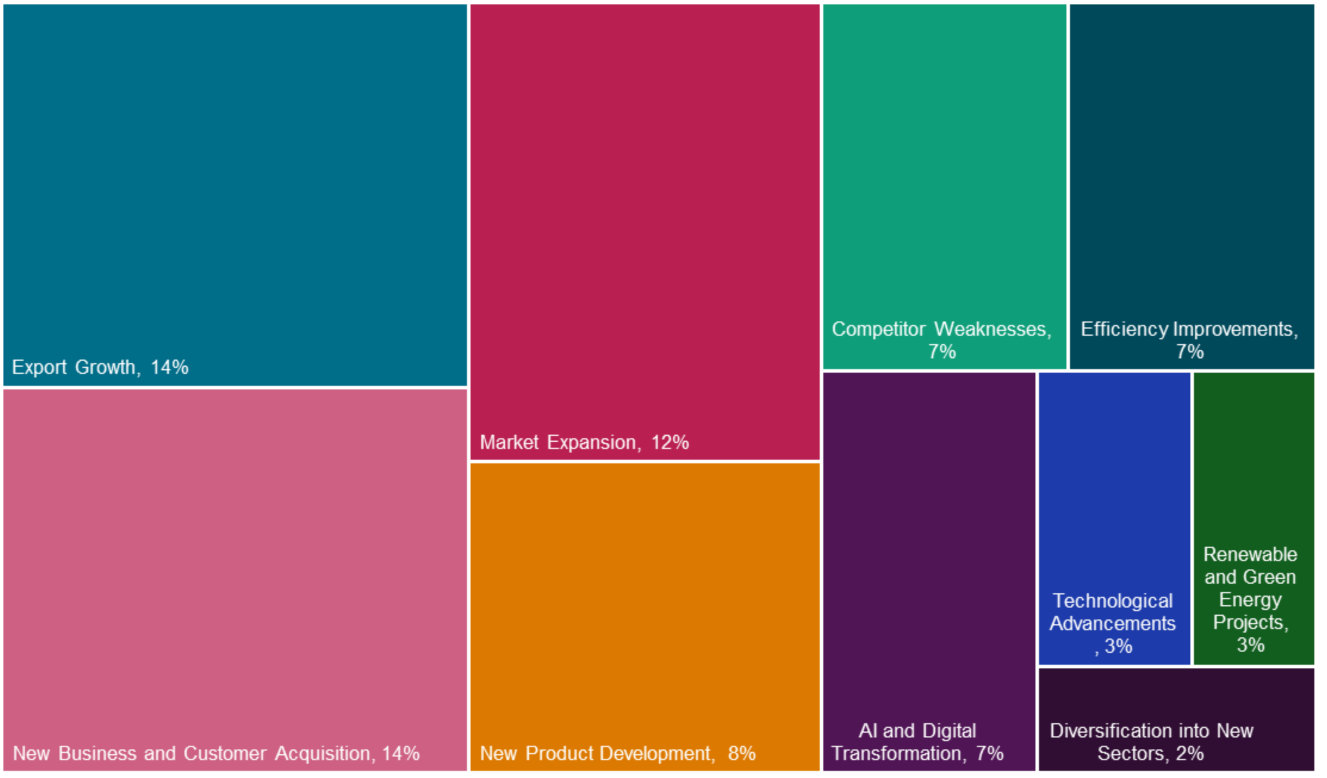
Both the services and manufacturing sectors experienced a modest uptick in business confidence. The net balance for goods producers was slightly higher (+38%) than that seen for services (+32%). The construction sector, however, stood out for its weakening outlook, as growth expectations fell to their lowest in three years (+17%).

Opportunity themes

While there was a high degree of uncertainty about the economic climate, UK firms still see wide ranging opportunities. Looking at the qualitative responses from surveyed businesses, we saw opportunities emerging across several broad themes, though the balance of optimism differed sharply by sector.

UK Top 10 Business Opportunities



Data compiled November. 03, 2025
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Source: S&P Global Market Intelligence.

