IHS Markit

News Release

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IHS Markit Global Business Outlook

Global optimism at near two-and-a-half-year low

Key findings:

- Confidence slips across all developed nations except Spain and France
- Japanese companies least upbeat worldwide, Brazilian firms most optimistic
- Sentiment among global service providers lowest since October 2016, but above manufacturing
- Aggregate hiring intentions unchanged, capex plans revised lower
- Inflation rates set to cool in 2019

Data collected February 12-27

Worldwide confidence surrounding the outlook for business activity in the year ahead has waned further in 2019. February data indicate that worsening sentiment in developed markets underpins the gloomiest global picture for almost two-and-a-half years, while developing markets' optimism has improved to a one-year high.

At +24% in February, the net balance of global firms predicting output growth in the coming 12-month period is the lowest seen since October 2016. The **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies – show a considerable loss of optimism in developed markets (net balance down from +31% in October to +25%), while confidence in developing nations has strengthened since late last year.

Broken down by sector, the survey shows reduced optimism among global service providers and unchanged confidence at goods producers. The number of services firms predicting activity growth in the year ahead outstrips those forecasting contractions by +26%, compared with +31% in October. Still, this net balance is higher than in the manufacturing sector (+21%).

Global business activity expectations

Source: IHS Markit.

Anecdotal evidence shows ongoing anxiety about trade tensions, national security and lingering political uncertainty, particularly in Europe. Firms are also concerned about public policies, tighter regulation, competitive pressures and – in Japan, the eurozone, US and UK – tighter labour market conditions. More generally, there are worries about exchange rate fluctuations, risks of social unrest, rising costs, liquidity issues and fears of a financial crisis.

Only firms in Spain and China are more upbeat compared to the prior survey (conducted last October), although sentiment among the latter is still the second-lowest globally. Confidence levels are unchanged in France, Russia and India. Prospects are the brightest in Brazil and the darkest in Japan.

Despite the fall in global optimism towards output, employment expectations are unchanged. Jobs look set to expand across all 12 nations for which comparable data are available. However, predictions of higher capital expenditure are down slightly to a two-year low. Research & development (R&D) spending is anticipated to fall only in the UK.

Aggregate profits look set to expand in the coming 12 months, but sentiment has sunk to a near two-and-a-half-year low. Global service providers are more positive regarding future earnings than manufacturers, although optimism has weakened in the former and strengthened in the latter.

Inflationary pressures are expected to subside. At +19% in February, the gauge for non-staff costs is the lowest since October 2017. Downward revisions are evident in both the manufacturing and service sectors. By comparison, the net balance of global firms predicting higher staff costs is at +25%.

Selling price intentions have been revised lower or left unchanged in all 12 monitored countries. While inflation rates for non-staff and staff costs look set to be stronger in emerging markets than across developed economies, selling price inflation is expected to be sharper in the latter.

US firms among most upbeat in developed markets

Despite waning to a two-year low in February, sentiment in the US is among the highest across developed economies, lower only than that recorded in Ireland. A similar picture is noted for profit forecasts, which are the lowest since February 2017 but still the highest seen across all developed economies. In both cases, levels of confidence at service providers and goods producers are similarly upbeat.

Hiring intentions have hit the lowest since mid-2017, though remain in line with the long-run average. At the same time capex plans have been revised lower, as have plans around R&D spending. Trends for price expectations are similar to late last year, with anticipated growth of non-staff costs and selling prices the lowest since October 2017.

New partnerships, diversification, expansion plans, greater investment, technological progress, marketing efforts and export opportunities are all seen as opportunities for growth. Competition, tariffs, trade war, changing legislation, interest rate hikes, inflation, public policies and tight labour market conditions have been cited as threats to the outlook.

Euro are sentiment falls to lowest since mid-2013

Eurozone optimism has sunk to the lowest in almost six years during February. In the manufacturing sector, output expectations have dipped to the lowest since October 2012, while sentiment in the service economy is the weakest since October 2014. At the composite level, all indicators have fallen, signalling waning confidence for profits, hiring and capex, as well as downward revisions to inflation expectations.

At the country level, sentiment regarding output has strengthened only in Spain, where companies also upped their growth projections for profitability, employment and capital spending. However, with the exception of the latter, the upward movements represent an improvement from recent lows and readings are historically weak.

Irish firms are the most upbeat across the currency bloc, despite optimism fading to the lowest since June 2011. Predictions of sharp cost rises have dragged profit projections to the lowest in nearly eight years.

