

**EMBARGOED UNTIL: 00:01 (UTC) March 10<sup>th</sup> 2020**

# IHS Markit Global Business Outlook

## Global business sentiment subdued as COVID-19 looms over outlook

### Key findings:

- Worldwide firms cautious as COVID-19 virus spreads
- Lowest sentiment seen in China, followed by Japan
- Confidence elsewhere rises from October lows but remains muted
- Lack of optimism around hiring, profits and investment
- Cost inflation set to accelerate

Data collected February 12-27

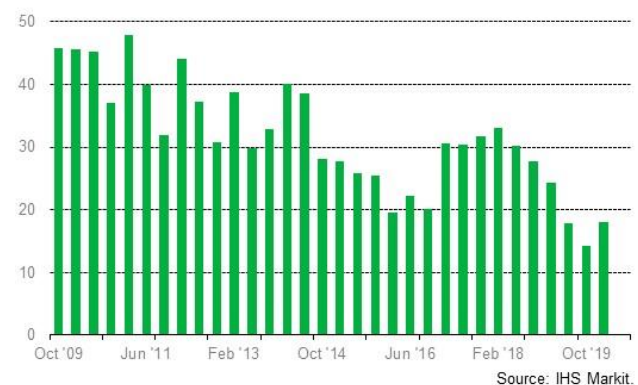
Global business sentiment remained subdued in February, overshadowed by the outbreak of the COVID-19 virus. The latest survey was conducted prior to the more significant spread of the virus outside east Asia, and so the data are most clearly impacted in China and Japan. Elsewhere, sentiment has ticked up from the decade low seen in October, but remains historically weak. Moreover, the outlook is likely to have worsened since the survey was undertaken. Threats are expanding out from disruption to global manufacturing supply chains to include impacts from outbreaks in other countries and the spread to sectors such as travel and tourism due to measures designed to prevent the further spread of the disease.

Elsewhere in the latest survey, employment and investment intentions are muted amid uncertainty as to how the virus will evolve, while cost inflationary pressures look set to intensify due to disruption to supply chains. All of these factors combine to create a lack of optimism around the outlook for profits among firms globally.

The February **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies and conducted three times per year – shows the net balance of global firms predicting output to rise over the coming year minus those predicting a decline is at +18% in February, up only marginally from the

decade low of +14% last October and remaining among the weakest since the global financial crisis. Data for the latest survey were collected between the 12<sup>th</sup> and 27<sup>th</sup> of February.

### Global business activity expectations



### East Asia sees worsening outlook

The lowest sentiment in terms of business activity in February is recorded in those countries situated in east Asia, from where the virus emanated. Confidence among Chinese companies is the lowest on record, with the net balance dropping sharply to just +1%. Moreover, Chinese service providers are pessimistic regarding the 12-month outlook for activity, the first time this has been the case in more than ten years of data collection.

Japan has also seen a slump in optimism, dropping to the lowest since the October 2010 survey. Worries about the duration of the COVID-19 outbreak, supply chain disruptions and weaker demand from China and other key export markets are all impacting the outlook, but other issues including staff shortages and population decline are also mentioned.

### Signs of sentiment improving in Europe and US

With data collected before the COVID-19 outbreak gathered pace in Europe, sentiment among firms there had improved in February. All European nations covered see sentiment pick up from the October survey,

which had been dominated by the shadow of a potential no-deal Brexit. That said, optimism remains among the weakest seen since the global financial crisis.

A similar story is seen for the US, where confidence has picked up to the highest for a year, but remains much weaker than the historical average. Sentiment is up across both monitored sectors, with manufacturers more confident than their service sector counterparts.

### Stronger confidence in India

While China has seen a strong fall in confidence at the start of the year, other key emerging markets appear to be in better shape. Confidence remains strong in Brazil, while signs of improving demand in India have pushed sentiment there to a five-year high. Russia sees a drop in expectations, but they remain in line with recent surveys.

### Gloomy profitability outlook

Companies expect ongoing difficulties in maintaining profit margins over the course of 2020, with the respective net balance of +8% little-changed from that seen in October. Profit forecasts are particularly weak in the manufacturing sector, falling from October and only fractionally above last June's record low.

Outright reductions in profits are predicted in China, Germany and Japan. There are signs of improvement elsewhere, however, with notable pick-ups in sentiment in the UK, India and France.

### Employment and investment plans subdued

The worldwide uncertainty caused by the COVID-19 outbreak is likely to lead to a reluctance to expand workforce numbers over the coming year. Confidence around hiring globally is up only slightly from the decade low seen in October (net balance up to +11% from +7%). Service providers appear more likely to take on additional staff than manufacturing firms.

Again, China posts the lowest sentiment, with a net balance of -5% suggesting that staffing levels are set to fall over the next 12 months. Spain is the only other nation covered to post a negative jobs outlook, but there is little sign of a strong pick-up in demand for staff across much of the rest of the world.

Investment plans follow a similar pattern, with the respective net balances for both capital expenditure and spending on R&D only fractionally higher than they were towards the end of last year.

### Cost inflation set to accelerate

Cost inflationary pressures are predicted to intensify over the coming year, with net balances for both non-staff and staff costs higher than they were at the end of 2019. Non-staff costs are set to be driven higher as supply-chain disruption limits the supply of raw materials. The respective net balance is up to +19% from +14% in October. The majority of monitored countries see non-staff input prices rising at a faster pace, most notably the UK and Brazil. Meanwhile, predictions for staff costs have been revised up to the greatest extent in the US.