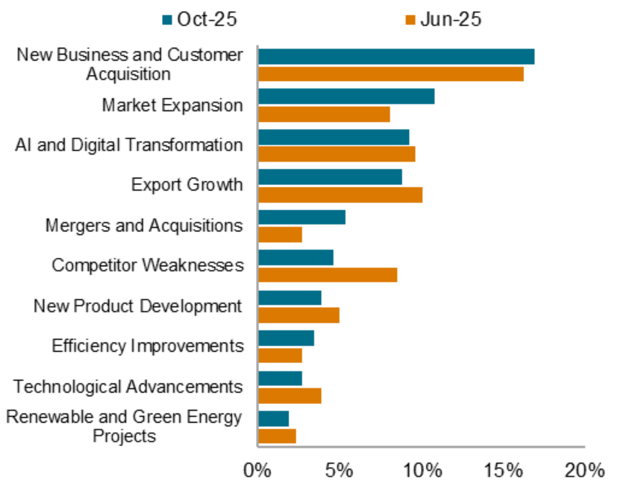
New business acquisition and customer focus

Across all sectors, the drive to win new business and expand the customer base stands out as a key opportunity, though services firms are especially active here, reporting the highest share of optimism for new client acquisition and organic growth. Manufacturers also signalled they were prioritising new business, often in tandem with product innovation. Construction firms, meanwhile, see tendering for new projects — especially public sector contracts — as an important route to growth, although they hinted that the pace of new awards remains uneven.

“Building growth through good service & support.” – Renting & Business Activities

“Expansion by increasing our sales through retail sales B2C with our own shops.” – Food & Drink

UK Services: Top 10 Opportunities



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International expansion and export growth

Manufacturers are especially focused on opportunities beyond the UK's borders. New export growth was cited as the leading opportunity by surveyed producers, with these firms pointing to new trade deals, demand from overseas markets and the ability to differentiate products internationally. Market expansion, both geographically and into new segments, is also gaining traction as manufacturers look to offset domestic headwinds.

Services firms, on the other hand, are less focused on export markets as an opportunity for the coming year, but remain keen to capture new clients abroad.

"Opportunities are mainly outside the UK currently though tariffs may have an impact on our export activities." – Mechanical Engineering

Innovation, technology and efficiency

The adoption of new technologies, particularly AI and digital transformation, was a major theme in the anecdotal reports in October, especially among services firms, which signalled that they are investing in automation, digital channels and productivity-enhancing platforms. Manufacturers pointed to a marked increase in tech-driven efficiency improvements and a growing appetite for innovation in production processes. Construction companies saw opportunities in green energy and smart installations, as well as wider efforts to adapt and streamline operations in response to cost pressures.

"Application of digitisation and automation (Industry 4.0) to reduce labour cost impact." – Basic Metals

"We are intending to increase our digital marketing spend and become more efficient with the increased use of AI." – Transport & Storage

UK Manufacturing: Top 10 Opportunities

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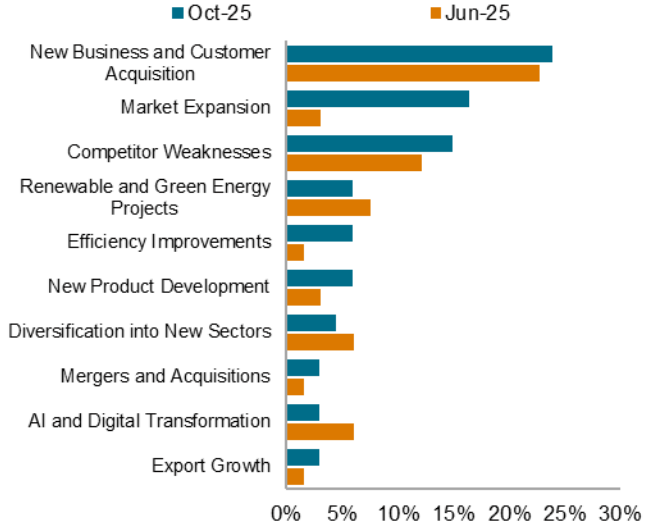
Market share gains and competitive shifts

A recurring opportunity, especially in construction and manufacturing, was the chance to capture market share as competitors struggle. Firms reported that rivals facing low margins, skill shortages, or regulatory burdens were leaving gaps in the market. Construction firms were particularly attuned to this, noting that as companies go out of business, opportunities for larger projects and new client relationships appeared. Services firms also saw potential in expanding via mergers and acquisitions.

