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IHS Markit Global Business Outlook

Global outlook gloomiest for two years as optimism slides in Europe and China

Key findings:

- Global business optimism wanes at manufacturers and service providers
- Softer output expectations accompanied by near record-high inflation expectations
- Largest drops in sentiment seen in Europe and China, the latter reporting worst outlook of all countries
- Brazilian firms most upbeat, followed by Irish and US companies

Data collected October 11-30

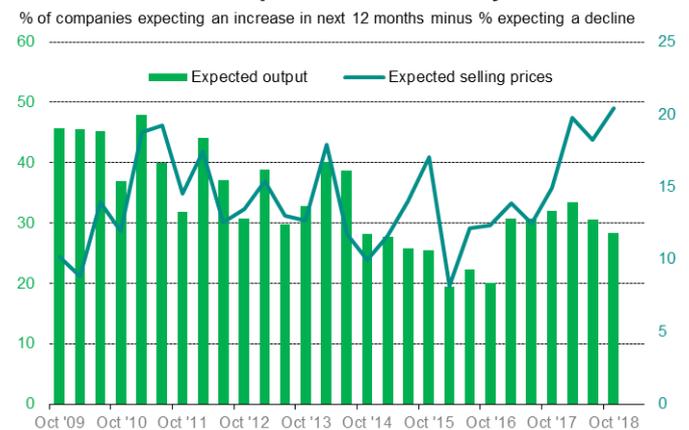
Global business optimism has slipped to the lowest for two years in October, deteriorating in all major economies with the exceptions of Brazil and Russia. Steep falls are seen in the eurozone, the UK and China, the latter two seeing optimism sink to the gloomiest since the global financial crisis. China signals the weakest future optimism of all countries surveyed. The US shows the greatest resilience, posting the highest business optimism of the major developed economies, while Brazilian companies are the most upbeat worldwide.

However, the survey also reveals that firms expect to raise prices worldwide at the joint-steepest rate seen since the global financial crisis.

The **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies – shows that optimists outstripped pessimists by +28%, down from +31% in June and deteriorating further from a three-and-a-half year high of +33% at the start of the year. The decline takes the overall level of optimism below its long-run average of +34%.

The steepest deterioration in optimism is recorded in the manufacturing sector, where global sentiment about output in the year ahead is down to a survey low. Sentiment in the service sector shows greater

Global business expectations for the year ahead



Source: IHS Markit.

resilience but has also edged down globally to the lowest since June 2017.

Sentiment has waned, and risk aversion intensified, amid escalating concerns over the potential impact of trade wars and tariffs as well as increased political uncertainty, notably in Europe and the UK in particular. The latest survey also sees heightened concerns regarding rising prices, financial market volatility and the impact of higher interest rates, especially in the US.

The survey shows expectations of profits and employment both fall to the lowest since February last year, though capex intentions are unchanged.

Inflation remains a key theme of the outlook. Selling price intentions are the joint-highest since October 2009 when combined manufacturing and services data became available. The steepest increases in inflation expectations are recorded in the US, Brazil and Russia. Selling prices for services are expected to rise over the coming year at the sharpest rate seen this side of the global financial crisis, while expectations of charges for manufactured goods are the third-highest since mid-2011. Increased selling price projections are seen despite input cost expectations moderating to a one-year low, easing slightly in both manufacturing and

services, mainly reflecting views of lower commodity prices.

US leads developed world sentiment

US business optimism has continued to cool from the three-and-a-half year high seen earlier in the year but remains the highest of all economies for which comparable data are available, with the exception of Brazil. Profit expectations have slipped to the lowest since early-2017, however, down sharply in manufacturing.

Expectations of selling prices hit a three-year high (and the second-highest in six years), with only Brazil and Russia seeing more marked increases in inflation expectations, despite input cost expectations easing to a one-year low.

Capex intentions are the joint-best since early-2014 and hiring plans remain in line with the average since the global financial crisis, albeit easing since earlier in the year.

US optimism is widely attributed to expectations of robust economic growth in the year ahead, linked in part to government spending and solid domestic demand. Tariffs, trade wars, supply problems, rising interest rates, higher prices, staff shortages and a slowing economy are the most commonly cited threats.

Eurozone confidence at 4½ year low

Future sentiment in the euro area hit the lowest since June 2013, down to a four-year low in services and the joint-lowest for six years in manufacturing. Profits expectations are the bleakest in four years.

Sentiment hit five-and-a-half-year lows in Italy and Spain, a four-year low in Germany, a two-year low in France and six-year low in Ireland.

Selling price expectations remain elevated by historical standards and are unchanged since the summer. Despite easing, Germany reports the highest degree of inflationary expectations, followed by France, where the future output prices gauge hit the highest since June 2011.

While eurozone capex intentions have edged higher, hiring intentions have pulled back to a two-year low.

Reduced optimism commonly reflects worries regarding political stability, including Brexit, as well as a global economic growth slowdown, trade wars, staff shortages, higher prices and wages, a strengthening

euro, financial market volatility and tighter monetary policy.