February data suggest that a commensurate rise in output prices is unlikely, with the respective net balance only fractionally above that seen in October (+13% from +11%). The potential for a weaker demand environment means that firms are set to struggle to pass on higher input costs to their customers. Sentiment is broadly similar between the manufacturing and service sectors.

Output prices are set to rise across all the countries monitored by the survey, but none have seen a notable upward revision to plans to increase charges. In fact, only half of the countries for which manufacturing and services data are available are more likely to raise selling prices than was the case in the previous survey.

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

UK	46	Brazil	58
Germany	24	Russia	15
Italy	22	India	26
France	32	China	1
Spain	15	EM	12
Ireland	37	US	20
Eurozone	25	Japan	4
Global	18	DM	20

**Comment:**

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

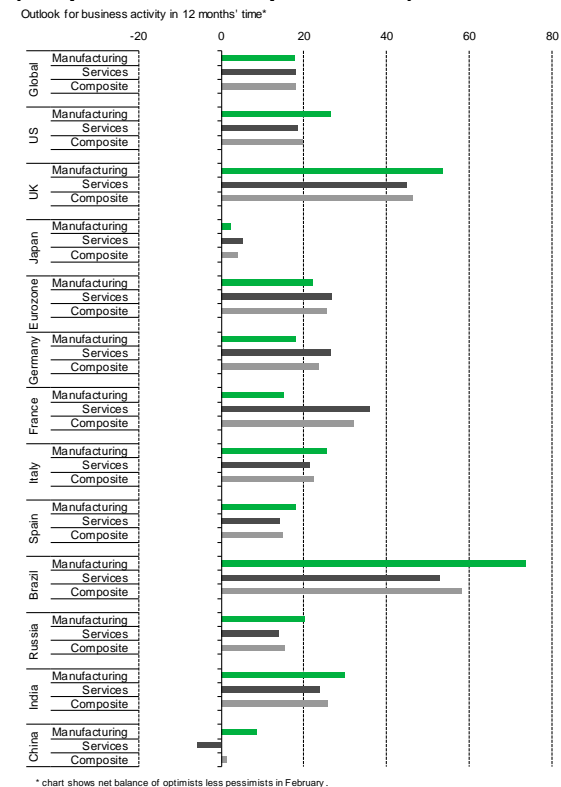
*“The business outlook data provide an insight of how concerned firms across the world are about the spread of COVID-19 and a foretaste of its economic impact. At the time of data collection the virus had yet to spread significantly outside of China and so the biggest impacts on sentiment are seen in the east Asia region. Chinese sentiment is the lowest worldwide and the worst in over a decade of data collection, with confidence also weak in Japan.*

*“While companies in Europe were slightly more optimistic than at the height of no-deal Brexit concerns back in October, sentiment remains muted in February and is likely to have worsened since the survey was undertaken as COVID-19 has gained hold in Europe. The same is likely to be true in the US.*

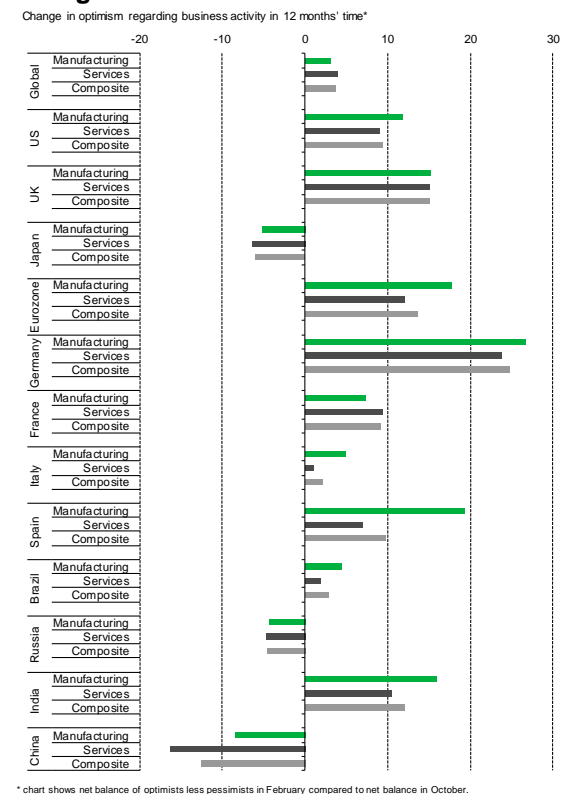
*“For the first time in over a decade, Chinese firms expect to reduce employment over the coming year, and profits are set to tumble. These fates could well befall other economies around the world as efforts to contain the virus outbreak continue.”*

Full data are available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

**Business optimism in February**  
(% optimists less % pessimists)



**How business activity expectations have changed since October**



**For further information, please contact:****IHS Markit**

Andrew Harker, Economics Director  
Telephone +44 149 146 1016  
Email [andrew.harker@ihsmarkit.com](mailto:andrew.harker@ihsmarkit.com)

Katherine Smith, Public Relations  
Telephone +1 781 301 9311  
Email [katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

Chris Williamson, Chief Business Economist  
Telephone +44 207 260 2329  
Mobile +44 779 5555 061  
Email [chris.williamson@ihsmarkit.com](mailto:chris.williamson@ihsmarkit.com)

**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.

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