"So many companies in our industry are struggling with low margins, there will be opportunities as they will either go bankrupt or give up." – Construction

UK Construction: Top 10 Opportunities



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Challenges themes

While UK companies showed optimism that key opportunities would support activity growth going forward, this was observed alongside a pervasive sense that economic uncertainty was still elevated. Indeed, of the business challenges comments received in the latest survey, around half of them pointed to some measure of economic uncertainty and instability restraining growth potential. These economic uncertainties and wider business threats spanned a number of key themes.

UK Top 10 Business Challenges

Data compiled November. 03, 2025

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Source: S&P Global Market Intelligence.

Government policy

The clearest source of uncertainty noted by panellists was the government's policy direction. Firms across sectors cited the forthcoming Autumn Budget, anticipated tax increases and new employment laws as major risk factors. Construction firms indicated that they were particularly exposed to the impacts of policy uncertainty, with concerns about delayed infrastructure projects, regulatory changes and unpredictable public sector spending.

"Lack of investment mainly due to the NI rise which has stifled investment and delayed projects." – Construction

Economic instability and inflation

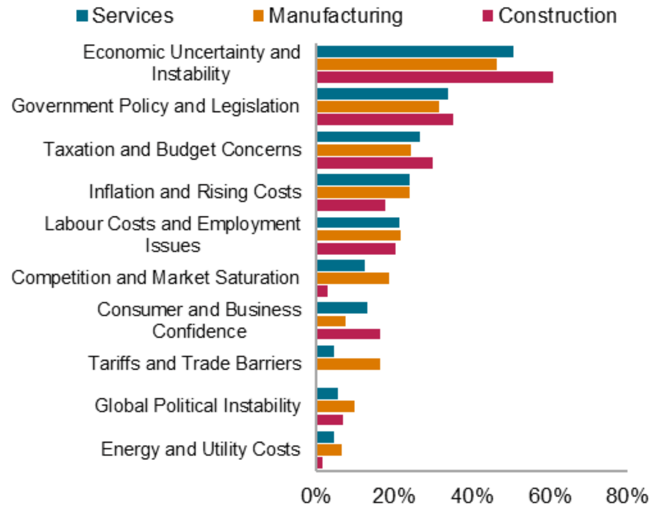
Macro uncertainty — the threat of recession, volatile demand and stubborn inflation — remained the dominant risk. Firms noted that they were grappling with rising input costs, unpredictable consumer spending and the possibility of further economic shocks.

Notably, cost inflation expectations stayed elevated for both staff and non-staff expenses in October. The net balance of UK firms expecting staff costs to rise over the next year was +70%, fractionally down from +71% in June. Meanwhile, non-staff input cost expectations rose to their highest level in nearly three years (net balance at +56%). Manufacturers often signalled that wage inflation and high energy costs had stifled profit margins and made it harder for them to compete with foreign companies.

"Higher cost of business in the UK making us uncompetitive internationally, e.g. business rates, workplace parking levy, measures in the forthcoming budget." – Mechanical Engineering

"Prices increasing due to high labour costs, prices up, demand down. Imports cheaper. Too expensive to manually process in the UK." – Hotels & Restaurants

UK Sectors: Top 10 Challenges



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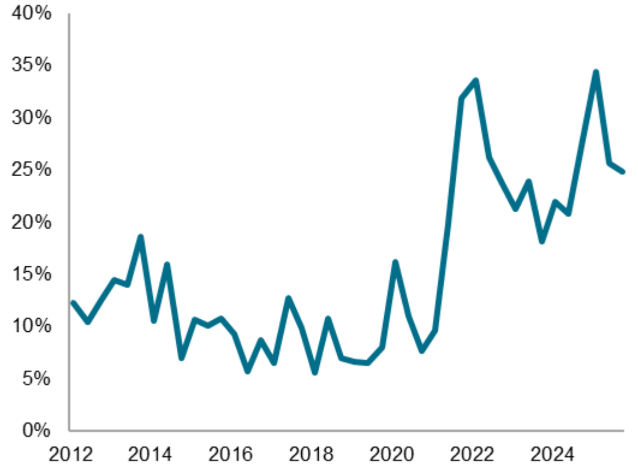
Labour market challenges

Labour shortages, skill gaps and rising wage expectations continued to trouble employers. While concerns about staff availability have eased slightly, the cost of hiring remains a major constraint across all three sectors. Recruitment difficulties and an ageing workforce were often cited as risks to growth and innovation.

