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IHS Markit Global Business Outlook

Inflationary pressures cast cloud over business outlook

- Planned selling price inflation highest in at least 12 years
- Developed markets set to see stronger inflationary pressures than emerging economies
- Continued economic growth expected, albeit with expectations lower than in June
- Activity set to expand at balanced rate across manufacturing and services
- Hiring outlook second-highest in over three years, but expectations of future wage growth have also risen

The **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies between October 11-29 – signalled that firms expect price pressures to remain elevated well into 2022 as a range of factors push up cost burdens. Companies are increasingly looking to pass on higher costs to customers, but sentiment around margins suffered in October nonetheless.

Companies' expectations regarding **business activity in the coming year** have generally held up well, although the headline global business activity net balance dipped to +31% in October from +38% in June. Sentiment was the lowest since this time last year, but remained well above that seen during the worst of the COVID-19 pandemic in 2020.

The overall drop in confidence was largely centred on developed markets, with the US and a number of European countries in particular seeing sentiment marked down as recoveries from the pandemic show some signs of losing momentum. In contrast, Japan saw optimism regarding activity rise to a new record high in October, while projections in emerging markets were broadly in line with those seen in June.

Confidence at the global level was broadly even across manufacturing and services, but this belied some divergences between developed and emerging markets. In developed economies, manufacturers expressed a higher degree of optimism regarding business activity than their service sector counterparts, although both categories saw optimism wane. The opposite was true in emerging markets, where stronger confidence at service providers took sentiment above that seen for manufacturing for the first time in over two years.

Inflation expectations surge higher

The key takeaway from the latest outlook survey was around the likely persistence of inflationary pressures over the year ahead. The global net balance for **non-staff costs** had already hit a record high in 12 years of data collection earlier in the year, but surged higher in October with a net balance of +33% of firms predicting an increase in the coming 12 months. This suggests that inflationary pressures are set to remain elevated well into 2022 amid a combination of supply-chain delays, raw material shortages and higher energy and freight costs.

Inflationary pressures aren't limited to the purchase of materials, however, as the **staff costs** net balance also jumped higher in October in a sign that raw material price inflation is likely to start feeding through to increases in wages. The net balance in the service sector was the highest since the respective series began in 2009.

The cost expectations were much higher at firms in developed markets than in emerging economies. Highlighting the broad-based nature of price rises, both the manufacturing and service sectors see cost pressures picking up. Companies globally are increasingly looking to pass on higher cost burdens to their customers through rises in **selling prices**. As

was the case with costs, the selling price net balance hit a new record high in October and was at +33%. Despite efforts to pass on higher input costs to customers, the inflationary environment still led to a revising down of **profits** forecasts.

Job creation set to continue

The prospects for global labour markets remained bright in October. Although the **employment** net balance ticked down to +17% from +21% in June, hiring sentiment was still the second-highest in more than three years as firms look to expand capacity in line with improving workloads and to help clear backlogs. All 12 countries for which comparable data are available predicted an increase in employment, led primarily by developed markets.

Forecasts of investment spending on **capital** and **research & development** were held broadly steady compared to earlier in the year, with the respective net balances at +14% and +7%. Investment spending looks set to rise more quickly in the manufacturing sector than in services.

Commenting on the survey, **Andrew Harker**, Economics Director at IHS Markit, said:

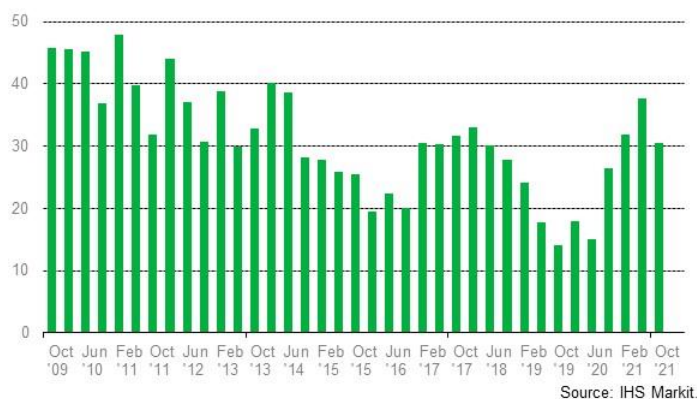
“Inflationary pressures look set to continue to blight the global economy over the coming year, with hopes fading that the current spike in cost pressures will come to an end soon. Profit forecasts are also being scaled back accordingly. Companies in developed markets in particular revised up their forecasts for inflation from the position a few months ago, and are set to ramp up efforts to pass on higher cost burdens to their customers. These signals will potentially be of interest for central banks deciding whether to raise interest rates now to try and limit inflationary pressures or hold tight in the hope that the current spike proves transitory. IHS Markit forecasts global consumer prices to rise 3.2% in 2022 following an increase of 3.7% this year.”

