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IHS Markit US Business Outlook

US private sector business confidence slips in October

Key findings:

- Output expectations weaken amid inflationary pressures and ongoing shortages
- Staff cost and charge predictions hit highest on record
- R&D spending forecasts turn negative for first time since data collection began three years ago

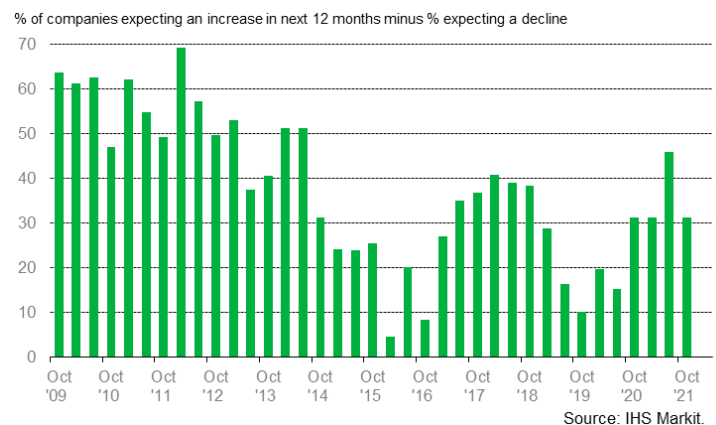
Data collected October 12-29

The latest IHS Markit Business Outlook survey indicated that business optimism among US private sector firms weakened in October and fell below the historic series average. At +31%, the net balance of companies anticipating greater output over the coming year dropped from +46% in June. Although below the series long-run trend, the net balance was the joint-second-highest since October 2018. Softer forecasts regarding business activity were seen across both sectors, as both manufacturers and service providers noted reduced confidence. Goods producers registered the weakest expectations regarding future output.

Opportunities for growth reportedly stemmed from hopes of further upticks in client demand as key markets reopen. Nonetheless, businesses stated that domestic demand remained strong, with opportunities for further expansion at home as well. Some companies noted that potential output growth may come from their ability to secure materials, as competitors struggle to fulfil their order requirements and clients look elsewhere. Those in the service sector also mentioned that looser COVID-19 restrictions and greater customer confidence in safety measures will support higher business activity.

Businesses continued to highlight challenges around the outlook, however. Weighing on overall confidence were factors which may hinder any expansion, such as

US business activity expectations



severe supply chain disruption, cost inflation, and labor and raw material shortages. Many firms noted that until there is greater stability across supply chains, pressure on production capacities will build.

Employment & Investment Plans

US private sector companies signalled a reduction in confidence regarding an increase in employment over the coming year since June. Weaker expectations were seen across both the manufacturing and service sectors, as firms frequently mentioned ongoing labor shortages and challenges finding suitable candidates for current vacancies. At +19%, the net balance of firms anticipating a rise in workforce numbers was down from +28%, but in line with the long-run series average.

In line with expectations regarding employment, investment forecasts weakened in October. In fact, the net balance of firms anticipating a rise in R&D spending turned negative for the first time since data collection began three years ago. Capital expenditure forecasts also softened from that seen in June, although remained optimistic overall. The net balance of companies that foresee a rise in capex spending fell to the lowest since June 2020.

Inflation Expectations

Input cost inflation expectations strengthened in October, as the net balance of firms anticipating higher staff and non-staff costs rose. The former reached the highest since composite data collection began three years ago. Forecasts for input prices were overwhelmingly driven by raw material and labor shortages.

Concurrently, the net balance of companies anticipating higher output charges picked up to a fresh series record. Manufacturers and service providers alike registered the strongest expectations regarding increased output prices in 12 years of data collection.

Corporate Earnings

Although companies generally anticipate higher output charges, the net balance of firms that foresee increased profitability dropped to the lowest in two years.

Comment:

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

“US private sector firms registered a reduction in business optimism regarding the outlook for output over the coming year in October. Although hopes of a further uptick in client demand and the reopening of markets due to looser COVID-19 restrictions drove confidence, labor and material shortages weighed on expectations.

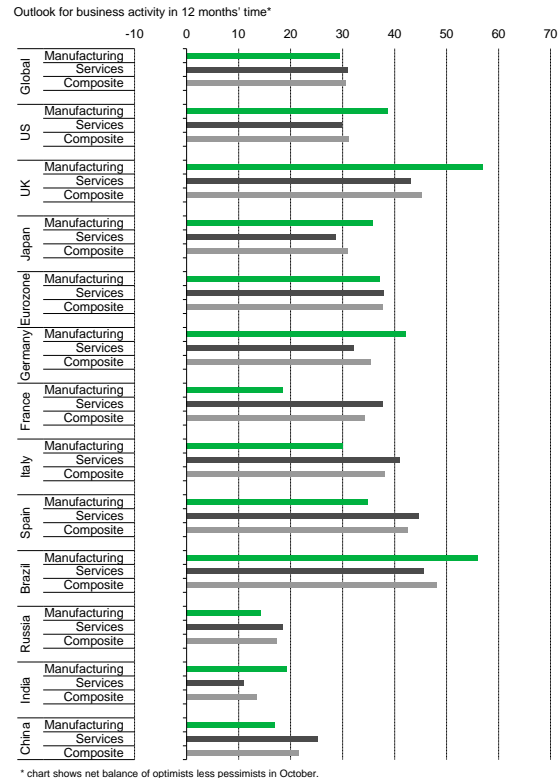
“Sadly, employment expectations weakened as concerns over finding suitable candidates for vacancies intensified. Less robust profitability forecasts were reflected in lower confidence in investment spending, with R&D expenditure expected to fall slightly over the coming year.

“Inflationary pressures are expected to build further over the coming 12 months, as the net balances of firms anticipating higher staff costs and output charges reached fresh series records. Raw material shortages are also forecast to push up non-staff costs.”

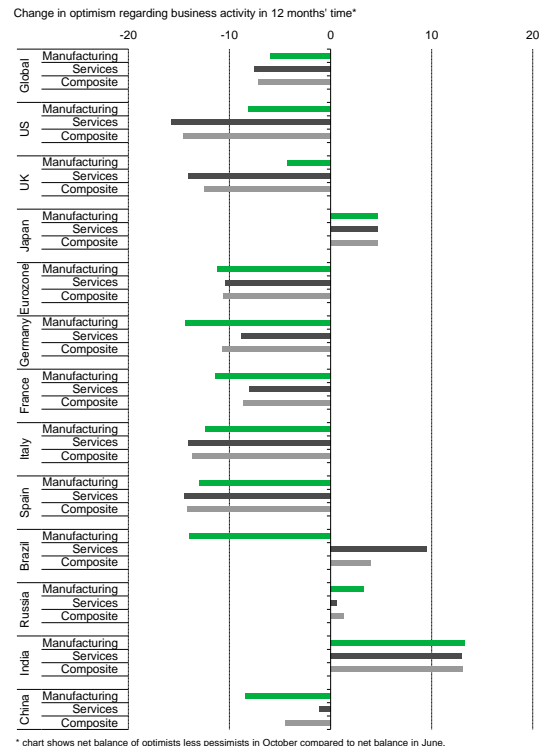
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 8,000 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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