"Lack of skilled labour, higher staff output costs along with taxes." – Construction

Percentage of UK firms noting labour market difficulties as a threat to output growth in the next 12 months



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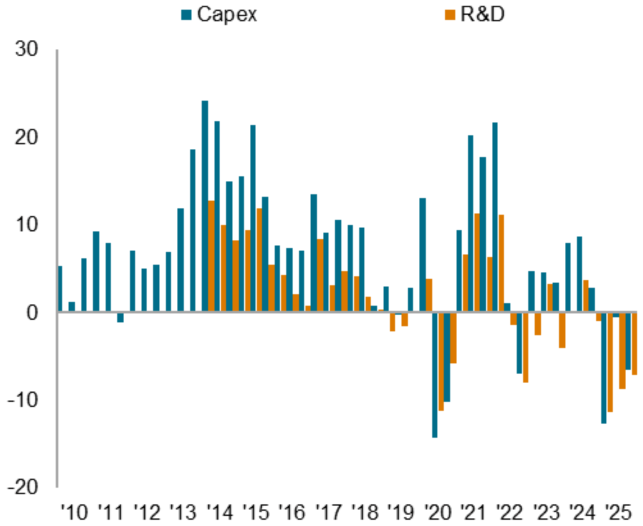
Funding, investment and capex cuts

The outlook for capital expenditure and research & development remained pessimistic in the latest survey, leading to increased uncertainty towards future business capacity. Firms are scaling back investment plans amid concerns about profitability and ongoing cost pressures. The survey has recorded negative capex forecasts for a full year—the longest run in its history, with October seeing net sentiment fall from -1% to -6%. R&D expectations were also downbeat, with the UK notably posting the worst forecasts among the 12 countries tracked.

"External influences, taxation etc restricting profits and investment capability. This impact will be felt by most businesses and as such reduce their investment in capital which reduces their spend with our company." – Chemicals & Plastics

UK Business Outlook: Capex and R&D investment

% net balance



As of November 2025. >0 signals positive outlook for respective metric.
Source: S&P Global Market Intelligence.

Conclusion

The UK business outlook for 2026 appears to be characterised by cautious optimism, as firms balance emerging opportunities against persistent risks. Export growth, new business acquisition, innovation and adaptation are driving pockets of expansion, but uncertainty — rooted in policy, economic instability, and cost pressures — remains the dominant undercurrent. The next few months will hinge on government policy decisions, the evolution of inflation and demand, and the ability of firms to work through business challenges and prepare for the coming year.

Appendix: Opportunities and Challenges by SIC sector

UK Manufacturing Sectors: Key Opportunities & Challenges

Sector	Key Opportunities	Key Challenges
Basic Metals	Export growth, New technologies, Market share increase	Tariffs, energy costs, market demand
Chemicals & Plastics	New product development, Export growth, Reshoring and consolidation	Economic instability, government policies, competition from low-cost countries
Electrical	New product development, Export growth, Market share recovery	Global instability, tariffs, competition
Food & Drink	New product development, Market expansion through automation, Export growth	Government taxation, inflation, competition
Mechanical Engineering	Export growth, Product diversification, New market opportunities	Government policies, tariffs, geopolitical uncertainty
Textiles & Clothing	Product diversification, New market entry, Export growth	Economic uncertainty, competition, tariffs
Timber & Paper	Product diversification, Export growth, Increased demand for digital and homegrown products	Government policy, competition, market confidence
Other Manufacturing	New market development, Competitor struggles, Investment in technology and sustainability	Economic uncertainty, government policies, competition

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UK Services Sectors: Key Opportunities & Challenges

Sector	Key Opportunities	Key Challenges
Financial Intermediation	AI and tech integration, Expansion into new markets, Cost reduction	Taxation, government regulation, economic decline
Hotels & Restaurants	Function business growth, Staff restructuring, Consumer confidence	Taxation, consumer confidence, rising costs
Renting & Business Activities	AI integration, Market expansion (US, UK), Mergers and acquisitions	Economic uncertainty, government policies, inflation
Transport & Storage	Sustainable solutions, New markets, Digital marketing	Government policies, rising costs, economic uncertainty
Other Services	Expansion in travel, International partnerships, New product development	Taxation, economic uncertainty, competition

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CONTACT US

David Owen
Senior Economist
S&P Global Market Intelligence
London

T: +44 1491 461 002
david.owen@spglobal.com

The Americas	**EMEA**	**Asia-Pacific**
+1-877-863-1306	+44-20-7176-1234	+852-2533-3565

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