Output expectations in Germany and Italy are down to the lowest since October 2012, while sentiment in France is unchanged from the two-year low noted in the prior survey period.

Political instability, US-imposed tariffs, trade tensions, automotive sector weakness, unfavourable tax policies, aggressive competition, cost inflation, interest rates, civil protests, subdued client confidence, shortages of skilled labour and fears of a global growth slowdown have all weighed on sentiment.

UK sees confidence slip to new record low

A lack of clarity regarding the UK's relationship with the EU has dragged optimism regarding business activity and profits to the lowest since comparable data became available in October 2009. Weakening sentiment is evident in both the manufacturing and service sectors.

At the same time, UK firms are the least confident globally regarding capital expenditure and the only to signal an expected cut in research & development spending.

In addition to Brexit uncertainty, companies cite liquidity issues, sterling weakness, national security, subdued client confidence, labour scarcity, predictions of interest rate hikes, lower public spending, rising costs, the US-China trade dispute, low tourism, challenging housing market conditions, expected changes to regulatory compliance and protectionism measures as downside risks to growth prospects.

Japanese companies least confident globally

Japanese firms are at their least optimistic since October 2016, with sentiment for future activity the lowest worldwide. Confidence among service sector companies has been unchanged for a year, but manufacturing sentiment has dipped to the second-lowest since comparable data became available in October 2009, ahead only of that recorded in October 2012.

Much of the slump in manufacturing sentiment has been attributed to the negative impact of the trade war between the US and China, political tensions in Europe and general weakness in economic growth across key export markets. There are also worries about consumption tax hikes, labour shortages, environmental regulation, fuel costs and subdued demand conditions.

Broadly unchanged prospects in China

Although China is one of only two countries to signal brighter prospects in February, the degree of optimism remains close to October's record low. Profits are predicted to increase only modestly over the coming 12 months, though companies are planning to hire extra workers and boost both capital and R&D spending. Non-staff and staff costs are predicted to rise, with inflation expected to be stronger for the latter.

Accommodating public policies, wider product offerings and expectations of better trade conditions underpin positive sentiment. Still, there are growing concerns over lingering China-US trade conflicts, rising labour costs, tough market competition, weak sales and strict environmental regulations.

Sentiment remains elevated in Brazil, despite weaker services optimism

While Brazilian manufacturers are at their most upbeat in five years, service sector confidence has weakened in February. However, at the composite level, Brazil leads sentiment globally. Expectations of policy changes such as interest rate cuts, labour market and tax reforms are among the reasons cited for optimism. Firms also hope for a Mercosur-EU trade deal and currency stability.

Russian manufacturers and services firms strongly confident about outlook

Optimism regarding output is unchanged in Russia from October's one-year high. Stronger manufacturing sentiment is accompanied by solid confidence at service providers. However, profit expectations have been revised lower amid predictions of greater capital spending, as well as rising staff and non-staff costs.

Stable sentiment among Indian companies

The degree of optimism among Indian firms is unchanged from October's one-and-a-half-year low, as a slight uptick in sentiment among goods producers has been offset by weakening confidence in the service sector. The activity net balance is below both the emerging market and global averages. Profit expectations have meanwhile been revised higher as businesses predict good sales and softer cost pressures in the year ahead.

Comment:

Commenting on the survey, **Chris Williamson**, Chief Business Economist at IHS Markit, said:

"Global businesses have grown gloomier about prospects for the year ahead, with expectations of growth down to their lowest since 2016. The deterioration represents a further continuation of the slide in optimism seen over the course of the past year. However, whereas increased gloom late last year was fuelled principally by rising concerns in the manufacturing sector regarding trade protectionism, the recent worsening reflects weakening confidence creeping into the service sector.

"This broadening out of the deterioration in sentiment suggests the global economy is facing increased headwinds and supports the expectation that global economic growth will weaken in 2019.

"Alongside deepening trade war worries, headwinds include concerns over escalating geo-political risk, tighter regulation, rising costs, labour shortages and risk aversion among customers as growth worries become more widespread, resulting in reduced spending and investment intentions.

"The biggest drop in confidence compared to late last year was seen in the US, though marked declines were also recorded in Germany and Italy as well as the UK. The changes leave US optimism at its lowest for two years, while sentiment in the euro area has slumped to its lowest since 2013. Brexit anxiety has meanwhile contributed to UK business confidence running the lowest since data were first collected in 2009.