Brexit uncertainty darkens UK outlook

Uncertainty regarding Brexit is a key factor driving UK business optimism to its lowest since comparable data became available in 2009. Profits expectations likewise have sunk to the lowest since June 2017.

Optimism has sunk to the lowest since October 2011 in manufacturing and its lowest since June 2010 in services.

Employment intentions are the weakest since the start of 2013 and capex plans hit a seven-year low, the latter indicating the worst investment spending plans of all countries surveyed by a considerable margin.

Selling price expectations are slightly down, but remain just above their long-run average, while the net balance for input costs is unchanged on the summer's elevated level.

UK firms planning to expand often cite new products and hopes of a good Brexit deal, while perceived threats include Brexit uncertainty, currency volatility, higher interest rates, a global economic slowdown, trade wars, rising prices, weak consumer spending plus skills and supply shortages.

Optimism fades in Japan

Japanese firms are less optimistic than in June, with confidence ebbing back to February's one-and-a-half year low, but sector variations are striking. Although confidence among service sector firms is the joint-highest seen since early-2013, and among the best in the survey's nine-year history, manufacturers have reported the worst outlook for six years (the second-lowest on record).

Capex intentions have slipped to a one-year low and hiring plans are the most downbeat for over two years, cooling markedly from June's post-crisis high.

Japan's selling price inflation expectations have revived to the joint-highest on record, in part reflecting a joint-record expected rate of input cost increase.

Record low sentiment in China

Of all the nations for which composite data are available, sentiment regarding output is weakest in China, deteriorating to the lowest since the height of the global financial crisis in both manufacturing and services. Expected profits growth also hit a survey low,

driven by negative sentiment in the manufacturing sector.

Companies' capex intentions are the second-weakest on record, while expected jobs growth remains close to survey lows and the weakest of all countries surveyed.

Inflation expectations also have moderated, especially in terms of anticipated selling prices. Projections here are the lowest since June 2017.

Confidence is hit by increased worries regarding the Sino-US trade war, as well as wider concerns about higher prices, environmental regulations, exchange rate movements, tighter financial conditions and slower economic growth in the mainland.

Brazil leads global upturn in optimism

Brazil registers the highest degree of business optimism of all countries surveyed as businesses welcome the new government. Confidence is stronger at both manufacturing and services companies, climbing overall to the highest since June 2014 as firms anticipate a more stable political and economic environment, often including a more favourable exchange rate.

Russia buoyed by service sector

Sentiment has ticked higher in Russia but remains below the long-run survey average. A one-year high in service sector optimism is countered by manufacturing sentiment slipping to a two-year low.

India's outlook remains subdued

India's business outlook remains positive, though is the darkest seen since June 2017. The activity net balance is well below both the long-run survey average and the global reading. The latest survey is one of the least optimistic seen since the global financial crisis. Although manufacturing sentiment has improved, it remains historically subdued. Service sector optimism has dipped to the lowest since the middle of last year.

Comment:

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

"The outlook surveys reveal that companies are expecting the unwelcome combination of slower output growth and higher inflation in the year ahead.

"The results add to suspicions that global economic growth will slow in 2019, and perhaps more than many are currently anticipating, albeit with marked variations among the largest economies.

"The US appears to be showing the greatest resilience to various global headwinds, which include trade war worries and tightening financial conditions, and should therefore lead the global upturn.

"More worrying are the sharp deteriorations in business optimism across the eurozone, UK and China, the latter two seeing the business mood darken to the gloomiest since the height of the global financial crisis.

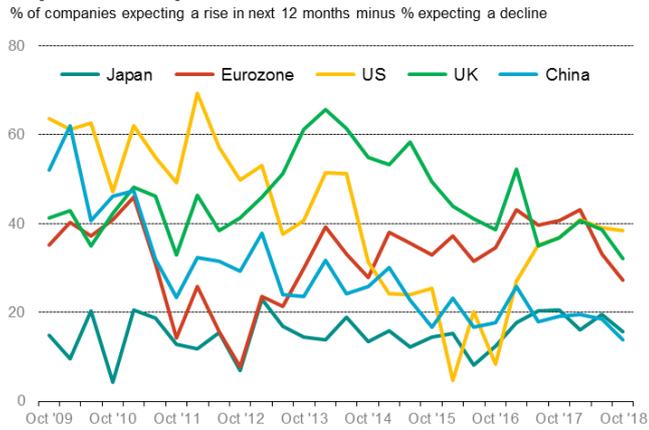
"Upside risks are clearly evident should the UK secure a satisfactory Brexit deal and US-Sino relations improve, reducing political risk and calming trade war worries. However, this upside likely merely relates to any moderation in the extent to which global growth will slow. With the outlook survey revealing inflation expectations to be running at the highest since the global financial crisis, and policymakers in the US, eurozone, UK and Japan all sending increasingly hawkish signals, any alleviation of adverse global risk factors will of course likely be met with more aggressive monetary policy tightening."

