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IHS Markit US Business Outlook

US business optimism moderates amid COVID-19 crisis

Key findings:

- Business confidence softens amid weak demand conditions and virus-related uncertainty
- Employment expectations drop to lowest since February 2017
- Companies revise down their investment forecasts

Data collected June 12-29

The latest IHS Markit Business Outlook survey signalled that U.S. private sector firms were less optimistic in June, as the net balance of firms expecting a rise in business activity dropped from +20% in February to +15%. This was the second-lowest net balance since October 2016, as companies expressed greater uncertainty surrounding the coronavirus disease 2019 (COVID-19) outbreak and the subsequent impact on the private sector. Nevertheless, the net balance reflected the global trend of reduced business confidence amid growing uncertainty.

That said, a number of U.S. private sector firms expected output to increase over the coming year. Anecdotal evidence suggested that higher business activity is likely to stem from access to new markets, with some expecting clients to switch their supply chains towards domestic suppliers. Others suggested that the continuation of low interest rates could aid growth, and the introduction of a vaccine over the coming year would help to boost new sales and improve demand conditions.

The moderation in expectations was commonly attributed by firms to the outbreak of COVID-19 and the recent surge of new cases following the reopening of the economy, as well as the upcoming presidential election. The recent sharp uptick in new virus cases led to greater uncertainty surrounding business survival if there were to be another widespread lockdown.

US business activity expectations



Although optimism among manufacturers was unchanged from February (net balance of +26%), service providers noted weaker confidence, with the respective net balance falling from +18% in February to +13%.

Employment & Investment Plans

Private sector firms continued to forecast a rise in employment over the coming 12 months in June. That said, the employment net balance dropped from +16% in February to +9% and was the second-joint lowest since February 2017. The moderation in confidence regarding hiring was largely driven by service providers amid concerns surrounding new business inflows. Overall confidence, however, was stronger than the global trend which signalled no change in employment over the coming year (net balance of 0).

In line with lower hiring expectations, U.S. private sector firms were less optimistic in their forecasts towards investment over the next 12 months. The net balance of firms that anticipated an increase in capex and R&D spending fell to +5% (+9% in February) and +6% (+9% in February), respectively. Manufacturers registered the largest decline in optimism towards investment, as

some companies noted that working at limited capacity had reduced the scope for investment.

Inflation Expectations

Reflective of reduced optimism towards employment, private sector firms revised down their forecasts for staff costs in June. The net balance of companies that expected higher wage burdens fell from +18% in February to +10%. Similarly, the net balance of firms that projected higher non-staff costs dipped to +11% (from +13% in February).

Meanwhile, the net balance of businesses that predicted greater output charges was unchanged from February and the joint-highest since October 2018. That said, manufacturers recorded a notable decrease in the net balance of firms forecasting a rise amid challenging demand conditions.

Corporate Earnings

Despite expectations of more moderate increases in input costs, U.S. private sector firms registered weaker optimism towards the outlook for profits in June. Uncertain demand conditions reportedly weighed on forecasts.

Comment:

Commenting on the US Business Outlook survey data, **Siân Jones**, Economist at IHS Markit, said:

“The ongoing impact of the COVID-19 outbreak had a resounding impact on U.S. private sector firms’ expectations for business activity, employment and investment over the coming year. Uncertainty regarding consumer spending, the resumption of business operations and the potential for a second peak in new cases were widely mentioned as having weighed on forecasts.

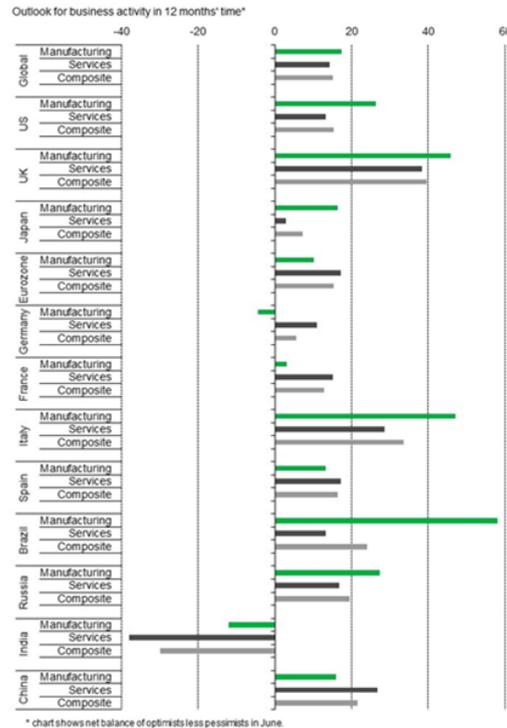
“Although firms that expected employment to increase over the coming year bucked the global trend of no change, the net balance of companies that projected a rise was among the lowest in the series history. Service providers were particularly guarded in their expectations amid acute challenges for consumer-facing firms.

“On the price front, inflationary pressures look set to remain historically muted as companies anticipated slower increases in costs.”

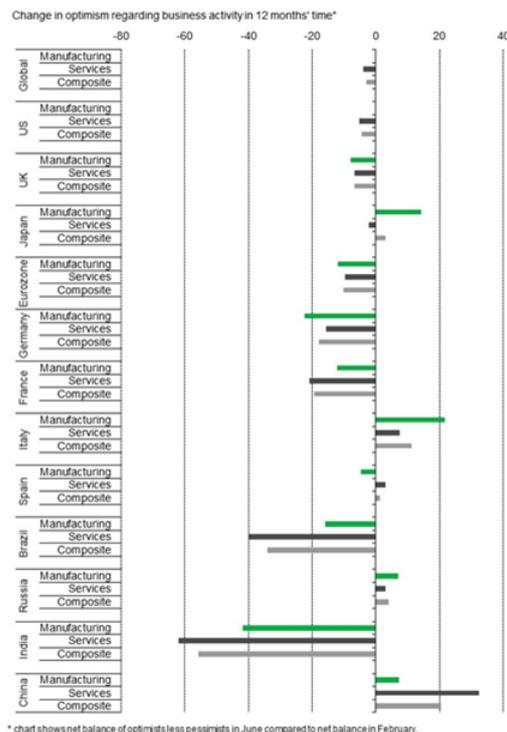
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 10 and 29.

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, 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.

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