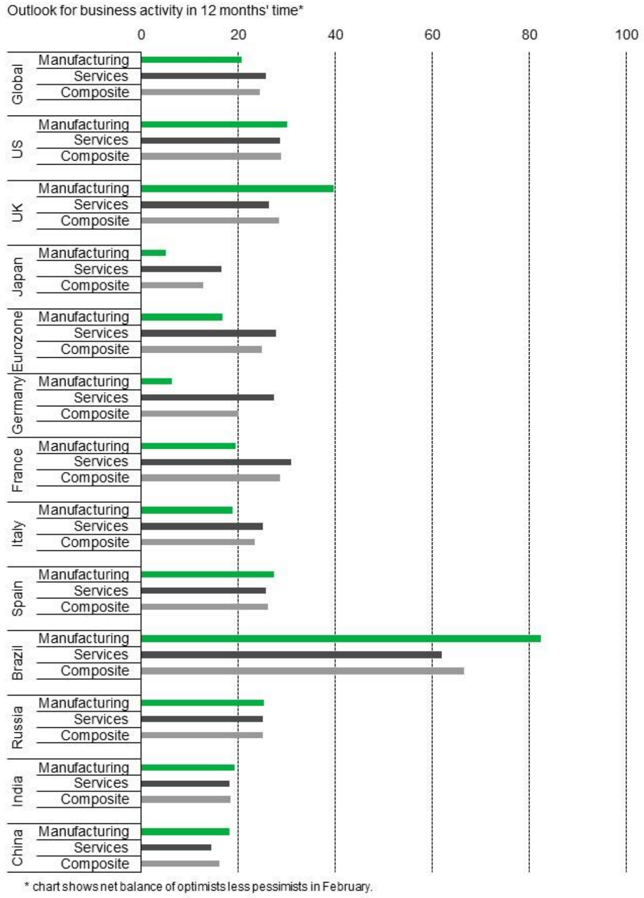
"A slight uptick in business prospects in China and largely unchanged sentiment in India, Brazil and Russia meanwhile helped pull emerging market optimism marginally higher, contrasting with the darker picture seen across the developed world."

Full data are available on request from
economics@ihsmarkit.com

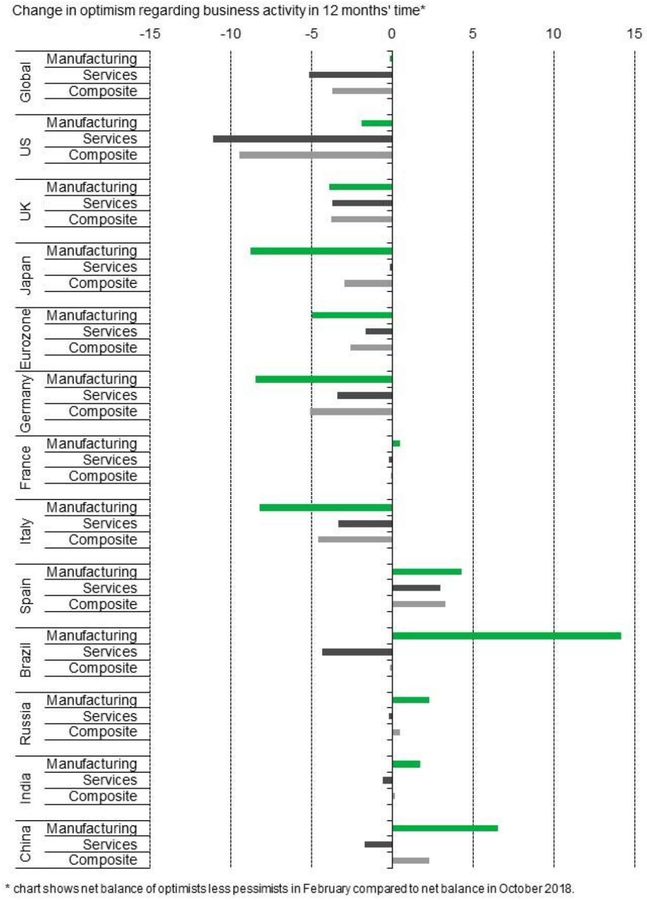
Business activity (output) % net balance of optimists less pessimists in February
(manufacturing & services)

UK	28	Brazil	66
Germany	20	Russia	25
Italy	23	India	18
France	29	China	16
Spain	26	EM	23
Ireland	35	US	29
Eurozone	25	Japan	13
Global	24	DM	25

Business optimism in February (% optimists less % pessimists)



How business activity expectations have changed since October 2018



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Notes to Editors:

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 latest survey was conducted between February 12 and 27.

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 IHS Markit 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 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 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 in the countries mentioned above. 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 7,000 firms.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. 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.