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

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

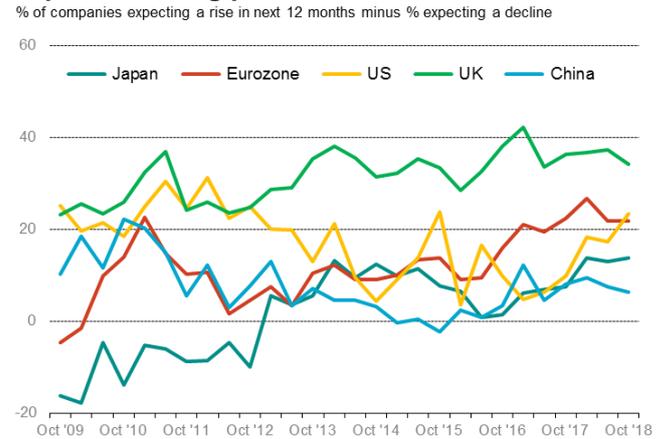
UK	32	Brazil	67
Germany	25	Russia	25
Italy	28	India	18
France	29	China	14
Spain	23	EM	22
Ireland	40	US	38
Eurozone	27	Japan	16
Global	28	DM	31

Expected output



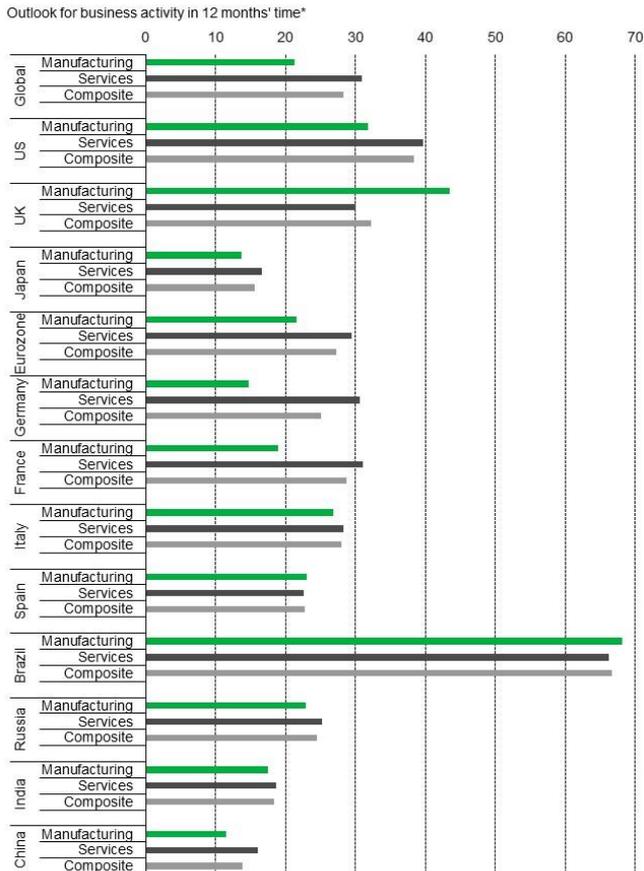
Source: IHS Markit.

Expected selling prices



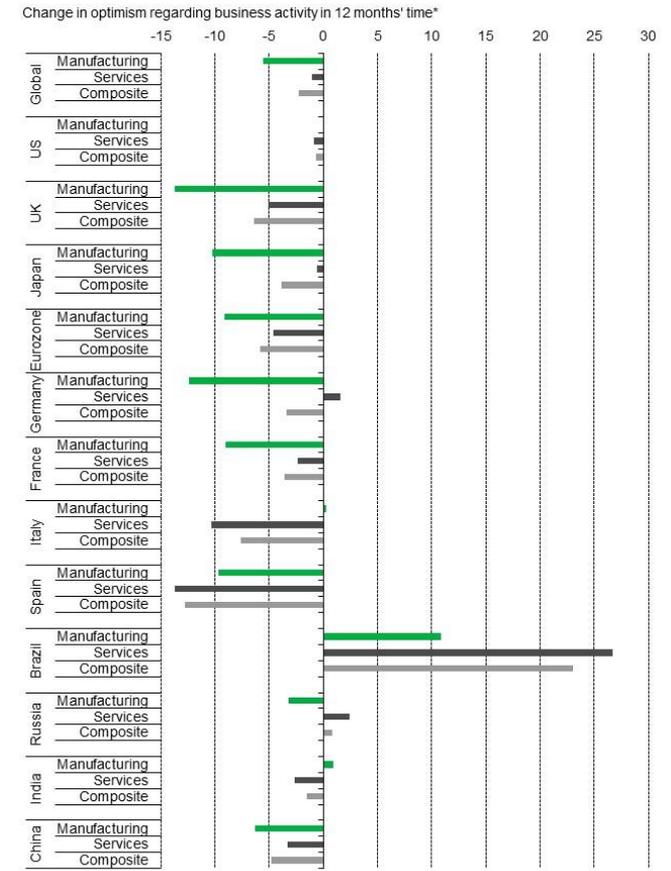
Source: IHS Markit.

Business optimism in October (% optimists less % pessimists)



* chart shows net balance of optimists less pessimists in October.

How business activity expectations have changed since June



* chart shows net balance of optimists less pessimists in October compared to net balance in 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 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 30.

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.

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