“The outlook for business activity remains positive, meanwhile, but optimism has eased from the post-pandemic peak seen in June amid signs that the economic recovery from COVID-19 may be losing steam due to ongoing supply disruptions and stubborn inflationary pressures.”

“The news for global labour markets remains generally positive as we near the end of 2021. Although employment expectations were slightly lower than in June, hiring optimism was still the second-highest in over three years as ongoing increases in workloads and the need to catch-up on backlogs encourage firms to expand their capacity. One key challenge for firms could be their ability to find enough suitable candidates to help meet their hiring plans. Not surprisingly, wage inflation is expected to rise further, with staff costs anticipated to rise at increased rates in all economies covered by the survey, with the UK set to see the steepest rise.”

Global business activity expectations

(% net balance of optimists less pessimists)

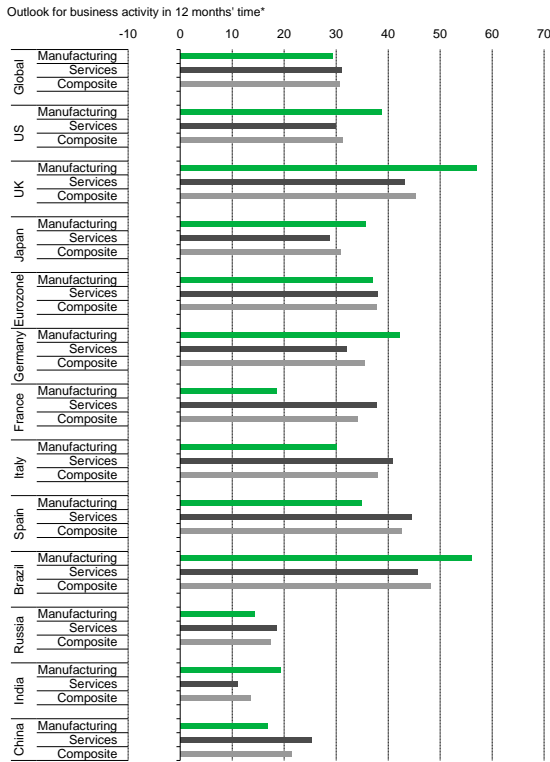


Output price forecasts

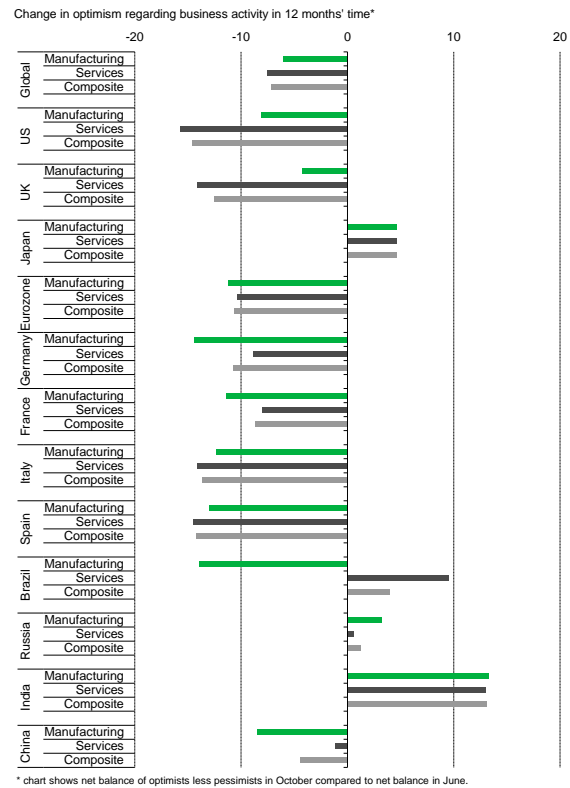
(% net balance of those planning to raise less those planning to cut)



Business optimism in October



How business activity expectations have changed since June



Accompanying data are available on request from economics@ihsmarkit.com. Individual country reports can be accessed in our [Press Release](#) website.

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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 October 11 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 8,000 firms.

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